

**Michael S. Bula**  
Assistant General Counsel

720 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202-4797  
414 665 1942  
414 665 5751 fax  
michaelbula@northwesternmutual.com

June 16, 2006

VIA FEDERAL EXPRESS  
AND VIA E-MAIL

David Cassetty  
Enforcement Attorney/Insurance Division  
State of Vermont  
Department of Banking, Insurance,  
Securities and Health Care Administration  
89 Main Street, Drawer 20  
Montpelier, VT 05620-3101

RE: Northwestern Mutual Life Insurance Market Conduct Examination Report

Dear Mr. Cassetty:

This will acknowledge our receipt of the Market Conduct Examination Report of The Northwestern Mutual Life Insurance Company ("Northwestern Mutual" or the "Company") by the Vermont Department of Banking, Insurance, Securities and Health Care Administration. This letter will serve as the Company's formal written response to the Report.

Northwestern Mutual agrees with and accepts the findings of the examination as set forth in the Report. The examiners have made a number of recommendations, which are also included in the Report. The Company would like to provide a response to each recommendation and discuss how Northwestern Mutual has addressed each recommendation.

**Recommendation 1. Page 9**

The examiners recommended that the Company's claims procedures be amended by requiring a copy of the original application in all cases where the policy was issued prior to 1974, in order to verify the state of issue and afford the beneficiaries the same treatment as those where the policies were issued during and after 1974. The Company informed the examiners that they have amended their procedures in accordance with the examiners' recommendation.

Northwestern Mutual Response:

The Company confirms that during the examination, and in response to the examiners' recommendation, we amended our procedures as follows: Upon receipt of notice of death of an insured, all policies pertaining to the insured are reviewed. If any of the policies were issued

prior to 1974, the applications are requested prior to the assignment of the case to a claim analyst. The analyst then reviews the application to determine the state of issue. Northwestern Mutual also confirms that it continues to adhere to this procedure.

**Recommendation 2. Page 10 and 11**

Supplemental interest on the proceeds of two (2) claims did not include 6% from the date the claims were initially paid until the date the corrective action was taken. The examiners recommend that this be rectified.

Northwestern Mutual Response:

This recommendation was included in the draft Report of Examination that Northwestern Mutual received in late February 2005. In response to this recommendation, in March 2005, Northwestern Mutual calculated the appropriate interest to be paid (up to August 23, 2004 when corrective action was taken) and forwarded a letter with a check for the additional interest in each of the two claims. A copy of each letter sent by Northwestern Mutual in each claim is enclosed.

**Recommendation 3. Page 12**

It is recommended that the Company go back as far as the Vermont Department deems appropriate and perform an audit on those claims which are subject to Vermont statutes and recalculate and pay the additional interest due using the statutory rate including interest on the additional amounts due, from the date of the initial claim payment to the date of the corrective action.

Northwestern Mutual Response:

Northwestern Mutual proposes that the Company go back to January 1, 2004 and review all Vermont claims from that time forward to determine if the statutory rate of interest was paid and, if not, to recalculate and pay the additional interest due from the date of the initial claim payment to the date Northwestern Mutual takes corrective action.

The Company feels that this proposed timeframe is appropriate for a number of reasons. First, the proposed start date coincides with the end of the examination period. The examination covered the period from January 1, 2001 through December 31, 2003. Therefore, it is logical for Northwestern Mutual to review claims from January 1, 2004 to the present.

Second, an issue identified by the examiners was the lack of a process to identify Vermont claims on policies issued before 1974. This resulted in the examiners making Recommendation 1. Unfortunately, the lack of such a process resulted in the payment of an inappropriate rate and amount of interest in a few of the cases reviewed by the examiners. In those cases, Northwestern Mutual did not identify the claims as being Vermont claims. As discussed in our response to Recommendation 1, as of August 2004, the Company has a process in place for identifying Vermont-issued policies regardless of the issue date. This process should eliminate incidents in which Northwestern Mutual would credit and pay an incorrect rate of interest as a result of misidentifying the state of issue of the policy.

Third, Northwestern Mutual is reluctant to go back further than January 1, 2004, because information about beneficiaries may be out of date. In the event the Company were to find a claim for which additional interest were owed, the beneficiary information on file (in particular, the beneficiary's address) will be at least two and a half years old and may no longer be correct.

In most, if not all, such cases, the Company would need to verify beneficiary information, which could be quite time-consuming.

For these reasons, it is Northwestern Mutual's position that the January 1, 2004 start date for the claim review is appropriate. We will await the response of the Department on this issue; however, in the meantime, Northwestern Mutual has already begun to pull the files for all Vermont claims from January 1, 2004 to the present and to review each file to determine if additional interest is owed.

#### **Recommendation 4. Page 14**

The examiners recommended that the Company modify their process to better detect replacements. The Company indicated that, as a result of the examiners' review, they are currently evaluating solutions to prevent these types of replacement discrepancies from being missed.

#### **Northwestern Mutual Response:**

A replacement discrepancy edit is generated if the replacement question on the application is answered NO but the replacement question on the agent's certificate is answered YES. An "edit" is a system generated message that appears on the "edits" screen in the Underwriter's Workbench system, the case management system used by the underwriter during the policy review process. The underwriter is responsible for reviewing all of the edits generated for each case, some of which will alert the underwriter to follow a certain procedure.

In the case of a replacement discrepancy edit, the underwriter will document the discrepancy on the case file. The underwriter will communicate with the Financial Representative to clarify the replacement discrepancy. Based on this review with the Financial Representative, the underwriter takes the appropriate action on the case.

If the Financial Representative confirms that the case is a replacement, the underwriter will complete a Replacement Notification form that notifies the Replacement Division of the replacement transaction. The Replacement Division will then manually download the policy number into the Replacement Compliance System and pursue the necessary replacement requirements for the case.

Procedures are currently in place requiring underwriters to evaluate and review replacement discrepancy edits, and take the appropriate action based on their investigation of the specific components of each case. During updates with underwriters regarding the review of policies and procedures and replacement policies, we are proactive about reviewing the appropriate procedures to follow when a replacement discrepancy edit occurs.

In addition, underwriting personnel complete a quality review of underwriting case files for each underwriter on an annual basis. Through this process, we access the correct application of policies and procedures through the underwriting process. In addition, the case files of replacement staff are also reviewed annually for quality review purposes.

**Recommendation 5. Page 15**

It is recommended that life insurance replacement policies resulting from contractual conversions not be included with information required by Regulation 2001-3 § 4 B., inasmuch as such policies are not within the scope of the Regulation and merely skew the data, thereby making it more difficult to monitor a producer's replacement activity regarding those replacements which are required to be monitored.

**Recommendation 6. Page 15 and 16**

The examiners recommend that the Company use consistent data in the preparation of the various reports listed in Regulation 2001-3 § 4 B (1) and (5).

**Recommendation 7. Page 17**

The examiners recommend that the Adjustment Spreads used for flagging agents' replacement activity be more restrictive and that the second level criteria be eliminated.

Northwestern Mutual Response to Recommendations 5, 6 and 7:

In 2004, the Company replaced the Sales Monitoring Report, the system used to monitor replacement activity in addition to several other categories, with the Network Compliance Information System (NCI). The Network Compliance Information system is an on-line monitoring system that provides a consolidated view of insurance and securities activity. NCI monitors trends in activity that might not be otherwise apparent to the Managing Partner or appropriately qualified delegate in the course of their daily review.

The NCI system monitors replacement activity. On a quarterly basis, exceptions are generated through the NCI System. Financial Representatives who exceed a predetermined threshold for a specific category will be flagged for review by the Managing Partner or appropriately qualified supervisory delegate. Through this review, any questionable sales practices or patterns of concerns may be identified, and if necessary, corrective action taken.

The NCI system contains three replacement categories, life insurance replacements, variable product replacements, which include variable life and variable annuity replacements, and fixed annuity replacements. Each replacement category has a specific threshold level. If a Financial Representative's replacement activity exceeds the threshold level established, the Financial Representative is flagged in the category. The Managing Partner or appropriately qualified supervisor reviews that activity of all Financial Representatives flagged in all categories on a quarterly basis.

As a result of the flagged activity, the supervisor is required to evidence his or her review of the flagged activity directly in the on-line NCI system. Home Office staff in the Compliance Assurance Division of the Compliance/Best Practices Department are responsible for overseeing the quarterly review of the exceptions generated by the NCI system.

*Term Conversions*

In the NCI replacement monitoring categories, term conversions were removed as exceptions from the system. An instance where a term conversion policy triggers an exception in the NCI

system is if the case is also an external replacement as well as a term conversion of an existing Northwestern Mutual term policy.

*Adjustment Spreads*

The Company eliminated the sales monitoring tool and logic used in that tool when configuring the NCI system. Adjustment spreads are no longer used. Each replacement category has a specific threshold that applies to all Northwestern Mutual Financial Representatives. If a Financial Representative exceeds the identified threshold, the system flags the Financial Representative in the specific category. The Managing Partner or delegated supervisor reviews the exception activity generated by the system on a quarterly basis.

**Recommendation 8. Page 17 and 18**

The examiners recommend that the Company require its producers to complete a statement identifying any preprinted or electronically presented company approved sales materials used in connection with replacement transactions, in compliance with Vermont Regulation 2001-3 § 3E

Northwestern Mutual Response:

The Company is in the process of changing its application to require Financial Representatives to identify any preprinted or electronically presented company approved sales materials used, and copies of any individualized sales materials, including any illustration related to the specific policy or contract purchased. We are in the process of adding information to the application regarding this requirement. Northwestern Mutual will also communicate this change to all Financial Representatives licensed in the state of Vermont.

If you have any question or comments regarding the Company's responses, or if you need any additional information or documentation, please do not hesitate to contact me directly.

Very truly yours,



Michael S. Bula

MSB:jlj  
272433

enclosure

cc: Joy Towell, CPA, CIA (w/Enclosures)



Northwestern Mutual™

March 24, 2005

Mr Colm J O'Hara  
458 Tahiti St  
Morro Bay CA 93442

**John E. Cain**  
Assistant Director  
Policyowner Services

720 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202-4797  
414 665 7457

Re: 7867353

Dear Mr. O'Hara:

On August 23, 2004, we wrote to you and advised that we inadvertently underpaid interest to you on the above policy. We also enclosed a check.

We have participated in a market conduct review by the State of Vermont. This review resulted in the August 23, 2004 check. Based on information we provided, the State of Vermont recommended that interest be credited to you as of August 23, 2004 rather than to May 8, 2002 which was the date of the payment of the proceeds. For this reason, we have enclosed an additional check in the amount of \$6.18 to accommodate the recommendation.

I apologize for any inconvenience that has resulted to you. If any questions should arise, please contact me at 414-665-7457. I will be out of the office until April 4, 2005.

Sincerely,

John E Cain  
Assistant Director



# Northwestern Mutual™

March 24, 2005

Ms Lucienne Pelletier  
52 VT 105 E  
North Troy VT 05859

Re: 6359098

**John E. Cain**  
Assistant Director  
Policyowner Services

720 East Wisconsin Avenue  
Milwaukee, Wisconsin 53202-4797  
414 665 7457

Dear Ms. Pelletier:

On August 23, 2004, we wrote to you and advised that we inadvertently underpaid interest to you on the above policy. We also enclosed a check.

We have participated in a market conduct review by the State of Vermont. This review resulted in the August 23, 2004 check. Based on information we provided, the State of Vermont recommended that interest be credited to you as of August 23, 2004 rather than to April 29, 2003 which was the date of the payment of the proceeds. For this reason, we have enclosed an additional check in the amount of \$8.55 to accommodate the recommendation.

I apologize for any inconvenience that has resulted to you. If any questions should arise, please contact me at 414-665-7457. I will be out of the office until April 4, 2005.

Sincerely,

John E Cain  
Assistant Director