

**(B) SUITABILITY**

The Company does not have written standards of suitability. Since it does not write variable life insurance there are no statutory requirements for written standards. The statute merely prohibits the sale of unsuitable policies when the seller has reason to know that a policy is unsuitable for the person purchasing it. (8 V.S.A. § 4724 (16)).

One measure of suitability is lapse rates, which can be viewed as a proxy for policyowner satisfaction. Generally, low lapse rates are one indicator that a company is providing products and services that are satisfactory while high lapse rates may reflect policyholder dissatisfaction.

The following chart shows the Lapse Percentages for Ordinary Life as extracted from the Company's 2002 annual financial statement (Exhibit of Five-Year Historical Data).

<b>Year</b>	2002	2001	2000	1999	1998
<b>Lapse Percent</b>	6.6	6.6	7.4	6.9	7.0

The percentages shown above are in line with those of other similar sized mutual or formerly mutual insurers, which range from about 5.5 to about 9.5 over the same time period.

## **(VIII) CONSUMER COMPLAINTS**

The Company reported receiving only seven (7) consumer complaints during the examination period. The examiners reviewed the files and did not find any particular patterns or any evidence of intentional mistreatment of policyholders.

## (IX) SUMMARY OF RECOMMENDATIONS

1.

**Page 7**

The examiners recommend that the Company revise its claim procedures to conform to both 8 V.S.A. § 3665 (c ) (2) and 8 V.S.A. § 3665 (d) so that the required interest is paid on all death claim proceeds.

2.

**Page 7**

It is recommended that the Company immediately start paying the correct rate of interest on all death claims paid to beneficiaries under Vermont policies and certificates, in addition to recalculating the interest applicable to all such policies for which underpayments of interest were made beginning in 1993. The required amounts of additional interest should include interest at the rate of six percent (6%) per annum, calculated from the original date the claims were paid until the additional amounts are paid.

The additional interest payments described above should be made under the supervision of the Vermont Department. Such payments should be mailed to the last known addresses of the beneficiaries together with a form letter, approved by the Vermont Department, explaining the reason for making the additional payments. In those cases where the checks are returned and the beneficiaries cannot be located, such amounts should be processed in accordance with 27 V.S.A. § 1208 et. seq. (Unclaimed Property Act) of the State of Vermont.

3.

**Page 8**

The Company indicated that they have already taken action to prevent further violations of Regulation 79-2 with regard to acknowledgment of receipt of claims and proper notification of the claimant when more time is needed to investigate a claim.

4.

**Page 9**

The examiners recommend that the Company recalculate the additional interest for claim # 679155 and remit it to the beneficiary with additional interest at the rate of 6%.

5.

**Page 10**

The Company should follow the same procedure for payment of interest on death proceeds of group certificates as described on page 9 of this report for individual claims. The additional interest due to late payment should also be paid in accordance with 8 V.S.A. § 3665 (d).

6.

**Page 11 & 12**

The Company should revise its procedures in a manner, which will insure that all claims are paid to beneficiaries in accordance with the insured's instructions.

7.

**Page 13 & 14**

The examiners recommend that the Company assign specific staff members the responsibility for reviewing each replacement file to insure that all of the documents are included and that all of the required procedures have been followed. This review should be made before any file is closed.

8.

**Page 15**

The examiners criticized the company for the apparent failure to disclose to the insured the name of the company for which they were seeking coverage. The Company's response included a statement that the Administrative Manager would reaffirm the necessity of completing all the required answers regarding the completion of the application.

**APPENDIX I-A**

**See attached chart**

Year	Death Claim Interest	Option 1
1987	7.25	7.25
1988	7.25	7.25
1989	6.75	6.75
1990	6.75	6.75
1991	6.5	6.5
1992	6.25	6.25
1993	5.5	5.5
1994	3.5	4.5
1995	3.5	4.5
1996	3.5	4.5
1997	3.5	4.5
1998	3.5	4.5
1999	3.5	4.0
2000	3.5	4.0
2001	3.5	4.5
2002	3.5	3.5
2003	3.5	3.5

On claims after 7/1/90, if the claim is not paid within 30 days of the receipt of proofs, we pay interest at Option 1 or 6%, whichever is higher.

## APPENDIX I-B

### Claim # 679155

Examiners' calculations:

Date of death: 5-7-00      Date proof of loss was received: 12-13-01 \*

Date company paid claim: 2-11-02

Amount payable (not including interest): \$271,997.32

- Note: This date is noted as receipt of proof of loss as this is the date the company received the trust requirements as well as the certified death certificate.

$\$271,997.32 \times 6\% \times 616 \text{ days divided by } 365 = \$27,542.52$

$\$271,997.32 \times 12\% \times 29 \text{ days divided by } 365 = \$ 2,593.29$

Total interest = \$ 30,135.81

Company paid total interest of \$ 17,105.45, an underpayment of \$ 13,030.36

## APPENDIX I-C

### **Group policies in sample review that were not timely paid:**

Certificate #'s:

A0354627

A0688465

A0788729

A1029858