

1, 2003, Northbrook Life Insurance Company merged into Allstate Life Insurance Company. As such, references to the “Company” activities after that date refer to Allstate Life Insurance Company – including remedial procedures and actions required by this Order.

3. A final target¹ market conduct examination report was issued by examiner Joyce A. Meagher, of Huff, Thomas & Company entitled REPORT OF THE TARGET MARKET CONDUCT EXAMINATION FOR THE VERMONT DEPARTMENT OF BANKING, INSURANCE, SECURITIES & HEALTH CARE ADMINISTRATION OF NORTHBROOK LIFE INSURANCE COMPANY PHOENIX, ARIZONA AS OF AUGUST 31, 2002 (the “Report”).

4. In accordance with the requirements of 8 V.S.A. § 3574(b), the Report was transmitted to the Company and the Company was afforded a reasonable period of time to submit a formal written response to the findings of Report. The Company submitted a formal response (the “Response”) addressing the issues raised in the Report. Upon review of the Response, the Department has undertaken additional investigation concerning issues contained herein.

5. Pursuant to 8 V.S.A. § 3574(c), the undersigned Commissioner has fully considered the Report, the Response and additional information provided.

CONCLUSIONS OF LAW

6. To the extent comments made by the Company are not discussed below, such comments are expressly rejected. The examiner’s Report, including recommendations, is adopted unless noted below.

¹ The market conduct examination focused primarily on replacement sales, suitability issues, complaint handling and Company reporting to the Department, during the period from January 1, 1999 to August 31, 2002. (Report at pages 2 and 4.)

7. In the **PERTINENT FACTUAL FINDINGS - COMPLAINTS** section of the Report (pages 4-5), the examiner recommends that the Company add a “Refusal to Insure” code to its complaint handling system and implement procedures for filing a summary of its complaints to the Department as required by Regulation 76-1 § 5.

In its Response, the Company indicates it added the “Refusal to Insure” code to its complaint handling system and has provided proof that has been accomplished. Similarly, the Company has implemented procedures for filing complaint records as required by Regulation 76-1 and provided such procedures to the Department for review. (Response at p. 2 and Exhibit B.)

Upon consideration, the undersigned finds that it appears the Company has addressed the problems discovered by the examiner. The undersigned adopts this portion of the Report and no additional action is necessary.

8. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Market and Sales Standard #1*** section of the Report (page 5), the examiner notes that the Company’s appointed producers are employed through financial services firms with whom the Company has agreements to sell Company products. Although the Company has communicated the requirements of the replacement regulation to the financial services firms, it did not have any procedures in place to monitor the individual producer’s compliance with such requirements, nor had the Company reviewed the training materials utilized by the financial services firms to inform the appointed producers of the regulation’s requirements. As such, the examiner recommended the “Company develop guidelines to establish a monitoring system to assure that all producers are being informed of changes in Vermont statutes and regulations and have received adequate

training to assure compliance with all requirements.” (Report at page 5; Recommendation No. 3, page 5.)

In its Response, the Company confirms that it regularly communicates regulatory and legal requirements applicable to its products to the financial services firms contracted to sell its products. The Company asserts because the appointed “producers are the employees of the contracted financial services firms, any training they receive is prepared and provided by such firms.” (Response at page 2.) However, the Company indicates that it has taken steps to help monitor whether appropriate communications to appointed producers have occurred. These processes include quality review and spot check results. The Company indicates that it intends to increase the occurrence of such quality reviews. Further, the Company indicates that it implemented a customer survey process in March of 2004 to assist in the detection of problem issues, in addition to other steps intended to identify trends that may reflect contracted financial services firms are not following compliance requirements. (Response at page 3.)

Upon consideration, the undersigned adopts this portion of the Report and the examiner’s recommendation. Although the Company’s Response appears to address the examiner’s concerns, additional details concerning the implemented monitoring system are required to fully assess the efficacy of the Company’s monitoring efforts. Such written details should be provided no later than September 1, 2005 and should expand upon the explanation provided in the Company’s Response. It must be noted that the Company is directly responsible for ensuring that its products are sold in compliance with Vermont law. Although the Company may contract with other entities to sell its products, it must also be sure to have adequate procedures in place to monitor such sales,

regardless of the contractual relationship between the Company and its appointed producers. The Company's additional explanation should provide specifics on the occurrence of its quality reviews, as well as any actions taken in response to such reviews which indicate that problems are being discovered and corrected as appropriate. Upon request, the Company's discussion of results and remedial action may be provided to the Department confidentially.

9. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #2*** section of the Report (pages 5 - 6), the examiner notes that Vermont law requires that the Company provide its producers with “a written statement of the company’s position with respect to the acceptability of replacements providing guidance to its producer as to the appropriateness of these transactions * * *.” Regulation I-2000-03 § 4(A)(2). Although the Company provided the examiner with a statement and had incorporated the statement into its contracts with the financial services firms employing the producers selling Company products, the Company was not able to show that the producers had, in fact, received its written statement as required. The examiner recommends the Company establish written procedures to confirm the requirements of the regulation are being met, as required by Regulation I-2000-03 § 4(A)(4). (Report at page 6, Recommendation No. 4, Report at page 9.)

In its Response (page 3), the Company confirms that it primarily communicates regulatory and legal requirements to the financial services firms which employ its appointed producers and relies on those firms to communicate the necessary information. However, the Company notes that in order to enhance communication with its appointed producers, it will make a web site available to producers which will provide information

regarding the Company position regarding the appropriateness of replacement transactions. Further, the Company indicates that it has taken additional steps to monitor new business activity in order to ensure that producers selling Company products have an understanding of the Company's position and legal and regulatory requirements.

(Response at page 3.) Additionally, as noted above, the Company anticipates a customer survey procedure, implemented in March 2004, will allow it to identify trends which may require corrective action.

Upon consideration, the undersigned adopts this portion of the Report and the examiner's recommendation. From the Company's Response, it appears the Company is taking corrective action to address the examiner's concerns. It is important the Company understand that pursuant to Regulation I-2000-03 § 4, the Company must be able show that its appointed producers are receiving the information required by the Regulation. The Company shall provide, no later than September 1, 2005, written confirmation that the Company has implemented procedures allowing it to verify that its appointed producers are receiving the appropriate information. Such procedures may include requiring appointed producers to sign a statement indicating that they have reviewed the Company web site containing the information required by Regulation I-2000-03 or by other means. The Company shall also provide, for Department review, a copy of the statement(s) required by I-2000-03 § 4(A)(2).

10. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #3*** section of the Report (page 6), the examiner notes that Regulation I-2000-03 § 4(A)(4) requires procedures to ensure producers are meeting the requirements of the Regulation. The examiner notes that although the Company has

provided its “New Business Team” (a unit within the Company that processes new applications for annuity contracts) with the requirements of the Replacement Regulation, the Company does not, in fact, have any procedures in place to ensure that the New Business Team is processing the applications consistent with the Regulation. As such, the examiner recommends the Company establish and implement written procedures to ensure the New Business Team is complying with Regulation I-2000-03. (Report at page 6; Recommendation No. 5 at page 9.)

In its Response, the Company indicates that it has developed written procedures in place for the New Business Team business which is received via paper applications and that it is in the process of developing such procedures for electronic applications. (Response at pages 3 – 4.)

Upon consideration, the undersigned adopts this portion of the Report and the examiner’s recommendation. The undersigned notes that this portion of the Company’s Response fails to adequately address the examiner’s concerns. The regulation obligates the Company to have written procedures in place to confirm that the replacement regulation is being followed. The Company’s response only states that written procedures exist for some of the business processed by the New Business Team. The Company shall provide to the Department for review and approval, no later than September 1, 2005, its written procedures intended to ensure that the New Business Team meets the requirements of Regulation I-2000-03, as required by I-2000-03 § 4, for *all* business processed. The undersigned further finds this failure to comply with the regulation warrants the imposition of a \$2,000 penalty.

11. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #5*** section of the Report (pages 6 - 7), the examiner notes that I-2000-03 § 4(C) requires that the Company include as part of each application for life insurance or an annuity, a signed statement by both the applicant and the producer as to whether the applicant has existing policies or contracts. The examiner notes that of the 33 reviewed files, none contained the required signed statement. (Report at page 7.) The examiner recommends the Company incorporate the statement required by Regulation I-2000-03 § 4(C) into its application and provide proof to the Department that it has done the same. (Report at page 7; Recommendation No. 6 at page 9.)

In its Response (page 4), the Company notes that its application has been revised to comply with the recommendation and has provided a copy of its approved application filing.

Upon consideration, the undersigned adopts this portion of the Report and the examiner's recommendation. It appears the Company has complied with the examiner's recommendation and no additional action is necessary to bring the application in compliance with Regulation I-2000-03 § 4(C). However, the Company's failure to take this step in a timely manner² warrants the imposition of a \$2,000 penalty. Although the 33 violations uncovered by the examiner potentially allow for the imposition of a much greater administrative penalty, it does appear the Company took proactive corrective steps without additional action from the Department. Under these circumstances, only a nominal penalty is warranted in these circumstances.

² The revised application was received by the Department May 20, 2003, although Replacement Regulation became effective March 1, 2002.

12. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing Sales and Sales Standard #6*** section of the Report (page 7) the examiner notes that I-2000-03 § 4(D) requires specific notice be provided to a consumer that is buying a replacement policy. The examiner notes, in response to the regulation, the Company developed Form NLR739-1 to provide the required notice. However, of the five replacements transactions examined, only one contained the required form. The examiner recommends the Company develop and implement procedures to ensure that when an existing policy or contract is replaced, the required notice be provided to the applicant as required by the Regulation. (Report at page 7; Recommendation No. 7 at page 9.)

In response, the Company indicates it has developed the required procedures and is in the process of developing such procedures for electronic applications. (Response at page 4.)

Upon consideration, the undersigned adopts this portion of the Report and the examiner's recommendation. The Company shall provide to the Department, for review and approval, no later than September 1, 2005, the Company's written procedures ensuring that producers provide the statutorily required notice and written confirmation that such procedures have been implemented. Further, the Company's failure to ensure that statutory notice is being provided by its appointed producers warrants the imposition of a \$2,000 administrative penalty.

13. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standards #7*** section of the Report (pages 7 - 8), the examiner explains that pursuant to I-2000-03 § 4(E), when a replacement policy is sold, "each insurer shall be

able to produce copies” of sales materials required by I-2000-03 § 3(E) of the Regulation and the basic and supplemental illustrations related to the policy or contract that is purchased.

Of the five examined replacement transactions, the Company was not able to produce any of the required sales materials. The examiner recommends the Company develop and implement procedures to ensure that all documents required by Regulation I-2000-03 § 3 are submitted to the insurer by the appointed producer with the application and that the producer include a statement identifying sales materials used and provide copies of individualized sales materials, including illustrations, used in the transaction. (Report at page 7; Recommendation No. 8 at page 9.)

In its Response, the Company indicates that it has developed such procedures for its paper applications and is in the process of “developing procedures to help improve its process” with respect to electronic applications. (Response at page 4.)

Upon consideration, the undersigned adopts this portion of the Report and the examiner’s recommendation. No later than September 1, 2005, the Company shall provide the Department with written confirmation that it has implemented procedures for *all* business (received on paper or electronically) to comply with Regulation I-2000-03 § 4(E) and provide copies of those procedures for the Department’s review. Failure to implement such procedures may result in the imposition of administrative penalties.

14. In the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #8*** section of the Report (page 8), the examiner explains that Regulation I-88-3, Article III, § 3 requires that each insurer have and maintain written suitability standards for the sale of variable life insurance policies and that such standards

shall indicate that no variable life insurance policies shall be sold unless such policy is suitable for the applicant. The examiner notes that although the Company has written suitability standards, it has no means of monitoring that its appointed producers are complying with those standards. The examiner recommends the Company establish suitability guidelines and procedures for all financial services firms employing the Company's appointed producers and establish a monitoring system to assure all appointed producers are following such guidelines. (Report at page 8; Recommendation No. 9 at page 9.)

In its Response, the Company indicates all financial services firms with which the Company has selling agreements are legally and contractually obligated to the Company to supervise registered representatives in compliance with applicable NASD and SEC rules, including suitability. The Company asserts "it is not legally required to establish a monitoring system", but nonetheless "plans to leverage some new processes implemented from which valuable information can be obtained to help monitor the acceptability of sales." (Response at page 5.) The Company again notes the customer survey procedure being implemented in March 2004 and additional methods the Company intends to employ to monitor whether the contracted financial services firms are following compliance requirements.

Upon consideration, the undersigned adopts this portion of the Report and the examiner's recommendation. The Company disputes that it has any obligation to ensure that its policies subject to Regulation I-88-3 are sold in compliance with the law. The Company is mistaken. Although the Company may contract with other entities to sell its products, the Company is still directly responsible for ensuring that its products are sold

in compliance with applicable statutes and regulations. Regulation I-88-3 requires that the Company establish and maintain suitability standards for its variable products. Without any monitoring system, it is impossible for the Company to claim it is maintaining those standards. Further, the Company's appointed producers, despite employment with the financial services firms, are considered the Company's agents and, as such, the Company is responsible for any violations committed by the appointed producers in the sale of Company products. However, it does appear that the Company is taking proactive steps to monitor that its products are being sold only when suitable. No later than September 1, 2005, the Company shall provide the Department with its variable life insurance suitability standards and an expanded explanation of what steps it has taken to verify that variable products are being sold in compliance with the Company's suitability standards, even when sales occur through a financial services firm.

ORDER

15. The Report is adopted in its entirety without modification unless expressly stated to the contrary herein.

16. As discussed more fully in Paragraph 7 above, the undersigned adopts the **PERTINENT FACTUAL FINDINGS – COMPLAINTS** section of the Report. It appears the Company has adequately addressed the examiners concerns and no additional action is necessary.

17. As more fully discussed in Paragraph 8 above, no later than September 1, 2005, the Company shall provide the Department with an expanded explanation of the methods it has implemented and is presently using to monitor that its appointed producers, employed by financial services firms or otherwise, are being informed of current

Vermont law applicable to the sale of Company products and are being adequately trained in the meaning and applicability of such laws.

18. As more fully discussed in Paragraph 9 above, the Company shall provide to the Department for review and approval, no later than September 1, 2005, a written explanation of how it is ensuring that its appointed producers are receiving the information required by Regulation I-2000-03 § 4(A) and a copy of its statement(s) required by I-2000-03 § 4(A)(2).

19. As more fully discussed in Paragraph 10 above, the Company shall provide to the Department, for review and approval, the written procedures applicable to the New Business Team as required by I-2000-03 § 4(A)(4).

20. As more fully discussed in Paragraph 10 above, the Company's failure to comply with Regulation I-2000-03 § 4, as applied to its New Business Team, warrants the imposition of a \$2,000 administrative penalty.

21. As discussed in Paragraph 11 above, addressing the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES - *Marketing and Sales Standard #5*** section of the Report, the undersigned adopts this portion of the Report and the examiners recommendation. It appears the Company has complied with this Recommendation and no additional action is necessary to comply.

22. As discussed in Paragraph 11 above, the Company's failure to comply with Regulation I-2000-03 § 4(C) in a timely manner warrants the imposition of a \$2,000 administrative penalty.

23. As discussed in Paragraph 12 above, addressing the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #6*** section of the

Report, the undersigned adopts this portion of the Report and the examiner's recommendations. The Company shall provide to the Department, for review and approval, no later than September 1, 2005, written procedures ensuring that producers provide the notice required by Regulation I-2000-03 § 4(D) and written confirmation that such procedures have been implemented.

24. As noted in Paragraph 12 above, the Company's failure to comply with the requirements of I-2000-03 § 4(D) warrant the imposition of a \$2,000 administrative penalty.

25. As discussed in Paragraph 13 above, addressing the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #7*** section of the Report, the undersigned adopts this portion of the Report and the examiner's recommendation. The Company shall provide the Department with written confirmation, no later than September 1, 2005 that it has implemented procedures for *all* business (received on paper or electronically) to comply with Regulation I-2000-03 § 4(E) and further provide the Department with copies of those procedures for the Department's review.

26. As discussed above in Paragraph 14, discussing the **PERTINENT FACTUAL FINDINGS – MARKETING AND SALES – *Marketing and Sales Standard #8***, no later than September 1, 2005, the Company shall provide the Department with its variable life insurance suitability standards and an expanded explanation of what steps it has taken to verify that variable products are being sold in compliance with the Company's suitability standards, even when sales occur through a financial services firm.

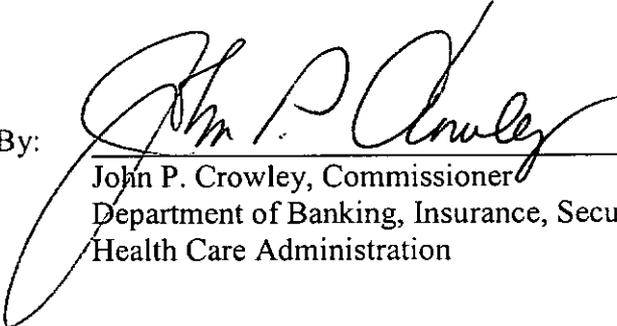
27. All penalties described above shall be paid to the Department no later than ten days after the expiration of the appeal deadline of this Order, or other administrative or judicial order as appropriate.

PURSUANT TO 8 V.S.A. § 3574(c), THIS ORDER AND REMEDIAL ACTION SET FORTH HEREIN MAY BE APPEALED TO THE COMMISSIONER BY FILING AN ADMINISTRATIVE APPEAL WITHIN THIRTY (30) DAYS OF THE DATE SET FORTH BELOW. FURTHER REMEDIAL ACTIONS AND PENALTIES ORDERED UPON RECEIPT OF INFORMATION ORDERED HEREIN MAY BE APPEALED WITHIN THIRTY (30) DAYS OF SUBSEQUENT DECISIONS BY THE UNDERSIGNED.

Dated at Montpelier, Vermont this 15th day of April, 2005.

Department of Banking, Insurance,
Securities and Health Care Administration

By:



John P. Crowley, Commissioner
Department of Banking, Insurance, Securities and
Health Care Administration