

2. Northwestern Mutual Life Insurance Company is a mutual life insurance company organized under the laws of the State of Wisconsin. This Order shall refer to Northwestern Mutual Life Insurance Company as “the Company.”

3. On October 13, 2005, a final market conduct examination report was issued by examiners James Montgomery III and Robbie Kriplean on behalf of the Vermont Department of Banking, Insurance, Securities and Health Care Administration (hereinafter “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 the Report. The Company submitted a formal response (“the Response”), addressing the issues raised in the Report with the Department, and provided additional information at the department’s request.

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

CONCLUSIONS OF LAW

6. Unless specified otherwise, the Department adopts the Report as it has been written.

7. In the section of the report entitled “**CLAIMS PROCEDURES AND PROCESSING**” (page 9), the examiners criticized the Company for employing different methods for calculating interest rates on life claim proceeds for policies issued before 1974 than the method used for policies issued on or after 1974. During the examination, the Company agreed to amend the procedure for calculating interest rates for pre-1974 policies, and confirmed in the Response that the Company has resolved this disparate treatment. The

Department notes that this procedure ensures that Vermont policyholders receive at least the required statutory interest rate, and can result in policyholders receiving a higher interest rate.

The examiners found four claims on which that the Company did not pay the statutorily required interest on death claims, nor the required 12% rate for claims paid more than 30 days after receipt of proof of loss, in violation of 8 V.S.A. § 3665(c) and (d). The Company made additional payments during the examination, bringing the interest to the required 6% on all claims, and paying an additional 6% on two claims to meet the 12% rate required for claims paid after 30 days. The examiners recommend the Company pay the additional 6% on the remaining two claims, which the Company did after receiving the draft recommendations.

The examiners also fault the Company for failing to use the 12% interest rate for claims not paid within 30 days, which the Company does not contest. The examiners recommend the Company audit all claims, and recalculate the interest due for those claims subject to Vermont law, for a time period deemed appropriate by the Department. The Company suggests the audit go back to the end of the examination period, January 1, 2004 to the present, and has completed an audit of those claims.

Upon consideration, the Department adopts this section of the Report and the examiners' recommendation. The Company shall audit an additional eight years of its life insurance claims, from January 1, 1996 to the present, within 180 days of the final order herein, provide the Department an Excel spreadsheet of the audit, and shall make payment within 30 days after Department approval of the audit. Also, the Company shall

implement procedures to comply with 8 V.S.A. § 3665(c)(2) and (d) forthwith, and shall pay a penalty of \$1,500.

8. In the section of the report entitled "**REPLACEMENTS**" (page 13), the examiners found three violations of Regulation 88-2 § 8.C,¹ as one file was missing a Notice Regarding Replacement due to misfiling and two files failed to detect that the policies were replacements. The examiners recommend that the Company modify their processes to better detect replacements.

The Company responds with a detailed description of the processes put in place as a result of the examiners' concerns. The Department finds that these processes are sufficient to remedy the violation.

The examiners also recommend changes to the Company's monitoring procedures for replacements, required under Regulation 2001-3 § 4.B. First, the examiners recommend that contractual conversions not be included in the replacement monitoring, because these conversions are not replacements as considered by the regulation and therefore skew the data. The Company responds that it has changed its system for monitoring replacements in 2004, and contractual conversions are now excluded from the data as recommended.

Secondly, the examiners recommend that the Company use consistent data in their reports, as the reports from the Underwriting Standards Department included policies which were declined (by the Company) or not taken (by the prospective purchaser), but the reports from the Replacement Compliance System did not include those rejected policies. The Company responds that its new system includes all policies, including

¹ Regulation 88-2 has since been replaced by Regulation 2001-3.

those that were declined or rejected, in the reporting, which satisfies the examiners' recommendation.

Thirdly, the examiners recommend that the adjustment spreads used to flag agents' replacement activity be more restrictive. The Company responds that the new system does not use adjustment spreads to modify agents' activity based on sales volume; under the new system, the Company uses a specific threshold for each of three replacement categories, which thresholds apply to all agents.

The Department finds that the new system implemented in 2004 adequately addresses the concerns raised by the examiners, and that no penalty is warranted.

Finally, the examiners recommend that the Company require its producers to complete a statement identifying any preprinted or electronically presented sales material, in addition to the Company's practice of requiring producers to submit the sales materials used in conjunction with the completed application. The Company responds that it is in the process of changing its application to require the producer to identify the sales material in a statement, and will communicate this change to all of its financial representatives licensed in Vermont. The Department finds the response adequately addresses the concerns raised by the examiners, and orders the changes to the application be effected within 30 days of the effective date of this order.

ORDER

Based upon the Findings of Fact and Conclusions of Law set forth above, **IT IS THEREFORE ORDERED** by the Commissioner of the Department of Banking,

Insurance, Securities and Health Care Administration that the MARKET CONDUCT EXAMINATION REPORT OF THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY OF MILWAUKEE, WISCONSIN BY VERMONT DEPARTMENT OF BANKING, INSURANCE, SECURITIES AND HEALTH CARE ADMINISTRATION (which is incorporated herein by reference) shall be and hereby is adopted with the following modifications and clarifications:

15. As discussed in Paragraph 7 above, the Department adopts the “CLAIMS PROCEDURES AND PROCESSING” section of the Report; the Company shall audit its credit life insurance claims from January 1, 1996 to the present, within 180 days of the final order herein, and provide the Department a copy in an Excel spreadsheet; once the Department approves the audit, the Company shall have 30 days within which to pay the interest owed. Also, the Company shall implement procedures to comply with 8 V.S.A. § 3665(c)(2) and (d) forthwith, and shall pay a penalty of \$1,500.

17. As discussed in Paragraph 8 above, the Department adopts the “REPLACEMENTS” section of the report. The Company shall implement the changes to the application, to include a statement by the producer identifying the sales materials used, within 30 days of the effective date of this order.

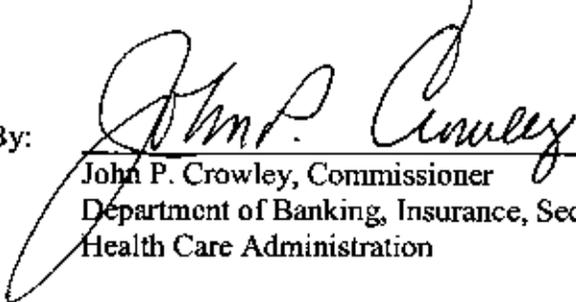
PURSUANT TO 8 V.S.A. § 3574(c), THIS ORDER AND REMEDIAL ACTION SET FORTH HEREIN MAY BE APPEALED TO THE COMMISSIONER BY FILING AN ADMINISTRATIVE APPEAL WITHIN

**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 DEPARTMENT.**

Dated at Montpelier, Vermont this 17th day of July, 2006.

Department of Banking, Insurance,
Securities and Health Care Administration

By:



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