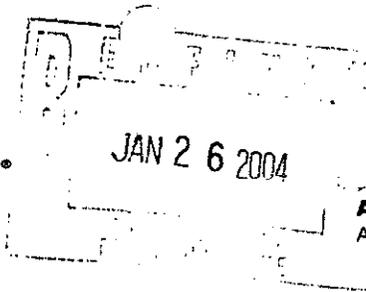




Allstate.
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Angela Fontana, CPCU
Associate Counsel

Financial Law & Regulation

January 23, 2004

Ms. Rebecca C. Heintz
Enforcement Attorney/Insurance Division
Department of Banking, Insurance, Securities and Health Care Administration
State of Vermont
89 Main Street, Drawer 20
Montpelier, VT 05620-3101

**RE: Market Conduct Examination
Allstate Life Insurance Company**

Dear Ms. Heintz:

Thank you for the opportunity to provide a response to the Market Conduct Examination Report of Allstate Life Insurance Company.

The Company's response is divided by categories listed in the report for which the Company has a response. Any recommendation relating to such category for which the Department is requesting action by the Company is listed below in bold type in the exact same language as the recommendation appears in the Summary of Recommendations. The Company's response follows each recommendation and is in plain type. Wherever there is an issue where there is no recommendation but the Company would like to comment, such issues are set forth below in bold noted as "COMMENT" followed by the Company's response in plain type.

CLAIMS PROCEDURES AND PROCESSING

Recommendation: The Company should revise its practices so as to apply the statutory rate (currently 12%) in those cases where it may have improperly delayed payment of a claim, in accordance with 8 V.S.A. §3665 (d).

Although the Company finds the statute to be somewhat ambiguous, the Company has revised its interest paying practice for Vermont claims pursuant to

the Department's explanation. The Company has updated its claim paying system, effective February 2, 2003, to reflect this change, and has provided appropriate communication to impacted staff members in the Claim Department.

Recommendation: Since the Company has apparently failed to pay any interest on most individual life insurance claims and insufficient interest on others for a period of forty-six (46) years. It is recommended that the Company take the following corrective action:

- A. Go back as far as sufficient records are available and calculate the amount of interest that should have been included when the claim was paid. Add additional interest at the rate of 12% simple interest per annum to the amount of interest that should have been paid originally, from the date the claim was paid until the present.
- B. If there is any period for which sufficient records are not available to make the calculations described in (A) above, an aggregate amount should be calculated for such period.
- C. Payments calculated as described in (A) above should be mailed to the latest known addresses of such beneficiaries together with a form letter, approved by the Vermont Department, explaining the reason for making the additional payments.
- D. In those cases where the checks are returned and the beneficiaries cannot be located, such amounts together with the sums described in (B) above should be processed in accordance with 27 V.S.A. §11208 et seq. (Unclaimed Property Act) of the State of Vermont.

RESPONSE: The Recommendation should be revised to delete reference to failure to pay interest for a period of 46 years. The statute in question did not become effective until 1987 (as confirmed by the Department on page 8 of its exam report), so the requirements of the statute would not have applied to claims prior to that time.

The Company has begun to take steps for the corrective action as directed by the Department. The Company will submit to the Department for approval the claims cover letter as referenced in Recommendation step C above.

SALES AND MARKETING

Recommendation: It is recommended that the Company establish suitability guidelines and procedures for the contracted financial services firms and establish a monitoring system to assure that all appointed producers are following these guidelines.

RESPONSE: All contracted financial services firms with which the Company has selling agreements are legally required and contractually obligated to Allstate Life Insurance Company to supervise their registered representatives for compliance with the applicable NASD and SEC rules, including suitability requirements. Although it is the Company's position that it is not legally required to establish a monitoring system, the Company plans to leverage some new processes being implemented from which valuable information can be obtained to help monitor the acceptability of sales. For example, the Company plans to begin using revised customer surveys, on or around March 1, 2004, for all new business customers from the contracted financial services firms that will inquire, in part, if the customer and his or her representative discussed the customer's current financial situation to help determine if the product met his or her needs. In addition, the Company will be conducting analyses using freelook and complaint reports in an effort to identify any trends that may reflect that the contracted financial services firms are not following compliance requirements.

DIRECT RESPONSE

Recommendation: The examiners recommend that the Company discontinue using any telemarketers who are not licensed in full compliance with 8 V.S.A. §4793 (a).

RESPONSE: The Company maintains its position that telemarketing service representatives do not hold themselves out to be an insurance broker or agent and that it has complied with 8 V.S.A. § 4793. Please note, however, that Direct Response made the business decision to cease marketing and selling all Company products in the state of Vermont, effective January 1, 2004.

Recommendation: The Company should immediately discontinue offering the first two months of coverage at no cost to the insured, in violation of 8 V.S.A. 4724 (8).

RESPONSE: The Company maintains its position that it is in compliance with 8 V.S.A. § 4724(8) because it does not offer to pay the premiums of a consumer or reduce the premiums due in any way. Please note, however, that Direct Response made the business decision to cease marketing and selling all Company products in the state of Vermont, effective January 1, 2004.

Recommendation: The Company should amend its procedures for marketing direct response life insurance so as to comply with Vermont Regulation 2001-3 §7.

RESPONSE: The Company has taken steps to comply with Vermont Regulation 2001-3 § 7. Effective December 22, 2003, Vermont's Appendix B, Notice Regarding Replacements for Direct Response Insurers was included in customer fulfillment packages. Please note, however, that Direct Response made the business decision to cease marketing and selling all Company products in the state of Vermont, effective January 1, 2004.

Recommendation: The examiners recommend that the Company immediately discontinue the practice of asking questions of applicants, which require such persons to reveal having taken HIV-related tests in the past.

RESPONSE: Effective July 1, 2003, the Company eliminated from the Direct Response telemarketing scripts the question inquiring whether an applicant tested positive on an AIDS related blood test and replaced it with the question, "Have you ever been diagnosed by a licensed medical physician or a medical doctor as having Acquired Immune Deficiency Syndrome (AIDS)?" Please note, however, that Direct Response made the business decision to cease marketing and selling all Company products in the state of Vermont, effective January 1, 2004.

REPLACEMENTS

Recommendation: Although most of the violations of Vermont Regulation 2001-3 occurred when the regulation first became effective in March, 2002 and shortly thereafter i.e., when it was first being implemented, it is recommended that the procedures be reviewed to insure that they are all being followed.

RESPONSE: The Company is reviewing its procedures to determine what changes to its existing processes may be necessary to help ensure that the replacement requirements are satisfied. The Company has already enhanced certain replacement procedures such as the handling of its new business paper applications received from the contracted financial services firms, and are diligently pursuing any other changes that may be needed.

The Company would like to comment, however, on how the Department used statistics to represent the number of replacement violations as shown on page 13 of the report. If the Department recognizes as many as eight (or more) possible replacement violations per contract, then this should be factored into the equation for determining the total percentage of contracts in violation of the replacement regulation. It appears that while the Department has increased the possible numerator when calculating the percentage of violations, it has not also provided a corresponding increase to the denominator of the calculation. For example, if 28 of the Company's new business contracts were replacements, and if the Department examines each contract for eight possible violations, then it should follow that the potential for total violations would be 224 (i.e. 28 contracts multiplied by 8), rather than 28.

Recommendation: The Company should revise its present "Remote Policy Entry" procedures to bring them into compliance with Vermont Regulation 2001-3.

RESPONSE: The Company is in the process of reviewing its Remote Policy Entry procedures and, although the review is not yet complete, the Company has already made certain manual enhancements to help ensure improved compliance. The Company is continuing to assess the process in greater detail to determine what additional changes will be necessary.

FINES, PENALTIES & FORFEITURES

COMMENT: The Department notes that the Company failed to file a listing of reportable administrative actions between the insurer and state insurance departments for 1999, 2000, and 2001.

Ms. Rebecca C. Heintz
January 23, 2004
Page 6

RESPONSE: Allstate now has a process in place to help ensure that any applicable administrative actions will be reported to the Department as required by Vermont Bulletin 30.

POLICY LOAN INTEREST

Recommendation: The examiners recommend that the Company revise its procedures to insure that the actual net cost of its policy loans do not exceed 8%.

RESPONSE: The maximum policy loan interest rate that may be charged on a life insurance policy loan is governed by 8 V.S.A. §3731. This statute only pertains to policy loan interest, and not to interest that is "credited back" on loaned cash values. Allstate's universal life plans charge the maximum fixed interest rate of 8%, in compliance with the statute. The Company maintains the position that the "additional cost" referred to in the report is not loan interest, and therefore, is not relevant to the statute.

Thank you again for the opportunity to provide a response to the Market Conduct Examination Report of Allstate Life Insurance Company. Please contact me at (847) 402-9365 or Dave Henreckson at (847) 402-5695 if you have any questions or require any additional information.

Sincerely,



c: Dave Henreckson
Linda Jung