REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

METROPOLITAN LIFE INSURANCE COMPANY

METROPOLITAN INSURANCE AND ANNUITY COMPANY

METROPOLITAN TOWER LIFE INSURANCE COMPANY

SECURITY FIRST LIFE INSURANCE COMPANY

BY

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

CERTIFICATION

James R. Montgomery III, AIE, FLMI, MAAA and Robbie L. Kriplean, CIE, AIRC participated in this examination.

I, Robbie L. Kriplean being duly sworn, do hereby affirm that the foregoing report of the Market Conduct Examination of Metropolitan Life Insurance Company, Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company and Security First Life Insurance Company is true and correct to the best of my knowledge and belief.

Robbie L. Kriplean

Robbie L. Kriplean, CIE, AIRC

NOTARY PUBLIC AT LARGE

Notary Seal

Subscribed and sworn to before me this 30 day of MAY, 2003.

NOTARY PUBLIC

CERTIFICATION

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I, James R. Montgomery III being duly sworn, do hereby affirm that the foregoing report of the Market Conduct Examination of Metropolitan Life Insurance Company, Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company and Security First Life Insurance Company is true and correct to the best of my knowledge and belief.

James R. Montgomery III

James R. Montgomery III, AIE, FLMI, MAAA

Notary Seal

Subscribed and sworn to before me this 30 day of May, 2003.

NOTARY PUBLIC

LISA K. CURRY
MY COMMISSION # DD 175483
EXPIRES: January 5, 2007
Bonded Thru Notary Public Underwriters

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May 30, 2003

The Honorable John Crowley
Commissioner
Vermont Department of Banking, Insurance,
Securities and Health Care Administration
89 Main Street, Drawer 20
Montpelier, Vermont 05620

Dear Commissioner Crowley:

Pursuant to your instructions and in compliance with the provisions of 8 V.S.A. § 3565 et seq. and procedures promulgated by the National Association of Insurance Commissioners, an examination of the market conduct activities has been conducted of:

> Metropolitan Life Insurance Company, Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company and Security First Life Insurance Company
> One Madison Avenue
> New York, New York

The report thereon, as of December 31, 2000, is respectfully submitted.

SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

The examination of Metropolitan Life Insurance Company, Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company and Security First Life Insurance Company hereinafter referred to collectively as the "Company" or MetLife unless specifically mentioned by name, was conducted pursuant to applicable Vermont statutes and regulations.

STATUTORY HOME OFFICE

One Madison Avenue
New York, New York

EXAMINATION SITUS

The examination was conducted off-site. Information, documents and materials were provided directly to the examiners in either hard copy and/or 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 producer licensing, the tolerance is 0 %.

COMPANY OVERVIEW

History

METROPOLITAN LIFE INSURANCE COMPANY

The Company was incorporated as a stock life insurance company under the laws of the state of New York on March 24, 1868 and commenced business on March 25, 1868. In 1915, the Company converted from a stock company to a mutual life insurer.

In 1996 the Company merged with the New England Mutual Life Insurance Company (NEMLIC). Under the terms of the merger agreement, the assets and liabilities were merged into Metropolitan. However, NEMLIC's subsidiary, New England Variable Life Insurance, has continued operations as a subsidiary of Metropolitan, under the new name of New England Life Insurance Company and maintains operations in Boston, Massachusetts.

In April 2000, Metropolitan Life completed the conversion from a mutual company to a publicly traded stock company via a full demutulization.

The Company, whose largest lines of business are individual life insurance and annuities, operates in all states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. In addition, the Company has established insurance operations in Europe, Latin America and Asia.

METROPOLITAN INSURANCE AND ANNUITY COMPANY

Metropolitan Insurance and Annuity Company is a wholly owned subsidiary of Metropolitan Tower Corporation, a downstream holding subsidiary of the Metropolitan Life Insurance Company. The Company was incorporated as a stock life insurance company under the laws of Delaware on September 1, 1976 and commenced business on December 20, 1976. The Company was created to be the interest sensitive life and annuity arm, however, in recent years most of the new business in the United States has been written through the Metropolitan Life Insurance Company. Most of the Company's new business since 1989 has been produced by the Taiwan Branch Operations. The Company is licensed in all states in addition to Guam, Puerto Rico, American Samoa, US Virgin Islands, Canada and Taiwan.

SECURITY FIRST LIFE INSURANCE COMPANY

Security First Life Insurance Company is a wholly owned subsidiary of Security First Group, Inc. The Company was incorporated as a stock life insurance company on September 13, 1960 under the laws of Delaware and commenced business on March 10, 1961. Security First Group was acquired by Metropolitan Life Insurance Company in 1997 from the London Insurance Group, Inc. of Ontario, Canada. The Company specialized in fixed and variable annuity products on both an individual and group basis. The Bank Financial Services Division offers single premium tax deferred annuities through financial institutions. The Public Services Division offers flexible payment tax-deferred annuities to government and education employees through payroll deduction. The Company is licensed in all states except New York, in addition to U.S. possessions and Canada.

METROPOLITAN TOWER LIFE INSURANCE COMPANY

Metropolitan Tower Life Insurance Company is a wholly owned subsidiary of Metropolitan Life Insurance Company. The Company was organized as a stock life insurance company under the laws of Delaware on March 4, 1982 and commenced business on February 15, 1983. No new first year premiums are being written at this time. The Company had previously served as a vehicle to market variable universal life insurance. Metropolitan Tower is licensed in all states except Hawaii and is also licensed in the U.S. possessions and Canada.

Vermont Reported Premiums

Metropolitan Life Insurance Company

	1998	1999	2000
Life	20,418,498	21,892,424	19,483,481
Annuity	1,835,712	1,966,071	1,010,578
A & H	5,869,919	6,185,224	8,382,502
Deposit Funds	43,664,092	36,089,665	32,594,328
Total	71,788,221	66,133,384	61,470,889

Metropolitan Insurance and Annuity Company

	1998	1999	2000
Life	969,137	892,198	918,494
Annuity	118,827	36,375	0
A & H	0	0	0
Deposit Funds	(92,765)	(3,900)	36,835
Total	995,199	924,673	955,329

Security First Life Insurance Company

	1998	1999	2000
Life	0	111	167
Annuity	0	0	0
A & H	0	0	0
Deposit Funds	173,238	79,282	104,777
Total	173,238	79,393	104,944

Metropolitan Tower Life Insurance Company

	1998	1999	2000
Life	21,545	19,660	18,031
Annuity	0	0	0
A & H	0	0	0
Deposit Funds	0	0	0
Total	21,545	19,660	18,031

MULTIDISTRICT LITIGATION

Seven separate actions were joined in a Consolidated Class Action Complaint in a Multidistrict Litigation (MDL) before the United States District Court for the Western District of Pennsylvania. Two of the cases were dismissed and partial summary judgment awarded against a third. Five of the actions alleged a nationwide putative class relating to replacement and "vanishing premium" claims. Another case alleged a nationwide putative class action concerning the improper assessment of cost of insurance charges against single premium life policies.

On December 28. 1999, after a fairness hearing, the court approved a settlement resolving the MDL. No appeal was taken and the settlement is final. The settlement class includes most of the owners of permanent life insurance policies and annuity contracts or certificates issued pursuant to individual sales in the United States by the Company or certain of its subsidiaries between January 1, 1982 and December 31, 1997.

Under the terms of the order, only those class members who excluded themselves from the settlement may continue an existing, or start a new sales practices lawsuit against the Company or certain of its subsidiaries for policies or annuities issued during the class period.

The settlement provides three forms of relief. General relief, in the form of free death benefits, is provided automatically to class members who did not exclude themselves from the settlement or who did not elect the claim evaluation procedures set forth in the settlement. The claim evaluation procedures permit a class member to have a claim evaluated by a third party. Claim awards under the claim evaluation procedures are in the form of policy adjustments, free death benefits or, in some instances, cash payments. Further, class members who had an ownership interest in specific policies also automatically receive deferred acquisition cost tax relief in the form of free death benefits.

The Company's estimated total cost of the settlement nationwide is approximately $ 957 million. This amount includes the amount of the increase in liabilities for the death benefits and policy adjustments and the present value of cash payments provided to included class members, as well as attorney's fees and expenses and estimated other administrative costs, but does not include the cost of litigation with policyholders who are excluded from the settlement.

The impact of the MDL settlement on the Company's Vermont insureds in terms of the total number of persons included, total amount paid to the plaintiffs and number of persons selecting each option was reported by the Company to be as follows:

- The total number of Vermont resident plaintiffs in the class ("Vermont Class Members") was 32,767.

- A total amount of $ 1,398,379.96 was paid to Vermont Class Members, which was the sum of total general relief paid in the amount of $ 459,905 and a total claim relief (cash/credit) in the amount of $ 938,474.96.

- 32,210 Vermont Class Members selected the general relief death benefits paid option.

- 557 Vermont Class Members selected the claims evaluation option.

The Company further reported that settlement of all claims involving Vermont Class Members has been completed.

FINES, PENALTIES & FORFEITURES

The Company failed to file a listing of reportable administrative actions between the insurer and state insurance departments for each of the years 1998, 1999 and 2000 as required by Vermont Bulletin 30.

It is recommended that the Company establish procedures for filing the reports required by Bulletin 30 for future years.

On October 29, 1998, the Company paid the United States Government a civil monetary penalty in the amount of $25,000,000 in addition to a payment to the United States Postal Inspection Service in the amount of $186,172.89 to cover the cost of its investigation. Such payments were pursuant to a settlement agreement between the United States Attorney's Office for the Middle District of Florida and the Company.

The U.S. Government maintained that their investigation revealed information regarding certain marketing and sales practices involving the sale of life insurance as a retirement or savings plan conducted by Metropolitan, principally from its southeastern home office in Tampa, Florida during the period 1989 through 1993. According to the Government, the Company faced potential liability for criminal fines and penalties pursuant to 18 U.S.C. § § 1341 and 1343, and other laws, in addition to civil monetary penalties pursuant to 12 U.S.C. § 1833a, and other laws.

The Company paid $7,500,000 to the state of Florida pursuant to a February 2, 2000 consent order and a November, 1999 settlement agreement, which provided for restitution to Florida consumers and a monitory payment of $7,500,000. The matter involved alleged sales practices during the period 1982 through 1997, related to (1) "fully paid-up" or "paid-up" life insurance policy claims (2) accelerated, abbreviated or limited premium or "vanish" life insurance claims (3) retirement, investment or savings plan life insurance claims, (4) replacement, "churning", "twisting" or "piggy backing" life insurance claims, (5) any claims that the non-guaranteed elements of the life insurance policies failed to perform as originally illustrated or represented, (6) any claims relating to the so-called deferred acquisition cost ("DAC") tax, (7) replacement, "churning", "twisting" or "piggy backing" annuity claims, and (8) the marketing or sale of deferred annuities for funding qualified plans, such as an Individual Retirement Account ("IRA") or a 401(K), on the basis of a tax deferral advantage that does not exist, because any investment in a qualified plan is already tax-deferred (the "matters investigated").

The fines, penalties and forfeitures discussed above, in addition to others levied during the examination period, are listed in this report under Appendix I.

SALES AND MARKETING

"Target" Premium Issue

Since universal life policies, by design, do not require any specific, set premium, the Company utilizes a "target" premium as a device to assist prospective purchasers in determining how much premium they may need to pay for a specified amount of insurance. This is a customary practice throughout the industry. The "target" premium is the minimum amount of premium which the insured would have to pay in order to maintain a specified amount of insurance in force until the scheduled policy maturity date, assuming that the interest rate being credited by the Company to the accumulation value and the policy expenses remain unchanged throughout the life of the policy.

The "target" premium is of the utmost importance since it is the only figure available to a prospective applicant for use in comparing the cost of the Company's universal life policies with policies of other companies. It is the key competitive device used in the sale of universal life policies. For example, if company "X" charged a monthly premium of $100 for a certain specific amount of life insurance and MetLife quoted a "target" premium of $75 to the same person, that person is likely to have purchased MetLife's policy rather than the one from company "X". By the same token, if a person already had a policy with company "X" at $100 per month and the MetLife agent offered to replace that policy by quoting a "target" premium of $75 monthly, the prospect is likely to have terminated their existing policy with company "X" and replaced it with the MetLife policy.

Suppose, however, in the examples described above, where the MetLife agent quoted a target premium of $75 (that had been furnished by the Company) when, in fact, the Company had made a mistake in calculating their "target" premiums and the correct one was actually $120. In this instance, the purchaser would have been misled into believing that the MetLife policy was a better value than it actually was. This, in effect, is what actually happened as discussed below.

MetLife introduced their universal life policies in 1983, however, it was not until fifteen years later, in 1998, when they discovered that the "target" premiums at certain issue ages, which they had been using to sell their universal life policies over all of those years, were incorrect and had been understated. Although MetLife corrected their "target" premiums in September, 1998, for future issues, applicants at certain issue ages who purchased universal life policies anytime during this fifteen years period at the "target" premium level, would have done so based upon misleading information. Such practice is in violation of 8 V.S.A. § 4724 (2).

The examiners recommend that those person's who were misled into purchasing universal life policies at the incorrect "target" premiums be compensated under a program developed by the company with the approval of the Vermont Department. For example, such persons with policies currently in force could be compensated by increasing the accumulation values at the percentage by which the correct "target" premiums exceed the incorrect "target" premiums. Enhancement of future premiums should also be given in an amount increased by the same percentage.

Accelerated Payment Arrangement

A detailed discussion of the Company's "Accelerated Payment Arrangement" is contained under the section of this report entitled **Consumer Complaints.**

SUITABILITY

8 V.S.A. § 4724 (16) "Unsuitable policies", prohibits: " Soliciting, selling, or issuing an insurance policy when the person soliciting, selling, or issuing the policy has reason to know or should have reason to know that it is unsuitable for the person purchasing it".

8 V.S.A. § 4722 (3) defines "Insurance policy or insurance contract as any contract of insurance, indemnity, medical, dental, optometric, or hospital service, suretyship, or annuity issued, proposed for issuance, or intended for issuance by any person". (Underlining added for emphasis)

The scope of the examination included testing for appropriateness of sale and compliance with Vermont's suitability statutes as discussed above.

Questionable Suitability Cases

During the course of the examination the examiners observed several cases which, appear to have been written without reasonable grounds for suitability. These cases are discussed below.

Case I
State complaint file # 20000590
Contract # 079-300-638 AB
Agent # F-92-880-2 State License # 88539

Agent # 880-2 wrote two variable annuities for a couple in there 80's and in poor health. The source of funding for the annuities came from two annuities from another company and a bank IRA (Certificate of Deposit). The agent failed to place the new account in a qualified retirement account. The couple's adult children attempted to unsuccessfully intervene and stop delivery of the contract. The agent apparently backdated the policy delivery to a date on which the annuitant was actually in the hospital. After the Vermont Department intervened the Company reversed the sale, refunded the premium and paid additional money to cover the early withdrawal penalty of the CD and any tax liabilities.

Case II
Contract # 078-31860 AB
Agent # F-92-880-2 State License # 88539

This case involved a written complaint that the Company received from the annuitant's son with Power of Attorney. The agent placed this 87 year old female into a variable annuity account, Preference Plus Account (PPA). The source of funding came from her savings account and certificates of deposit, which incurred penalty charges. The annuity was later returned under the 10 day free look provision. After receiving the complaint from the annuitant's son seeking a settlement of reimbursement of the penalty charges and lost interest, the Company refunded the annuitant an amount sufficient to cover the early withdrawal charges as well as lost interest.

Case III
Contract # 073-623-456 AB
Agent # F-92-802-2 State License # 73119
NASD Complaint # 01164041889

This case involved an 86 year old widow for whom a variable annuity, Preference Plus Account (PPA), was written using funds from a certificate of deposit and a fixed annuity from another company. The annuitant incurred penalties from the cash surrender of the annuity and early withdrawal penalties from the certificate of deposit.

The application indicates that the investment objective is "Preservation of Capital", however the allocations chosen do not reflect that choice, leaving the annuitant over exposed for risk, with investments that were not compatible to the investment objective. The Company's guidelines for allocating funds based on the investment objectives were not followed. A copy of an example of the Company's "Suitability Worksheet" is contained in the appendix. Had the agent followed the Company's guidelines, 100% of the allocation should have gone into the fixed interest account, instead 55% was allocated to the fixed interest account and 45% into funding choices that reflect "Growth & Income" as the investment objective.

In letters dated 5/15/01 and 6/11/01 the annuitant requested a full refund of the account without incurring penalties and stated that she felt that her agent misrepresented the transaction. The Company responded on 7/10/01, by stating that they found no basis to honor the annuitant's requests. The contract is currently active.

Written Standards of Suitability

The Company provided the examiners with a copy of the "Manager's Guide to Appropriateness of Sale ("guide") for review. The guide is designed to assist sales managers, who are accountable for the appropriateness of all sales made by account representatives. Page eight (8) of the guide describes the objective of the managers' review of submitted policies/contracts to be an assessment as to whether the recommended transaction is appropriate for the customer and is supported by the available documentation. Additionally, the guide instructs the manager to exercise special scrutiny for "yellow flag" situations that might signal a problematic sale. Among others, one identified "yellow flag" is age, particularly older age. With respect to equity products, the guide instructs that other issues to consider are risk tolerance, investment objectives, assurance that the sale improves the client's position and that the consumer fully understands the complexities of the transaction.

After reviewing the cases previously discussed, the examiners question whether the sales manager applied these written guidelines and question the suitability of those cases reviewed. It appears that such cases represent violations of 8 V.S.A. §4724 (16).

SUITABILITY OF ANNUITY PURCHASES

The new issues of annuities consisted of variable annuities, which provided a number of different investment choices (funds) in addition to a fixed interest account.

In reviewing suitability issues in the Company's sales practices for these variable annuities, the examiners focused upon the following:

1. The quality of agent's assistance to applicants in selecting an overall investment objective.

2. How well the selected allocation of funds to the various investment accounts matched the overall investment objective selected by the applicant.

3. Whether the specific allocation of investments was selected in such a manner as to expose the applicant to a greater degree of investment risk than was contemplated by the category of investment objective selected.

In order to evaluate the Company's effectiveness regarding these three issues, the examiners developed a test utilizing the five (5) categories of investment risk designated by the Company in their chart (included in this report as Appendix II (B). The examiners assigned weights to each of the Company' s five investment categories, as listed below, with the lowest weight of one (1) being assigned to the lowest risk category, "Preservation of Capital", up to five (5) being assigned to the category assumed to pose the highest investment risk, "Aggressive Growth":

Risk Category	Designation	Weight Assigned by Examiners
Preservation of Capital	**P**	**1.00**
Income	**I**	**2.00**
Growth & Income	**GI**	**3.00**
Growth	**G**	**4.00**
Aggressive Growth	**AG**	**5.00**

The examiners' reason for assigning weights to the Company's five (5) investment risk categories was for purposes of comparing the degree of investment risk associated with the investment objective selected by the applicant with the degree of investment risk associated with the funds to which the applicants investments were actually allocated. For example, assume the applicant selected "Preservation of Capital" as their investment objective. This would carry a weight of only one (1) since it is in the category posing the lowest investment risk. Further assume, however, that the applicant's investments were all actually allocated to funds designated as "Aggressive Growth", to which the examiners assigned a weighting of five (5) since it is the highest risk category. It is apparent from this hypothetical example that there would be a serious mismatch between the applicant's investment objective and the funds into which the investments were actually allocated, resulting in unanticipated exposure to a higher degree of investment risk than indicated by the applicants chosen objective.

The examiners selected two different samples for use in testing the Company's effectiveness regarding the suitability issues listed above.

Sample I (Annuity to Annuity)

The first sample represented annuities that had been replaced with other annuities, the majority of which were from a Company sponsored exchange program. The exchange program was offered beginning in 1998, with offers made to owners of Fixed Interest Single Payment Deferred Annuity (SPDA) annuities, Flexible Fixed Interest Products, and VestMet. The exchange product for all was the Preference Plus Account (PPA) Variable Annuity. Other than the VestMet, the annuities from which the exchanges were made were fixed annuities.

The sample size was fifty-two (52) drawn from a population of two-hundred sixty-one (261) representing the three year examination period. One of the samples was a Florida contract, which was omitted from the review.

The following chart, prepared by the examiners from the sample of fifty-two (52), is comprised of the eight (8) cases where the investments were allocated to a choice of funds assumed to pose a greater average degree of risk exposure than the degree of risk exposure contemplated by the applicant as evidenced by their selected investment objective. This can be seen by comparing the weights shown in column (5) with those in column (3).

Investment Risk Comparison
(Sample I)

1	2	3	4	5
Contract #	**Selected Objective**	**Weighted Objective**	**Allocation to Investment Funds**	**Weighted Average Fund Allocation**
073543747	GI	3.00	I 15% G 30% GI 10% AG 20%	3.05
073605678	G	4.00	G 60% AG 40%	4.40
073388417	P	1.00	P 75% GI 25%	1.50
073512873	G	4.00	G 75% AG 25%	4.25
078300051	P	1.00	P 72% GI 27% AG 1%	1.58
073549211	GI	3.00	P 10% I 25% GI 25% G 15% AG 25%	3.20
073580953	P	1.00	P 45% I 30% GI 10% G 10% AG 5%	2.00
073564765	GI	3.00	GI 40% G 30% AG 30%	3.90

A comparison between column (2) and column (4) of the above chart indicates that there is little correlation between some of the investment objectives selected by the applicant and the investment risk category of the funds into which the investments were actually allocated. For example, the investment objective as shown in column (2) of the above chart for contract # 73543747 is Growth & Investment (GI) whereas column (4) shows that only 10% of the total investments were allocated to funds in the Growth & Investment (GI) risk category.

A comparison between the relative weights in column (3) and those of column (5) also illustrates that the allocation of investments subject the annuitant to a higher degree of investment risk than the desired degree of investment indicated by the selected investment objective. For example, the investment objective for contract # 073580953 is shown in column (2) to be "P" with an assigned weight of 1.00, whereas the average weighting for the fund allocation is shown in column (5) to be 2.00, which is clearly a mismatch between the selected investment objective and the allocation of investments, resulting in a much higher assumed investment risk than desired by the applicant based upon his selection of an objective.

There were forty four (44) files out of fifty one (51) that did not contain the "Suitability Worksheet" or "Asset Allocation Questionnaire". Additionally, there were two violations of Vermont Regulations 88-2 § 6 and 88-2 § 7 in that there were no replacement forms in the policy file.

See Appendix II

Sample II (Annuity Sample)

The second sample represented all new annuity business written during the examination period. The population was six hundred twenty-one (621), from which a sample of sixty (60) was randomly selected for the review.

The following chart, prepared by the examiners from the sample of sixty (60) (Sample II), is in exactly the same format as the corresponding chart prepared for Sample I. Comparisons similar to those described for the Sample I chart may also be made from the following chart

1	2	3	4	5
Contract #	**Selected Objective**	**Weighted Objective**	**Allocation to Investment Funds**	**Weighted Average Fund Allocation**
073561616	G	4.00	G 75% AG 25%	4.25
073607828	GI	3.00	GI 40% G 30% AG 30%	3.90
073582425	G	4.00	G 90% AG 10%	4.10
073587644	GI	3.00	GI 95% G 5%	3.05
073615549	GI	3.00	GI 66% AG 34%	3.68
073513645	P	1.00	P 85% G 15%	1.45
073520226	P	1.00	P 65% I 5% GI 30%	1.65

Sample II (Annuity Sample)
Continued

1	2	3	4	5
Contract #	**Selected Objective**	**Weighted Objective**	**Allocation to Investment Funds**	**Weighted Average Fund Allocation**
073527984	GI	3.00	I 25% GI 25% G 25% AG 25%	3.125
073532452	G	4.00	G 75% AG 25%	4.25
073534185	GI	3.00	P 25% GI 25% G 20% AG 30	3.30
073545696	G	4.00	G 75% AG 25%	4.25
073561616	G	4.00	G 75% AG 25%	4.25
073607828	GI	3.00	GI 40% G 30% AG 30%	3.90
073582425	G	4.00	G 90% AG 10%	4.10
073587644	GI	3.00	GI 95% G 5%	3.05
073615549	GI	3.00	GI 66% AG 34%	3.68
073524656	G	4.00	GI 25% G 30% AG 45%	4.20

There were thirty nine (39) files out of sixty (60) that did not contain either the "Suitability Worksheet" or "Asset Allocation Questionnaire" and four (4) more that did not contain the "Asset Allocation Questionnaire". Additionally, two (2) files indicated the forms had been completed, however, they were not in the file.

Violation of 8 V.S.A. § 3565 (b)
Sample II (Annuity Sample)

During the course of the review of the annuity sample II, the examiners posed two questions in a letter dated 9-6-02, which were not responded to until 11-15-02, after the examiners sent three (3) follow-up inquiries. This untimely response is in violation of 8 V.S.A. § 3565 (b).

Recommendations

The examiners recommend that the Company:

1. Use more objective means for assisting applicants with the choice of an investment objective through some procedure such as the weighting methodology employed in the charts included in this report and more consistent use of its "Suitability Worksheet", "Asset Allocation Questionnaire" and managers review.

2. Revise its procedures for matching the investment risk category of investment allocations with the risk category of the investment objective selected by the applicant.

The examiners further recommend that the Company change the Preference Plus Account (PPA) application to include a question as to whether or not a penalty will be incurred on the part of the annuitant and, if so, what the approximate penalty charge will be. This is especially important in cases where the source of funding comes from a certificate of deposit or existing annuity.

UNDERWRITING

"Issued" Life Sample

The examiners selected a sample of fifty-five (55) issued life policies from a population of one thousand, one hundred fifty five (1155) for review in order to determine compliance with Vermont statutes and regulations. The sample represented life policies issued in Vermont during the examination period.

The review revealed two (2) violations of Vermont statutes and regulations.

Re: Policy # 987-008-706 PR
The "Informed Consent" form was not signed by the proposed insured in violation of 8 V.S.A § 4724 (20) (B).

Re: Policy # 987-106-885 A
The Company failed to provide evidence that a Buyers Guide was provided as required by Vermont Regulation 77-2 § 5.

The examiners recommend that the Company revise their procedures with respect to the requirements of 8 V.S.A. § 4724 (20) and Regulation 77-2 § 5 to assure compliance with the statute and regulation.

POLICY FORM FILINGS

Long Term Care (LTC)

The examination included a review of the Company's LTC products. A sample of fifty (50) from a population of one hundred fifty four (154) issued LTC policies was randomly selected for review.

The review revealed one violation of Vermont Regulation 91-1 § 14 **Filing requirement.**

LTC contract # 81207-00110 contained an enrollment form identified as EF. 1096-5 for which the Company failed to obtain filing and approval from the Vermont Department.

The Company should refrain from using any policy forms prior to their having been filed with and approved by the Commissioner pursuant to Vermont Regulation 91-1 § 14.