

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

IN RE: NATIONAL LIFE
INSURANCE COMPANY

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DOCKET NO. 08-067-I

CONSENT ORDER

JURISDICTION

1. Pursuant to the authority contained in 8 V.S.A. §§ 11, 12, 13, 15, 18, 3564-3574 and 4726 the Commissioner (“Commissioner”) of the Department of Banking, Insurance, Securities and Health Care Administration (“Department”) is charged with administering and enforcing the insurance laws of the State of Vermont and is authorized to conduct periodic examinations of insurers and licensees to determine whether they are in compliance with Vermont insurance laws and regulations.

2. National Life Insurance Company (“Respondent”) is a life insurance company with its principal place of business in Montpelier, Vermont.

FACTS

3. The Department has completed a market conduct examination of Respondent covering the period of January 1, 2003 through August 1, 2006. The exam addressed replacement policies, claims practices and procedures, variable life suitability, Vermont complaints, producers’ activities, sales and marketing and reporting of legal actions.

4. A draft market conduct examination report was submitted by the examiners on

December 12, 2007.

5. The draft market conduct examination report detailed violations of Vermont insurance laws by the Respondent. The Respondent disputes some of the findings of violations.

6. The Commissioner, pursuant to 8 V.S.A. § 3573(c), may terminate or suspend an examination in order to pursue other regulatory action. The Commissioner, as a result of the Respondent's cooperation with the Department to address the substantive findings of the examiners, elects to terminate the present market conduct examination of the National Life Insurance Company.

7. The Respondent has agreed to resolve this matter by entering into this Consent Order with the Department on the terms and conditions hereinafter set forth in lieu of proceeding through the administrative process.

8. Respondent has admitted the jurisdiction of the Commissioner and has knowingly, voluntarily and unconditionally executed a written consent to the entry of this Order, which Consent includes Respondent's agreement to comply with and to be subject to all terms, conditions and obligations of this Consent Order. In the Consent, the Respondent has knowingly, voluntarily and unconditionally waived any rights to a hearing and appeal before the Commissioner or the Commissioner's designee, the Respondent has knowingly, voluntarily and unconditionally waived all other procedures otherwise available under Vermont law with respect to the issuance of this Order, and Respondent has knowingly, voluntarily and unconditionally waived any rights to judicial review by any court by way of suit, appeal, or extraordinary remedy with respect to the issuance of this Consent Order. Respondent has knowingly, voluntarily and

unconditionally waived compliance with the provisions of 3 V.S.A. Chapter 25 regarding contested cases.

ORDER

NOW, THEREFORE, IT IS HERBY ORDERED THAT:

- A. Respondent shall pay an administrative penalty in the amount of five thousand dollars (\$5,000.00) within ten (10) days of the signing of this order.
- B. Respondent shall complete the revision of its applications and Registered Rep/Agent's Report to comply with Department Regulation I-2001-03, Life Insurance and Annuities Replacement Regulation ("Replacement Regulation"). As of the signing of this order, the Respondent has already completed revisions to its life insurance application and Registered Rep/Agent Report. Revisions to its annuity application are still outstanding.
- C. Respondent shall monitor the effectiveness of its newly implemented practice/procedure with regard to group insurance replacements.
- D. Respondent shall take steps to ensure that the existing company is notified within the required 5 day period pursuant to the Replacement Regulation.
- E. Respondent shall submit a plan within 60 days of the signing of this order to the Department for approval describing how it will improve its procedure to track replacements and how it will conduct periodic reviews in order to determine the effectiveness of the process. The Commissioner may approve such plan, disapprove such plan, or approve such plan with imposed

conditions. The Commissioner shall retain jurisdiction over the Respondent and the subject matter of the plan in the event that the plan submitted by the Respondent is disapproved or approved with conditions.

- F. Respondent shall audit its annuity replacement files for situations where the 30-day free look notice was not provided for the period January 1, 2003 through the present, and Respondent shall provide the Department with a spreadsheet, in Excel spreadsheet format (electronically and in paper copy), fully documenting such audit. Respondent shall prepare a written notice and disclosure to all affected replacement policyholders describing their right to an additional 20-day free-look period and shall file such notice and disclosure within thirty (30) days of the date of this Order for the Department's review and approval. The notice shall apprise every policyholder that he/she will be given the opportunity to return their policy for a full refund of their existing account value without surrender penalties within the 20-day free look period. In the case of variable annuities where the value is less than the total of the premiums paid, the contract owner shall be offered the return of premiums paid. Respondent shall send a copy of such approved notice and disclosure to each affected policyholder within thirty (30) days of the date of the Department's approval of the form of notice and disclosure.
- G. Respondent shall submit a plan within 60 days of the signing of this order to the Department for approval describing how it will ensure, in instances where the replacing insurer and the existing insurer are the same or affiliated, that it provides a credit for the period of time that has elapsed under the replaced

policy's or contract's incontestability and suicide period as required by the Replacement Regulation.

- H. With respect to all policies and contracts executed in the State of Vermont, Respondent shall cease and desist from paying interest on death claims at a rate that is less than 6%. Respondent shall audit claims since January 1, 2003 within 90 days of the signing of this order to ensure that the 6% interest rate was paid to claimants, provide the Department with a spreadsheet, in Excel format, showing the amounts paid, interest paid, and dates thereof for each such claim for approval, then shall make any interest payments due within 30 days after the Department's approval of the audit.
- I. Respondent shall revise its variable life insurance applications in order to fully comply with Department Regulation I-88-3, Variable Life Insurance by including questions designed to elicit information that would enable respondent to determine whether the variable life insurance product is suitable for the applicant and by indicating clearly on the application that the product being applied for is a variable life insurance product.
- J. Respondent shall submit a plan within 60 days of the signing of this order to the Department for approval describing what procedure it will implement that will ensure that policyholders' instructions regarding payments received by Respondent are properly credited and how the procedure it will be implemented. The Commissioner may approve such plan, disapprove such plan, or approve such plan with imposed conditions. The Commissioner shall retain jurisdiction over the Respondent and the subject matter of the plan in

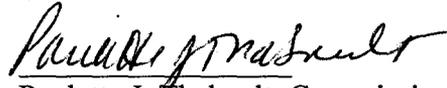
the event that the plan submitted by the Respondent is disapproved or approved with conditions.

- K. Respondent shall discontinue the use of sales piece: *MK2586 (0403)*, *TCI4992 (0403) 63185* titled, Annuities vs. CDs.
- L. Respondent shall discontinue the use of sales piece *TC27005 (0306)* titled, Ultra EIUL OverLoan Protection Feature until an appropriate disclosure, approved by the Department, is included.
- M. Respondent shall discontinue the use of sales piece *TC27003 (0306)* titled, Introducing Ultra EIUL's Net Zero Cost Loan Feature.
- N. Respondent shall take steps to ensure that correct values are displayed in their deferred annuities' data page illustrations. The company currently shows guaranteed rates in all years of the policy, when it should be showing the current rate in year one, and the guaranteed rate in subsequent years.
- O. Failure to adhere to, or comply with, any of the terms of this Order, or any provision of any approved plan submitted pursuant to this Order or any condition/s imposed upon any approved plan submitted pursuant to this Order shall constitute a violation of a lawful order of the Commissioner and shall be a separate violation of the insurance laws of the State of Vermont and shall subject Respondent to administrative action or sanctions as the Commissioner deems appropriate. The Department shall retain jurisdiction over this matter for the purpose of enabling the Department to enforce such order.
- P. Nothing in this Consent Order shall be construed to prevent the Department

from examining or investigating Respondent regarding any issue, other than with respect to matters identified in this Consent Order. Nothing contained in this Consent Order shall restrain or limit the Department in responding to and addressing any complaint involving the Respondent that is filed with the Department, and nothing contained in this Consent Order shall preclude the Department from pursuing any violation of law.

Dated at Montpelier, Vermont this 22 day of August, 2008.

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


Paulette J. Thabault, Commissioner

RESPONDENT'S CONSENT

1. National Life Insurance Company ("Respondent") hereby admits the jurisdiction of the Vermont Commissioner of Banking, Insurance, Securities and Health Care Administration ("Commissioner") over the subject matter of the Consent Order, Docket No. -I ("Consent Order"), and that the Commissioner retains jurisdiction over this matter for the purpose of enforcing this order, including the approving, disapproving or approving with conditions, of any plan that the order requires the Respondent to submit to the Department.

2. Respondent knowingly, voluntarily and unconditionally waives any and all rights to a hearing before the Commissioner or the Commissioner's designee and all other procedures otherwise available under Vermont law with respect to the entry of the Consent Order. Respondent also knowingly, voluntarily and unconditionally waives compliance with the provisions of 3 V.S.A. Chapter 25 regarding contested cases. Respondent acknowledges that, upon execution by the Commissioner, the Consent Order constitutes a valid order duly rendered by the Commissioner.

3. Respondent knowingly, voluntarily and unconditionally waives any right it may have to judicial or administrative review by way of suit, appeal, or extraordinary remedy resulting from the issuance of the Consent Order.

4. Respondent acknowledges and agrees that it consents to the entry of the Consent Order knowingly, voluntarily and unconditionally and that no promise was made, nor was any coercion used, to induce Respondent to give such consent.

5. Without admitting or denying any of the stated facts or conclusions of law stated in the Consent Order (other than as to the jurisdiction of the Commissioner over the Respondent and over the subject matter of such Consent Order and the retention of jurisdiction for the purpose of enforcing this order), Respondent acknowledges its understanding of and agrees to all terms, conditions, and obligations contained in the Consent Order.

NATIONAL LIFE INSURANCE COMPANY

By: Barbara B. Fiter Date: 7/29/08

Title: 2nd VP - Market Conduct & Compliance

STATE OF Vermont
COUNTY OF Washington

On the 29th day of July 2008, personally appeared _____, as authorized representative of National Life Insurance Company, who states that the execution of the foregoing Consent is his/her free act and deed and the free act and deed of National Life Insurance Company.

Before me, Alexandra L. Belli
Notary Public
My commission expires 2/10/11