

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

JOHN HANCOCK LIFE INSURANCE COMPANY

AND

**JOHN HANCOCK VARIABLE LIFE INSURANCE
COMPANY**

BY

**VERMONT DEPARTMENT OF BANKING,
INSURANCE, SECURITIES AND HEALTH CARE
ADMINISTRATION**

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SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

The examination of John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company hereinafter referred to collectively as the "Company", unless specifically mentioned by name, was conducted pursuant to applicable Vermont statutes and regulations.

STATUTORY HOME OFFICE

John Hancock Place
Boston, Massachusetts

EXAMINATION SITUS

The examination was conducted off-site. Information, documents and materials were provided directly to the examiners in both hard copy and on computer disks.

TIME FRAME

The examination generally covers the period from December 31, 1997 through December 31, 2000.

MATTERS EXAMINED

This market conduct examination report is written generally by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were observed. The examination included, but was not limited to the following areas:

Marketing and sales

Replacement procedures

Statutory filings

Complaints

Claims procedures and processing

Producer licensing

Underwriting

Litigation

METHODOLOGY

The examiners used random sampling techniques for selection of samples expected to achieve a 95% confidence rating with an error no greater than 5%. With respect to agent licensing, the tolerance is 0 %.

COMPANY OVERVIEW

HISTORY

The John Hancock Life Insurance Company was originally incorporated as a mutual life insurance company under the laws of Massachusetts on April 21, 1862 and commenced business on December 27, 1862.

On January 27, 2000 the Company converted from a Massachusetts mutual life insurance company to a Massachusetts stock life insurance company and became a wholly owned subsidiary of John Hancock Financial Services, Inc., whose shares were sold in an initial public offering on the same date. Under the plan of organization (the Plan), which was adopted by the board of directors on August 31, 1999, eligible policyholders received shares of John Hancock Financial Services, policy credits, or cash in exchange for their policyholders' membership interests in the Company. In conjunction with the conversion, the Company changed its name from John Hancock Mutual Life Insurance Company to John Hancock Life Insurance Company. The Plan was approved by a majority vote of policyholders on November 30, 1999, and by the Massachusetts Department of Insurance on December 9, 1999.

John Hancock Variable Life Insurance Company is a wholly owned subsidiary of John Hancock Life Insurance Company. This subsidiary company was incorporated under Massachusetts' law on February 22, 1979 and commenced business on February 12, 1980.

VERMONT REPORTED PREMIUMS

John Hancock Life Insurance Company

	1998	1999	2000
Life	4,859,469	5,001,022	4,726,146
Annuity	184,712	122,947	4,468,437
A & H	1,461,876	1,483,812	1,294,481
Deposit Funds	(1,632,066)	(804,706)	(521,982)
Total	4,873,991	5,803,075	9,967,082

John Hancock Variable Life Insurance Company

	1998	1999	2000
Life	25,010,485	4,907,631	5,551,473
Annuity	0	0	0
A & H	0	0	0
Deposit Funds	1,509,456	2,753,443	389,864
Total	26,519,941	7,661,074	5,941,337

PREMIUM REPORTING

The examiners noted that the deposit funds reported by John Hancock Life Insurance Company for all three examination years were relatively large negative figures. It was also noted that the life insurance premiums reported by the John Hancock Variable Life Insurance Company dropped from \$25,010,485 in 1998 down to \$4,907,631 in 1999.

The Company explained that these unusual appearing variances were attributable to COLI (Corporate Owned Life Insurance) with premiums, which are highly variable and unpredictable. They further explained that the COLI products were “excluded from sales reporting” because of this.

As to the negative deposit funds reported by John Hancock Life Insurance Company, their explanation was as follows:

The negative numbers appearing as Fund Deposits in JHLICo’s Schedule T for 1998-2000 are the result of the booking of retail fund deposit surrenders as return considerations.

True surrenders (formerly booked as return considerations) were to be booked as surrenders. If they were internal 1035 exchanges, except for current year cash considerations received, the original JH company (or element) would book them in the normal way, as surrenders, and the new JH company (or element) would book them as negative surrenders.

The examiners believe the Company’s premium reporting methodology to be unique and therefore recommend that the calculation of premium taxes reported by the Company be reviewed by the Vermont Department of Taxes.

SALES AND MARKETING

ADVERTISING

The examiners reviewed one hundred and thirteen (113) advertising pieces, which the Company had available for use in Vermont during the examination period. The findings were as follows:

Advertising piece LTC 1416 was designed for use in marketing the Company's Advantage Gold Select Long-Term Care Insurance Policy to organizations and companies. This document contains the following language:

Why Long-Term Care

If you're 65, your chance of having a nursing home stay is 48.6%. There is a 71.8% chance you may need home health care.

This statement has the capacity to mislead or deceive, in violation of Vermont Regulation 71-1 § 3 A and includes statistical information which does not reflect all of the relevant facts, in violation of Vermont Regulation 71-1§ 7A. Further, the Company failed to furnish any evidence that this advertisement was filed with the Vermont Department for review and approval pursuant to Vermont Regulation 91-1 § 15.

As to the specific content of the statement, if 48.6% of the general public over age 65 have historically had a nursing home stay, this would not be a reasonable indicator of the likelihood that a purchaser of the Company's long-term care policy would ever qualify to receive nursing home benefits under company rules for the following reasons:

1. The Company underwrites the applications. Thus, the average person who meets the company's standards of eligibility would be less likely to ultimately need nursing home care than a person from the general population, which includes more unhealthy persons.
2. A person insured under the Company's long-term care policy cannot use the nursing home benefit unless and until the Company determines that such person meets certain requirements specified by the Company. Some members of the public who elect to enter nursing homes would not be likely to meet the Company's "trigger" or requirements for entry.

In summary, the likelihood that a person who is healthy enough to qualify for purchase of a long-term care policy in the first place will ultimately become limited in their daily living activities to such an extent as required by the Company for payment of the nursing home benefit could reasonably be expected to be less than 48.6%.

In view of the above, the examiners recommend that the Company immediately discontinue the use of LTC 1416 and/or other advertising containing similar wording and develop procedures to insure compliance with Vermont Regulation 91-1 § 15.

CONVERSION OF MONTHLY DEBIT ORDINARY (MDO) TO REGULAR BILLED PREMIUM

In 1983 the Company converted all of its MDO business to a regular billed premium basis. In view of this, the examiners posed the following question to the Company in writing:

The original pricing of MDO policies necessarily includes a component in the premium to cover the company's additional costs and agents' compensation for collecting premiums at the insured's home. When this expense to the company was reduced by means of converting the MDO policies to a regular billing basis, the insureds were compelled to incur additional costs for postage. Our question is, were these insureds compensated in some fashion to account for the company's reduction in collection expenses and the insured's additional cost of postage to mail the premiums to the company? If so, explain how.

The Company failed to answer this question after the examiners made five separate requests in writing. Such failures constitute violations of 8 V.S.A. § 3565 (b).

The examiners recommend that the Company provide the Department with a complete written response to this inquiry.

JOHN HANCOCK SIGNATURE ACCESS ACCOUNTS

With respect to individual life policies, the Company has the practice of unilaterally placing death proceeds in a "John Hancock Signature Access Account" which they open in the beneficiary's name without receiving prior permission from the beneficiary. The letter informing the beneficiary of their claim approval and the opening of the "Access Account" also states the following:

You will receive an information package shortly including a supply of checks for your immediate use. The amount deposited to the account is itemized below.

8 V.S.A. § 3665 (c) (2) requires that all payments of claims under policies of life insurance include interest accrued from the date of death at the rate paid on proceeds left on deposit, or six percent (6%) whichever rate is greater.

It is the Company's practice to calculate the interest on death claims from the date of death up until the claim is approved. A problem arises, however, since the insured is not notified of the "Access Account" until several days later when the letter goes out to the beneficiary informing them of the existence of the account. Even then the beneficiary does not have immediate access to the account because a supply of checks is not sent out until a later date.

As a result of this practice the beneficiary is deprived of the statutory interest from the date of claim approval until the date the supply of checks are mailed out.

In view of these underpayments of interest on death claims it is the examiners' recommendation that the Company be instructed to go back and recalculate and pay the additional interest due these beneficiaries, at least for claims settled during the examination period.

CLAIMS PROCEDURES AND PROCESSING

WRITTEN PROCEDURES

Individual Life Claims

In reviewing the Company's written procedures with respect to the payment of death claims, the examiners observed that interest is calculated by the Company's computer system (IPO Payment Screen). The formula by which the system calculates interest failed to indicate the applicable 12% interest due in the event of an untimely death claim payment. Reference 8 V.S.A. § 3665 (d).

Group Life and Disability Claims

The examiners' review of the Company's group life and disability claims handling procedures revealed an irregularity. It is the Company's practice to pay interest on the death benefit based on the residence of the beneficiary rather than the residence of the certificateholder.

Date Stamping

The examiners note that the Company does not date stamp the death certificate unless it is the only document received. The examiners recommend that the Company instruct all claims handling personnel to date stamp all pertinent file documents, including the copy of the certified death certificate, in order to verify when proof of loss is actually received.

CLAIM AUDITS

The examiners requested on five (5) occasions information as to whether the Company performed internal claim audits and if so, the results of those audits. The Company failed to provide the requested information, in violation of 8 V.S.A § 3565 (b).

The examiners recommend that the Company answer the examiners question as to whether they performed internal claim audits and, if so, furnish copies of the audit findings to the Department.

INDIVIDUAL PAID LIFE CLAIMS

From a population of three hundred (300) paid life claims a sample of seventy-one (71) was selected for the compliance review. The findings are discussed below.

Underpayments

- Claim # 813870, # 9005736, # 800198 and # 9004740

The Company failed to apply the statutorily required rate of interest (6%) in violation of 8 V.S.A. § 3665 (c) (2), resulting in an underpayment of the death benefit for those four (4) claims referenced above.

Overpayment

- Claim # 900624

The Company paid \$12,370.67 in interest on this life claim, the correct amount is \$7,781.40, resulting in an overpayment of \$4,589.27. The examiners' inquiry with regard to the overpayment of death proceeds, revealed that the Company's "Focus Death Claim" system contained a "bug", which calculated interest incorrectly. The Company further indicated that the problem was corrected during the spring of 2001.

Untimely paid-underpayment

- Claim # 808260

The claimant's statement and proof of loss were received 8/17/98. The Company did not pay the claim until 12/3/98 and failed to pay the statutorily required rate for untimely payments in violation of 8 V.S.A. § 3665 (d) resulting in an underpayment of death proceeds.

The claimant's statement indicates that the insured had two other life policies. The examiners recommend that the Company recalculate the death proceeds for these policies reflecting the required rate of interest for delaying payment of the claim.

(Policies # M004998878 & 65582876)

Conclusion and recommendation

The examiners' finding of eight (8) errors out of a sample of seventy-one (71) individual paid claims reflects an error rate of 11.3%. When applied to the total population of three hundred (300) paid claims it results in an estimate of thirty-four (34) total errors. In view of this result, the examiners recommend that the Company review all individual Vermont paid claims for the examination period and recalculate the interest and make additional interest payments where indicated.

Claim Irregularity

□ Claim # 707752

The examiners observed an irregularity in that the initial claim notice was received by the Company on approximately 4/7/97 (date stamped incorrectly by the company). A letter was sent to the claimant on 4/7/97 advising that the beneficiary was the estate and requesting court appointment papers. There was no further correspondence or communication from the Company to the claimant until the claimant submitted the requested documents on 1/21/98. It is the examiners' opinion that the Company should have made follow-up requests during the nine (9) month period that lapsed between receipt of the claim and receipt of the requested documents.

GROUP PAID LIFE CLAIMS

There were seventeen (17) group life claims paid during the examination period. All seventeen (17) claim files were reviewed. The findings are discussed below.

Underpayments

- Claims # 9800660, 9806898, 9804573, 9909258, 9908398, 9901822, 9905317, 9903192, 2007338, 2003782, 2000350 & 2001434

The Company failed to apply the statutorily required rate of interest (6%) in violation of 8 V.S.A. § 3665 (c) (2), resulting in an underpayment of the death benefit for those twelve (12) claims referenced above.

No interest paid

- Claims # 9801343,9904597, 9904233, 2004944 & 2004130

8 V.S.A. § 3665 (c) (2) requires that all payments of claims under policies of life insurance shall include interest accrued from the date of death of the insured at the rate of six (6) percent or the rate paid on proceeds left on deposit, whichever rate is greater. The Company failed to pay interest on five (5) of the reviewed claims pursuant to 8 V.S.A. § 3665 (c) (2).

The examiners recommend that the Company pay the beneficiaries of those claims listed above the additional amounts of interest to which they are entitled.

GROUP PAID HEALTH CLAIMS
(Coinsured by UNICARE)

From a population of three thousand eight hundred and sixty four (3,864) group health claims the examiners selected a sample of fifty-four (54) for review in order to determine compliance with 18 V.S.A. § 9418 (Payment for health care services). Seven (7) of the fifty-four (54) claim files could not be located. The examiners observed that four (4) claims were in “apparent” violation * of 18 V.S.A. § 9418 (b) (1) & (e), two (2) claims were in violation of 18 V.S.A. § 9418 (b) (1) & (e) and two (2) claims were in violation of 18 V.S.A. § 9418 (b) (2).

(* See **Note** following the chart below)

Additionally, 18 V.S.A. § 9418 (e) provides that interest shall accrue on a claim that is uncontested from the first calendar day following the 45-day period following the date the claim is received by the company at the rate of 12 percent per annum. The Company did not pay interest on the claims as detailed in the following chart.

Master Case #	Clmt. #	Date of Service	Date Paid or Denied	Total Amt. of Claim	Amt. Paid	Date Claim Recv'd	# of Days from date claim recv'd to date paid or date denied	Remarks
25919	008261857 Sample # 4	6-27-97	2-12-98	52.75	52.75	*7-20-97	*207	* Apparent violation of 18 V.S.A. § 9418 (b) (1) & (e)
25919	009287102 Sample # 8	2-2-98	11-3-98	23.77	0	9-17-98	47	Violation of 18 V.S.A. § 9418 (b) (2)

25919	041680632 Sample # 14	6-2-98	12-15-98	30.00	0	10-26-98	50	Violation of 18 V.S.A. § 9418 (b) (2)
26527	008502552 Sample # 19	1-08-98	3-28-98	33.00	23.00	*1-31-98	*56	* Apparent violation of 18 V.S.A. § 9418 (b) (1) & (e)
26527	008503045 Sample # 20	8-11-97	1-7-98	85.00	42.50	*9-3-97	*126	* Apparent violation of 18 V.S.A. § 9418 (b) (1) & (e)
26527	008683675 Sample # 24	6-12-97	3-10-98	95.00	95.00	*7-5-97	*248	* Apparent violation of 18 V.S.A. § 9418 (b) (1) & (e)
26527	008683675 Sample # 25 (Same claimant as above)	8-8-97	4-14-98	297.00	297.00	9-12-97	214	Violation of 18 V.S.A. § 9418 ((b) (1) & (e)
27515	008405270 Sample # 51	7-28-98	9-22-98	211.33	173.10	8-5-98	48	Violation of 18 V.S.A. § 9418 ((b) (1) & (e)

*** NOTE:**

The Company was unable to provide the “date of receipt of claim” as they could not locate the claim file. The examiners estimated the average number of days that lapsed between the date of service and the date of receipt of the claim to be twenty-three (23) days (based upon other recorded claims). Since the exact date is not known the application of the estimated date of receipt is indicated in the chart above to reflect the untimeliness of the claim payment.

The Company should take steps to bring all of its procedures in conformity with the statutes cited above. In addition, a further effort should be made to locate the missing files and to review all of the files to make corrections where necessary as well as making additional payments to claimants where indicated.

Out of the sample of fifty-four (54) claim files there were a total of fourteen (14) violations and apparent violations, resulting in a violation rate of 25.9%. Applying this percentage to the total population of claims, the estimated number of violations would be one thousand (1,000).

UNDERWRITING

HIV TESTING

The examiners selected a sample of ninety (90) issued life policies from a population of six hundred and seventeen (617) for review in order to determine compliance with Vermont statutes and regulations. The population of six hundred and seventeen (617) represented life policies issued in Vermont during the examination period.

The review revealed eighteen (18) violations of Vermont statutes. The sample error rate was therefore 20%. When applied to the total populations of six hundred seventeen (617) this would give an estimated number of one hundred twenty-three (123) total violations. The violations are detailed in the following discussion.

Re: Policy # 003358997

In violation of 8 V.S.A. § 4724 (20) (C), the Company failed to obtain the correct HIV consent form (VT 88-1) and requested testing by means of oral fluid, a method not approved by Vermont. It should be noted that subsequently the correct form was presented and acknowledged by the applicant several weeks after the application had been signed.

Re: Policy # 003336827

In violation of 8 V.S.A. § 4724 (20) (C), the Company failed to obtain the correct HIV consent form (VT 88-1) and there is no evidence of compliance with 8 V.S.A. § 4724 (B) which, among other requirements, provides that the information statement be read aloud to the individual by the agent or broker.

Re: Policy # 003367183

There is no evidence that the agent read aloud the information statement to the applicant in that the “Acknowledgment of Information Statement for HIV-Related Tests” form was not signed by the agent, in violation of 8 V.S.A. § 4724 (20) (B).

Re: Policy # 003339397

There is no evidence of compliance with 8 V.S.A. § 4724 (20) (B) in that the “Acknowledgment of Information Statement for HIV-Related Tests” form was not signed by either the applicant or the agent.

Re: Policy # 067244505

The “Informed Consent” form (VT 88-1) was not signed by the proposed insured in violation of 8 V.S.A. § 4724 (20) (B) (iv).

Re: Policy # 067215520

In violation of 8 V.S.A. § 4724 (20) (C), the Company failed to obtain the correct HIV consent form (VT 88-1) but used instead form # 1675-VT (Rev. 6-90) which is not on the approved forms listing. Additionally, there is no evidence of compliance with 8 V.S.A. § 4724 (B) which, among other requirements, provides that the information statement be read aloud to the individual by the agent or broker.

Re: Policy # 075064441

There is no evidence of compliance with 8 V.S.A. § 4724 (20) (B) in that the “Acknowledgment of Information Statement for HIV-Related Tests” form was not signed by either the applicant or the agent.

Re: Policy # 067221892

In violation of 8 V.S.A. § 4724 (20) (C), the Company failed to obtain the correct HIV consent form (VT 88-1) and there is no evidence of compliance with 8 V.S.A. § 4724 (B).

Re: Policies # 67214456, 75030008, 75040602, 75064796 and 75077626

In violation of 8 V.S.A. § 4724 (20) (B), the Company used VT 88-1 but the insured did not sign page 2 regarding reading of page 1 of the form. There was no correspondence from the underwriting department returning the form or writing to the agency regarding it.

Re: Policy # 67215095

The old Vermont authorization form 1675-VT was completed, however, this form was only accepted until 1989. The required statement is not a part of that form. The underwriting department did not require current form VT 88-1, hence a violation of 8 V.S.A. § 4724 (20) (B).

Re: Policy 7037120

This policy was issued in Vermont but authorization form 15761 was signed when the physical examination was performed. Form VT 88-1 was not signed on page 2, in violation of 8 V.S.A. § 4724 (20) (B).

Additionally, there were six (6) policies written by the “direct sales method” through the Internet for which the examiners observed irregularities.

The “Acknowledgment of Information Statement for HIV-Related Tests” form reads:

I have listened to the undersigned agent read aloud this printed Information Statement to me. I acknowledge that I have heard and understood this material, and that I have received a copy of this Information Statement.

The six (6) forms were not acknowledged by the agent, therefore there is no evidence of compliance with 8 V.S.A § 4724 20 (B).

The examiners recommend that the Company revise their procedures with respect to the requirements of 8 V.S.A. § 4724 (20) assuring compliance with the statute.

See Appendix I

POLICY LOAN INTEREST

Policy loan provision **10. LOANS** “form 96 LTUL” provides for an adjustable loan rate calculation method that produces the maximum variable interest rate permissible under 8 V.S.A. § 3731 (7) (B). On the other hand, however, the last sentence under policy provision **6. INCREASE IN CREDITED RATE** reads as follows:

“The increase in credited rate is applied only to amounts of Account Value in excess of indebtedness.”

Since the Company already charges the maximum statutory variable loan interest rate pursuant to policy Section 10, it would be unlawful to impose an additional cost of the loan by means of depriving a borrower of the full credited rate on the amount of the indebtedness.

Although the interest rates for the loaned portion of the cash value are actually higher than the rates applied to the loaned portion for some time periods, such was not always the case.

The examiners recommend that the Company pay any persons who were credited with a lower amount, by virtue of their having a policy loan, the difference between the amount they were actually credited and the amount they would have been credited had they not taken out a policy loan. Further, the Company’s procedures should be revised so as to prevent borrowers from being credited with less interest than non-borrowers in the future.

LEGAL ACTIONS INVOLVING OTHER INSURANCE DEPARTMENTS

Vermont Bulletin 30 requires all insurance companies to file a report with the Department on or before March 15th, of each year of actions by the insurance department of any other state against the insurance company, which involves any allegation of violation of law or regulation and which results in any of the dispositions listed in the Bulletin.

The Company failed to file the required reports for the years 1998, 1999 and 2000. Such failure constitutes violations of 8 V.S.A. § 3561 and § 3562.

The two most significant actions taken by any state during the examination period were as follows:

1. Without admitting any wrongdoing, in March, 1998, John Hancock stipulated to an entry of judgment with the Attorney General of Massachusetts for alleged violations of various insurance statutes and regulations over the preceding fifteen years and paid a civil sanction of \$1.2 million. This matter arose from the Attorney General's tangential involvement with the Company's sales practices class action lawsuit, Duhaime, et al. V. John Hancock, et al.
2. At the writing of this report John Hancock Life Insurance Company was involved in a suit against another life insurance company in the United States District Court for the District of Massachusetts. In a matter peripherally related to that suit, John Hancock entered into a civil stipulation with the New York State Insurance Department that included the payment of a civil penalty in the amount of \$1,000,000.

There were a number of lesser actions taken by other state insurance departments, which are not enumerated in this report, however, the examiners recommend that both John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company immediately file the reports required by Vermont Bulletin 30 for the years 1998, 1999 and 2000 in the detail required by the regulation.

CONSUMER COMPLAINTS

Vermont Regulation 76-1 § 5 requires that each insurer submit to the Vermont Department a summary sheet of its complaint record for the preceding year on or before April 1, of each year. The information required and the format must be in accordance with Exhibit 3 of the Regulation.

Exhibit 3 provides for summarizing the total number of complaints, comparisons of total earned premium for Vermont, total number of Vermont insureds, the ratio of total number of complaints to 1,000 Vermont insureds and the ratios of number of complaints to the number of Vermont insureds by line of insurance for those lines of insurance in which the insurer insures more than 1,000 Vermonters.

The examiners note that the summary sheets furnished for the review failed to include the above described information.

According the Company's complaint registers, the numbers of Vermont complaints received by the Company during the examination period were as follows:

1998	1999	2000
14	17	30

The numbers of complaints were relatively small and the types of complaints did not indicate any pattern of abuse. Although the number of complaints increased during 2000, the increase was almost entirely attributable to the demutualization program taking place during that time, which was a nonreoccurring event.

The examiners recommend that the Company refile the reports of consumer complaints for the three examination years correctly and in the required format.

PRODUCER LICENSING

The Company does not have an agency that is physically located in the State of Vermont. Products are sold through a number of agents licensed in Vermont that work out of offices outside of the state. Vermont policyholders receive service through the agency office or by calling an 800 customer access line in Boston to request routine service such as billing, loans, or change of beneficiary. More complex matters are handled through an agent.

The examiners' review testing compliance with Vermont licensing statutes revealed two violations as discussed below.

- Re: Policy # VP2041778

Agent No. 013122 (company's agent no.) wrote an application for a variable annuity on 11/3/99. According to company records agent # 013122 was not licensed to write variable products in violation of 8 V.S.A. § 4793.

- Re: Policy # 67260771

Agent No. 068749 (company's agent no.) wrote an application for life insurance on 7/17/00. His license was effective 8/9/00, therefore violating 8 V.S.A. § 4793.

The Company should take steps to prevent any further producer licensing violations.

POLICY FORM FILINGS

The examiners' review included a compliance test to determine if properly filed and approved policy forms were used pursuant to Vermont statutes and regulations. The test was applied to randomly selected samples from a listing of policies/contracts issued in Vermont during the exam period. The total population of the issued listing was one thousand forty-four (1,044), broken down by the following lines of insurance:

Issued life	617
Issued annuities	173
Issued "COLI" cases	179
Issued GLTC (Group long-term Care)	75

Irregularities involving the use of unapproved HIV-Testing forms are discussed in this report under the section entitled "Underwriting".

The examiners' review of thirty-six (36) samples from the GLTC (Group long-term Care) listing revealed numerous discrepancies as detailed below:

- Thirty-one (31) cases used an application form not filed or approved for use in the State of Vermont, in violation of 8 V.S.A. § 3541, § 4062 and Regulation 91-1 § 14.
- Three (3) cases did not contain evidence of compliance with Regulation 91-1 § 11 (Requirements for application forms and replacement coverage).

See Appendix II

The examiners also observed that a number of the Company's current life insurance policy forms contain a provision, which reads as follows:

16. Interest on Proceeds

We will pay interest on proceeds paid in one sum in the event of the insured's death from the date of death to the date of payment. The rate will be the same as declared for option 1 in Section 23, Settlement Provisions.

Option 1 under Section 23, Settlement Provisions, reads in part as follows:

Option 1-interest income at the declared rate but not less than 3.5% a year on proceeds held on deposit.

Policy Section 23 contravenes 8 V.S.A. § 3665 (c) (2) in that it permits a minimum rate of interest on policy proceeds of 3.5% a year whereas the code sets the minimum interest at 6% per year.

In view of the above, it is recommended that the Company prepare amendments to each of its policies that permit a minimum interest rate of less than 6% on death proceeds and file them with the Vermont Department for approval.

EVENTS SUBSEQUENT TO THE EXAMINATION PERIOD

Vermont Mandatory Civil Union Endorsement

The Company utilizes their own version of the required Vermont Mandatory Civil Union Endorsement. Bulletin HCA 110 and Bulletin No. 128 provides that if an insurer chooses to use an alternative endorsement other than the required Vermont Mandatory Civil Unions Endorsement (health insurance) or the Vermont Life Insurance Mandatory Civil Union Endorsement, the form must be approved by the Department. The Company did not obtain filing approval in violation of Regulation H-00-1 § 7.

It is recommended that the Company take steps to bring all of its Vermont certificates in compliance with Vermont's "Act Relating to Civil Unions" and accompanying regulations.

SUMMARY OF RECOMMENDATIONS

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The examiners recommend that the calculation of premium taxes reported by the Company be reviewed by the Vermont Department of Taxes in view of the Company's unique premium reporting methodology.

Page 5

It is recommended that the Company immediately discontinue the use of LTC 1416 and/or other advertising containing similar wording and develop procedures to insure compliance with Vermont Regulation 91-1 § 15.

Page 7

The Company should provide the Department with a complete written response to the examiners' inquiry regarding conversion of MDO to the regular billed premium mode.

Page 7 & 8

In view of the underpayments of interest on death claims due to utilization of the "Access Accounts" it is the examiners recommendation that the Company be instructed to go back and recalculate and pay the additional interest due these beneficiaries, at least for claims settled during the examination period.

Page 9

The examiners recommend that the Company's written claim procedures be revised so as to avoid the violations discussed in this portion of the examination report.

Page 9

The Company should instruct all claims handling personnel to date stamp all pertinent file documents, including copies of the certified death certificates, in order to facilitate verification of when proof of loss is actually received.

Page 9

The examiners recommend that the Company answer the examiners' question as to whether they performed internal claim audits and, if so, furnish copies of the audit findings.

Page 10

The Company should recalculate the interest paid on all Vermont individual claims during the examination period and make additional interest payments where indicated.

Page 12

It is recommended that the Company pay the beneficiaries of those group paid life claims listed in this report the additional amounts of interest to which they are entitled.

Page 13

The Company should take steps to bring all of its group health claim procedures in conformity with statues and regulations cited in this report.

Page 13

A further effort should be made to locate the missing group health paid claim files and to review all of the files and make corrections where necessary, as well as making additional payments to claimants where indicated.

Page 16 & 17

The examiners recommend that the Company revise their procedures with respect to the requirements of 8 V.S.A. § 4724 (20) assuring compliance with the statute.

Page 19

The examiners recommend that the Company pay any persons who were credited with a lower amount, by virtue of their having a policy loan, the difference between the amount they were actually credited and the amount they would have been credited had they not taken out a policy loan. Further, the Company's procedures should be revised so as to prevent borrowers from being credited with less interest than non-borrowers in the future.

Page 20

The Company should immediately file the reports required by Vermont Bulletin 30 for the years 1998, 1999 and 2000 in the detail required by the Bulletin.

Page 21

The examiners recommend that the Company refile the reports of consumer complaints for the three examination years correctly and in the required format.

Page 22

The Company should take steps to prevent any further producer licensing violations.

Page 23

It is recommended that the Company prepare amendments to each of its policies that permit a minimum interest rate of less than 6% on death proceeds and file them with the Vermont Department for approval.

Page 25

It is recommended that the Company take steps to bring all of its Vermont certificates in compliance with Vermont's "Act Relating to Civil Unions" and accompanying regulations.

APPENDIX I

Underwriting

Six (6) forms were not acknowledged by the agent - no evidence of compliance with 8 V.S.A § 4724 (B)

Policy Numbers:

075013199

075015711

075018139

075059933

075055742

075056160

APPENDIX II

Policy Form Filings

Thirty-one (31) violations of 8 V.S.A. § 3541, 4062 and Regulation 91-1 §14:

Group # 0000108

Certificate #'s

008249856

429836784

202489131

138406648

008281010

009400521

009362008

215544227

009361303

397483227

395583594

009446508

282689117

013307874

009304481

044343136

117385127

003365443

009382986

065340050

008467988

009388545

123425534

009241868

015606652

008144723

055427421

009322687

Group # 0000142
Certificate #
236205535

Group # 0000129
Certificate #
022247370
026249767

Three violations of Regulation 91-1 § 11:

(Requirements for application forms and replacement coverage)

Group # 0000118
Certificate #
002382136

Group # 0000220
Certificate #
008428835

Group # 0000203
Certificate #
016506141