

A

TARGETED MARKET CONDUCT EXAMINATION OF

HARTFORD LIFE INSURANCE COMPANY

NAIC #88072

As Of

December 31, 2009





ODI
Ohio Department
of Insurance

John R. Kasich, Governor
Mary Taylor, Lt. Governor/Director

50 West Town Street
Third Floor – Suite 300
Columbus, OH 43215-4186
(614) 644-2658
www.insurance.ohio.gov

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street Suite 300
Columbus, Ohio 43215

Lt. Governor:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a targeted market conduct examination was conducted on the Ohio business of the following:

Hartford Life Insurance Company NAIC# 88072

The examination and risk assessment was conducted at the Ohio Department of Insurance:

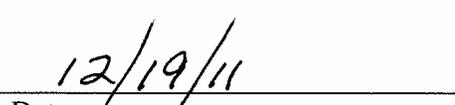
50 West Town Street
Columbus, Ohio 43215

A report of the examination is enclosed.

Respectfully submitted,



Lynette Baker
Chief, Market Conduct Division


Date

Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526
TDD Line: (614) 644-3745

Fraud Hotline: 1-800-686-1527
(Printed in house)

OSHIIP Hotline: 1-800-686-1578

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FOREWORD

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

EXECUTIVE SUMMARY

This examination is a targeted market conduct examination of Hartford Life Insurance Company (“Company”) by the State of Ohio as it relates to the Company’s suitability compliance program for its fixed and variable, individual annuity products for the period of January 1, 2003, through December 31, 2009.

The most notable areas of concerns are:

- The use of different suitability forms by the independent broker dealers throughout the annuity sales process resulting in inconsistent detail and file documentation.
- Twenty five percent of the annuity policy files reviewed failed to contain an annuity disclosure document.
- Sixty Six percent of the annuity policy files reviewed failed to contain an annuity disclosure form that met all of the minimum requirements.

Although the overall findings of this annuity suitability examination reflect a compliant company and program, there appears to be a need for greater documentation uniformity among the independent broker/dealers throughout the sales process. Uniformity in this area would certainly provide the examiners with a clear and concise understanding of the suitability of the Company’s annuity sales process.

SCOPE OF EXAMINATION

The basic business areas included as part of the examination included:

- A. Compliance
- B. New Business and Replacements
- C. Marketing and sales material
- D. Complaint Handling

Each business area has standards that were measured during the examination. Some of the standards have specific statutory guidance; others have specific company guidelines or contractual guidelines.

The focus of the examination was on the procedures and methods used by the Company to achieve compliance with applicable Ohio statutes and rules involving the issuance of fixed, individual annuity products. This included an analysis of how the Company communicates its instructions and philosophy with its employees and broker/dealers.

This examination report is a report by test, rather than a report by exception, and all standards and tests are described and the findings indicated.

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a life and annuity insurer found in Chapters 16 and 19 of the NAIC Market Regulation Handbook and on applicable Ohio statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into two general categories: Generic and Sample.

A “Generic” review indicates that a standard was tested through analysis of general data gathered by the examiners, or provided by the Company in response to interrogatories or personnel interviews conducted by the examiners.

A “Sample” review indicates that a standard was tested through direct review of a random sample of files selected using automated sampling software.

Each standard is accompanied by a comment describing the purpose or reason for the standard. Findings are indicated and any examiner comments or observations are noted.

COMPANY OPERATIONS

Hartford Life Insurance Company was established in 1978 and is organized under the laws of the state of Connecticut as a life insurance company, conducting business in all 50 states within the United States, including the District of Columbia.

2009 Annuity Considerations

Ohio Individual Ordinary	National Individual Ordinary
\$3,582,258	\$474,163,181

FILE REVIEW METHODOLOGY

The findings are based on the standards for a market conduct examination of a life and annuity insurer according to applicable Ohio statutes and rules, including Ohio Administrative Code (“OAC”) 3901-6-13 and 3901-6-14.

NEW BUSINESS AND REPLACEMENTS REVIEW FINDINGS

Standard 5: Marketing and Sales

The insurer has suitability standards for its products as required by OAC 3901-6-13 (G) (5) and (8) (A).

Procedure Review

Methodology: The examiners reviewed compliance procedure manuals and interviewed Company personnel to determine how new business and replacements are reviewed and processed.

Examiner Observations:

While the Company meets the requirements of OAC 3901-6-13(G)(6) by maintaining written suitability procedures, the Company does not meet the requirements of OAC 3901-6-13 (G)(8) due to the lack of random third-party sampling and review of annuity sales.

The examiners reviewed the Company’s compliance procedure manuals to determine how the issuance of annuities and the review of suitability are conducted. Procedurally, the Company has a large compliance department consisting of more than 33 people with many different sub units that work in conjunction with each other to monitor law changes, revise procedures and forms, disseminate updated information to producers and perform auditing functions. However, the Company does not mandate the use of their forms and materials and they do not have a “submission and approval” process in-place for alternative documents that a producer may employ. Additionally, they indicated that they do not engage in the review of actual files to monitor annuity suitability. Evidently, this is a requirement of the producer as a part of their sales contract with Hartford.

Procedurally, the Company asserts that an established replacement policy has been employed that involves reviewing and analyzing data on incoming replacements and outgoing surrenders to identify and act upon potentially inappropriate replacement activity. The Company indicates that this process is designed to comply with the NAIC Replacement Model Law and various state regulations requiring insurers to have the capacity to monitor each producer's annuity contract replacements for that insurer.

Additionally, the Company's procedures indicate that the activities of its distributors and individual agents are monitored by conducting quarterly suitability trend monitoring designed to detect and prevent violations of the state and federal rules and regulations. If a problematic trend is identified, the Company communicates that information to the third party distributor's compliance department and asks the distributor to confirm that the distributor has a system of supervision in place to monitor the activities of its representatives. Although the Company provided a written explanation of their monitoring and audit plan, the Company's monitoring and audit procedures were not provided to the Department for review within the requested examination materials.

The Company indicated that no internal audits with emphasis on annuity suitability were performed during the examination review period.

One concern noted by the examiners during the file review involved the suitability forms used by the broker/dealers. Each broker/dealer is allowed to develop and use its own form to gather annuitant's financial information. These forms are inconsistent in the information captured. The inconsistency in the quality and quantity of the suitability data within the files presented challenges for examiners reviewing suitability. Specifically, missing information relating to the annuitant's overall investment portfolio precluded the examiner from being able to assemble a complete financial picture at the point of sale and to substantiate the annuitant's stated net worth. A few of the forms provide a breakdown of the annuitant's overall investment picture, e.g. how much the person has in cash, stocks, bonds, etc. The majority of the other forms capture only a total dollar figure with no supporting information on how that figure was derived, provide only the annuitant's investment experience in years, or do not provide any information at all. In addition to the missing information, the forms include broad ranges for net worth and annual income making it difficult to get an accurate financial picture. Some of the forms provide a detailed explanation of why the person is purchasing the annuity; other forms have brief statements such as 'Growth' or 'Income'. The inconsistency is also apparent in the high percentage of overall net worth used to fund the annuity compared to the net worth figure provided. Some of the broker/dealers allow annuity investment to net worth ratios that range between 20% to over 80%. The Department considers it a best practice for companies utilizing independent third-party broker dealers to capture consistent financial information by providing financial profile forms to the independent third-party broker dealers.

The Company does not apply a surrender charge at time of death. The surrender periods on the annuity products varies from six to twelve years. Most products fall into a seven year surrender period.

File Review:

Methodology:

The examiners reviewed a sample of 50 Ohio new business and 50 replacement policies on individual fixed and variable annuity contracts issued during the examination period. The major focus of the new business and replacements involved the issue of annuity suitability and the Company's oversight of its products.

New Business (non-replacement):

Population	Sample	Yes	No	Standard	Compliance
1261	50	49	1	90%	98%

The standard for compliance is 90%. The Company's handling practices were above this standard.

The one instance of non-compliance noted above involves a sales transaction of a \$42,000.00 variable annuity wherein the 47 year old female purchaser was unemployed, receiving unemployment compensation totaling \$25,000.00 annually, and indicated monthly expenses of \$2,600.00 (\$31,200.00 annually). Additionally, the purchaser indicated a liquid net worth of \$65,000.00 of which this purchase represents 65%.

Replacements:

Population	Sample	Yes	No	Standard	Compliance
226	50	47	3	90%	94%

The standard for compliance is 90%. The Company's handling practices were above this standard.

The issues found within the three instances of non-compliance noted above involve sales transactions wherein the policyholder was either investing an excessive amount of their net worth into a variable annuity, incurring substantial surrender charges only to realize a 1-2% increase, subjecting their life savings to the volatility of the open market, or limited file documentation precluded the examiner from being able to recreate the sales transaction in order to assess suitability.

Specifically, one file found to be unsuitable involves a 77 year old retired female purchasing a \$27,000.00 fixed Hartford annuity paying 5%, - replacing an existing fixed annuity paying 2.5% - and incurring a surrender charge of \$6,400.00.

The second exception file involves a 61 year old male with an overall net worth of \$76,000.00 and an annual income of \$27,000.00, purchasing a \$70,000.00 variable annuity that represents 92% of his overall liquid net worth – by replacing an existing variable annuity.

The third exception file could not be deemed a suitable sales transaction due to the absence of virtually all financial and suitability documentation associated with the sale.

Examiner Recommendations:

- The exceptions noted were due to the examiner's inability to determine suitability based on the information provided or the Company did not provide enough information to support the sale of the annuity. This was discussed in greater detail in the 'Procedure Review' section of this report. The Company should review all current versions of suitability forms being used to assure that all broker/dealers are using suitability forms that encompass all facets of financial information as required by the revised version of OAC 3901-6-13 (E)(9) and (F)(1)(2) effective July 1, 2011. This will eliminate the inconsistency of information gathered and should reduce the amount of missing information.
- The Company should also re-consider the broad ranges used on the suitability form for the net worth and income areas. Also, the Company allows a high percentage of net worth to be acceptable (the industry average appears to be in the 16%-20% range).

Standard 11: Marketing and Sales

The insurer has procedures in place to educate and monitor insurance agents/producers and to provide full disclosure to consumers regarding all sales of products involving annuity products, and all sales are in compliance with OAC 3901-6-14 (E)(4)&(5), OAC 3901-1-47 (C) and R.C. 3901.21(A).

Procedure Review

Methodology: The examiners reviewed compliance procedure manuals and interviewed Company personnel to determine how agents/producers are educated and monitored on the use of sales brochures, disclosures and buyers guides.

Examiner Observations:

The examiners found that the Company's disclosure notice for all non-variable annuity products failed to meet the requirements of OAC 3901-6-14 (E)(4)(a-e) or OAC 3901-1-47(C). Specific details involving these forms are addressed within the examiner's observations of the file review section below.

The disclosure for fixed annuities should contain all of the elements stated within the aforementioned Ohio Administrative Code sections and should be given to the annuitant, along with the Buyer's Guide, at the time of sale.

File Review:

Methodology:

The examiners reviewed a sample of 50 Ohio new business and 50 replacement policies on individual fixed annuity contracts issued during the examination period. Disclosures were reviewed to determine their compliance with OAC 3901-6-14 (E) (4) & (5) or OAC 3901-1-47 (C). Note: For this particular test, 10 new business files and 7 replacement files involving the sale of variable annuities were removed as the disclosure rule does not apply to variable products. However, each of the variable files did contain a prospectus as required by federal statute.

New Business (non-replacement):

Population	Sample	Yes	No	Standard	Compliance
1261	40	5	35	90%	13%

The standard for compliance is 90%. The Company's handling practices were below this standard.

Examiner Observations:

The 35 exception files noted above are comprised of 20 policy files wherein the required annuity disclosure was absent from the file documentation and 15 policy files containing annuity disclosures that failed to meet the minimum requirements of Ohio Administrative Code 3901-6-14(E)(4)&(5) or Ohio Administrative Code 3901-1-47, Appendix 1.

Replacements:

Population	Sample	Yes	No	Standard	Compliance
226	43	2	41	90%	5%

The standard for compliance is 90%. The Company's handling practices were below this standard.

Examiner Observations:

The 41 exception files noted above are comprised of 1 policy file wherein the required annuity disclosure was absent from the file documentation and 40 policy files containing annuity disclosures that failed to meet the minimum requirements of Ohio Administrative Code 3901-6-14(E)(4)&(5) or Ohio Administrative Code 3901-1-47, Appendix 1.

SUBSEQUENT EVENTS

Following the July 11, 2011 implementation of Ohio's revised version of Ohio Administrative Code 3901-13 (E)(9) and (F)(1)(2), the Company filed revised disclosure forms with the Department that meet the minimum requirements of the aforementioned code. The Department encourages the Company to remain mindful of their requirement to request and evaluate the sales files of their independent broker-dealers as a part of their routine file reviews and suitability oversight.

COMPLAINT HANDLING

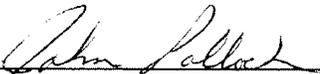
Standard: Complaint Handling

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

Examiner Observations:

The Company has in place procedures for handling complaints promptly and thoroughly. The complaints are also trended and analyzed to identify any specific problem areas, like specific agents with more than one complaint. The Company's Customer Relations Department, staffed by ten associates, is responsible for investigating each complaint received throughout the Company – including complaints submitted directly to the President and chief Executive Officer. The examiners review of Ohio Department of Insurance complaints showed that the Company had no complaints on annuities during the examination period.

This concludes the report of the market conduct examination of the Hartford Life Insurance Company. The examiners, John Pollock and Rob Stroup, would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



John Pollock
Examiner in Charge

12/19/11

Date



**THE
HARTFORD**

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Retirement Compliance
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VIA OVERNIGHT MAIL

Rodney E. Beetch
Insurance Compliance Supervisor
Ohio Department of Insurance
50 W. Town Street, Suite 300
Columbus, Ohio 43215

December 2, 2011

Dear Mr. Beetch:

This letter serves as the response of Hartford Life Insurance Company (“Company”) to the Final Report of Market Conduct Examination (“Report”) dated November 7, 2011. In the following paragraphs, the Company addresses the concerns and recommendations raised in the Report.

The Report expresses the concern that different independent third party firms (hereinafter “Distributors”) use different suitability forms throughout the sales process resulting in inconsistent detail and file documentation. The exam report recommends that the Company review all current versions of suitability forms being used to assure that all Distributors are using suitability forms that encompass all facets of financial information as required by the revised version of OAC 3901-6-13 (E)(9) and (F)(1)(2) effective July 1, 2011. The exam report further recommends that the Company reconsider the broad ranges used on suitability forms for net worth and income areas and the high percentage of net worth considered acceptable for a sale to be deemed suitable.

The Company primarily distributes its annuity products through independent Distributors. During the examination period, the Company contracted with these Distributors to establish and maintain a system of supervision designed to comply with Ohio suitability rules as was permitted by OAC 3901-6-13 (G)(7). Each Distributor may develop its own system of supervision and its own suitability data-gathering forms with which to administer that system. The Company does not believe that Distributors are required to use consistent data gathering forms as long as Distributors’ forms gather, at a minimum, the information required by Ohio regulations. In fact, during the period under examination, OAC 3901-6-13 contemplated and expressly allowed for each agent to determine for him or herself what information beyond the minimum is considered to be reasonable in making recommendations to the consumer.

The Company does take very seriously its obligations to comply with the suitability

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requirements of Ohio regulations. In response to the Department's concerns and recommendations, the Company is planning a communication to its Distributors in order to remind them of the importance of complying with Ohio suitability regulations and to specifically request that they review all suitability data gathering forms in use in Ohio to verify that the forms encompass all facets of financial information as required by the revised version of OAC 3901-6-13(E)(9) and (F)(1)(2) effective July 2, 2011. The communication will specifically ask Distributors to examine the ranges used on the suitability forms regarding the client's net worth and income and to examine the percentage of net worth considered acceptable in order to assure compliance with Ohio suitability regulations and consistency with standard industry practices.

In addition, the exam report observes that while the Company meets the requirements of OAC 3901-6-13(G)(6) by maintaining written suitability procedures, the Company does not meet the requirements of OAC 3901-6-13(G)(8) due to the lack of random third party sampling and review of annuity sales. The Company respectfully disagrees with this conclusion. During the period under examination, while OAC 3901-6-13 (G)(5) required an insurer to either assure that a system of supervision reasonably designed to achieve compliance with the rule is in place or establish and maintain such a system, it only required a Company that elected to establish and maintain its own system of supervision to conduct periodic reviews of Company records. During the period under examination, as permitted by both OAC 3901-6-13 (G)(5) and (G)(7), the Company elected to contract with Distributors to establish and maintain a system of supervision. We have carefully reviewed OAC 3901-6-13, and based on our review, we conclude that OAC 3901-6-13 does not define or require a specific method of conducting periodic reviews. Rather, this section provides that an insurer may satisfy the requirements of OAC 3901-6-13(G)(8) by gathering annual certifications from Distributors and by selecting Distributors and agents for review using reasonable selection criteria to determine if the Distributors are performing the required functions. The Company would like to note that it fully complies with the requirements of OAC 3901-6-13(G)(8) by conducting quarterly "red flag" suitability trend monitoring of its Distributors and agents designed to detect and prevent violations of state and federal rules and regulations. If a problematic trend is identified, the Company communicates that information to the Distributor's compliance department and asks the Distributor to confirm that there is a system of supervision in place to monitor the activities of its representatives. The Company would also like to note that it requires active Distributors to certify that its system of supervision for unregistered fixed annuity suitability is similar to that used for registered annuity contracts. If a Distributor does not certify to this, that Distributor must subject its sales of unregistered fixed annuities to the Company's home office suitability system.

While the Company does not believe that its current suitability procedures fail to comply with OAC 3901-6-13(G)(8), it will agree, nevertheless, to enhance its current procedures to add periodic reviews of a sampling of individual annuity sales when appropriate to ensure that

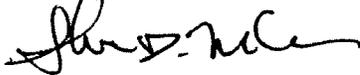
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Distributors the Company contracts with are performing the required suitability-related functions.

The Report also expresses a concern regarding a certain number of policy files that failed to contain an annuity disclosure document or failed to contain an annuity disclosure form that met all of the minimum requirements. The Company agrees with this finding. The Company has implemented the required annuity disclosure forms.

Lastly, the Company would like to acknowledge the professionalism and courtesy of the examiners throughout the examination process.

Sincerely,

A handwritten signature in black ink, appearing to read "Shane D. McCann". The signature is fluid and cursive, with a prominent initial "S" and a long, sweeping underline.

Shane D. McCann
Director