

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**GENERAL ELECTRIC CAPITAL ASSURANCE
COMPANY**

Wilmington, Delaware

**AS OF
November 7, 2006**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: January 5, 2007

GE CAPITAL ASSURANCE COMPANY

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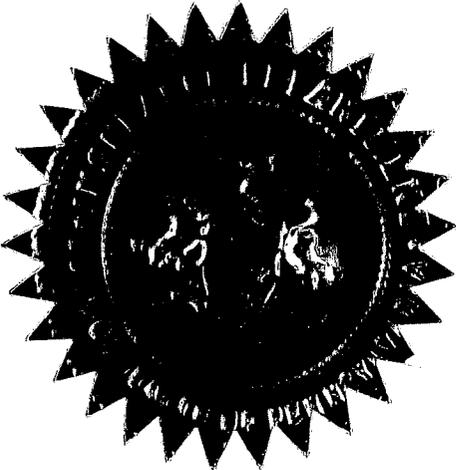
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: The Act of April 9, 1929, P.L. 177, No. 175, known as The
Administrative Code of 1929

AND NOW, this 29 day of April, 2002, Randolph L.

Rohrbaugh, Deputy Insurance Commissioner, is hereby designated as the
Commissioner's duly authorized representative for purposes of entering in and executing
Consent Orders. This delegation of authority shall continue in effect until otherwise
terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

| | | |
|--------------------------|---|---------------------------------------|
| IN RE: | : | VIOLATIONS: |
| | : | |
| GENERAL ELECTRIC CAPITAL | : | Sections 641.1-A and 671.1-A of Act |
| ASSURANCE COMPANY | : | 147 of 2002 (40 P.S. §§ 310.41 and |
| 700 Main Street | : | 310.71) |
| Lynchburg, VA 24504 | : | |
| | : | Sections 404-A, 408-A(e)(1)(i), |
| | : | 408-A(e)(2)(i), 410D(a)(2) and |
| | : | 410E(a)(2) of the Insurance Company |
| | : | Law, Act of May 17, 1921, P.L. 682, |
| | : | No. 284 (40 P.S. §§ 625-4, 625-8, |
| | : | and 510) |
| | : | |
| | : | Title 31, Pennsylvania Code, Sections |
| | : | 51.29, 81.4(b)(1), 81.5(b), |
| | : | 81.6(a)(2)(ii), 81.6(c), 83.3, 83.4a, |
| | : | 83.4b, 89a.113, 146.5, 146.6 and |
| | : | 146.7 |
| | : | |
| Respondent. | : | Docket No. MC06-12-012 |

CONSENT ORDER

AND NOW, this *5th* day of *JANUARY*, 2007, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent neither admits nor denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

4. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

(a) Respondent is General Electric Capital Assurance Company, and maintains its address at 700 Main Street, Lynchburg, Virginia 24504.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 to December 31, 2005.

- (c) On November 7, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on December 7, 2006.

- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41 a);

 - (ii) Section 671.1-A of Act 147 of 2002 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;

 - (iii) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period.

Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

- (iv) Section 408-A(e)(1)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires if the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the application;

- (v) Section 408-A(e)(2)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form, the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery;

- (vi) Section 410-D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510c), which requires individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such policy or attached thereto, a notice stating in substance that the policyholder shall be permitted to return the policy within at least 45 days of its delivery;
- (vii) Section 410-E(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510d), which states individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania, unless they have prominently printed on the first page of such contract or attached thereto, a notice stating in substance that the contract holder shall be permitted to return the contract within at least 45 days of its delivery;
- (viii) Title 31, Pennsylvania Code, Section 51.29, which (a) prohibits an advertisement from directly or by implication falsely represent that a contract or combination of contracts is introductory, initial, or special offer, or that applicants will receive substantial advantages not available at a later date of that the offer is available only to a specified group of individuals, and (b)

prohibits an advertisement from directly or by implication falsely represent that only a number of policies will be sold, or that a time is fixed for the discontinuance of the sale or the particular policy advertised;

- (ix) Title 31, Pennsylvania Code, Section 81.4(b)(1), which states if replacement is involved, the agent or broker shall present to the applicant, not later than at the time of taking the application, a notice regarding replacement of life insurance and annuities;
- (x) Title 31, Pennsylvania Code, Section 81.5(b), which requires the insurer, as part of a completed application for life insurance or annuity, require a statement signed by the applicant regarding whether the proposed insurance or annuity will replace existing life insurance or annuity;
- (xi) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved, send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the

application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner;

- (xii) Title 31, Pennsylvania Code, Section 81.6(c), which requires the replacing insurer to maintain evidence of the notice regarding replacement of life insurance and annuities;
- (xiii) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;
- (xiv) Title 31, Pennsylvania Code, Section 83.4a, which states the agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant;
- (xv) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's

certification from the appropriate files of the insurer shall constitute *prima facie* evidence that no disclosure statement was provided to the prospective purchaser of life insurance;

- (xvi) Title 31, Pennsylvania Code, Section 89a.113, which requires the insurer to maintain records demonstrating delivery date of policies so that this date can be used to determine the commencement of the 30-day policy examination period. Delivery date shall be deemed the date the policy is received by the policyholder;
- (xvii) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;
- (xviii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

- (xix) Title 31, Pennsylvania Code, Section 146.7 requires that within 15 working days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

5. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641.1-A and 671.1-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and

(iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violations of Sections 404-A, 408-A and 410 of the Insurance Company Law, No. 284 are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

(d) Respondent's violations of Title 31, Pennsylvania Code, Chapter 81, are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);

(e) Respondent's violations of Title 31, Pennsylvania Code, Chapter 83 are punishable under Title 31, Pennsylvania Code, Section 83.6:

(i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under

40 P.S. § 475, for violations of 40 P.S. §§ 472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

- (f) Respondent's violations of Title 31, Pennsylvania Code, Section 89a.113, are punishable under 40 P.S. § 991.1114, Penalties, an insurer or agent found to have violated requirements relating to the regulations of long-term care insurance or the marketing of such insurance shall be subject to a civil penalty of up to three times the amount of any commissions paid for each policy involved in the violation, or \$10,000, whichever is greater.

- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.

- (h) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

6. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Twenty-Five Thousand Dollars (\$25,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

7. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate

action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

9. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

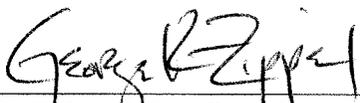
10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

11. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

12. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

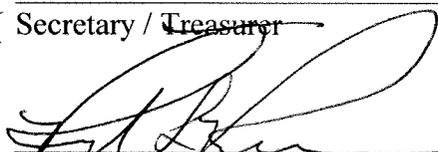
BY: GENERAL ELECTRIC CAPITAL
ASSURANCE COMPANY, Respondent



~~President~~ Vice President



~~Asst. Secretary / Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on GE Capital Assurance Company, hereafter referred to as “Company,” at the Company’s offices located in Lynchburg, Virginia, from May 30, 2006 through August 4, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

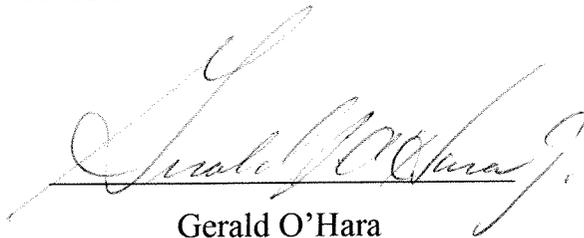
The undersigned participated in the Examination and in the preparation of this Report.



Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief



Frank W. K. Kyazze, AIE, ALHC, FLMI
Market Conduct Examiner



Gerald O'Hara
Market Conduct Examiner

Verification

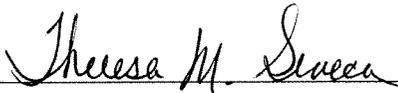
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



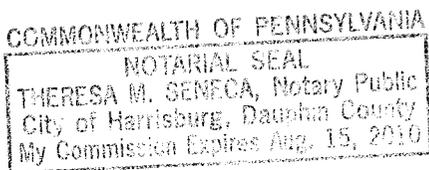
Frank W. Kyazze, AIE, ALHC, FLMI
[Examiner in Charge]

Sworn to and Subscribed Before me

This 16 Day of *October*, 2006



Notary Public



II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2005 through December 31, 2005, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Producer Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

General Electric Capital Assurance Company, (renamed Genworth Life Insurance Company as of January 1, 2006), was incorporated as United Pacific Life Insurance Company in the State of Washington on September 28, 1956, and was re-domiciled to Delaware in 1992. The Company is a stock life insurance company and is licensed in the District of Columbia and all states except New York.

The Company markets a diversified mix of life insurance, deferred annuities, and long-term care insurance. Life insurance is marketed primarily to individuals. Annuities and long-term care insurance are marketed on an individual and group insurance basis.

The Company distributes life insurance and deferred annuities through financial institutions and stock-brokerage firms and also through independent insurance agents on the general-agency system. Long-term care insurance is distributed primarily by long-term care specialists and independent insurance agents.

Effective October 31, 1994, Federal Home Life Insurance Company and its subsidiaries, The Harvest Life Insurance Company and PHF Life Insurance Company, became affiliated with the Company. Effective October 2, 1995, AMEX Life Assurance Company (AMEX Life) was acquired by the Company together with the Company's indirect parent, General Electric Capital Corporation (GECC). Effective April 1, 1996, The Life Insurance Company of Virginia (LOV) became affiliated with the company pursuant to the Company's indirect parent, GECC, assigning its rights to receive 80.0 percent of the stock of LOV to the Company.

Effective June 30, 1996, AMEX Life was merged with and into the Company. Effective December 1, 1996, First Colony Life Insurance Company (FCL) and its subsidiaries, Jamestown Life Insurance Company and American Mayflower Life Insurance Company of New York, became affiliated with the Company when First Colony Corporation (FCC) transferred its ownership of FCL to GECC pursuant to an Amended and Restated Agreement and Plan of Merger by and between GECC, FCMS, Inc., and FCC. Effective January 1, 1999, Great Northern Insured Annuity Corporation merged with and into its parent, the Company.

Effective January 1, 2006, the name of General Electric Capital Assurance Company was changed to Genworth Life Insurance Company.

As of December 31, 2005, annual statement for Pennsylvania, the Company reported direct premiums of \$37,824,077 for ordinary life insurance and annuities and \$70,414,583 for accident and health insurance.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company provided a list of 1,046 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Letters, Direct Mailers, Brochures, Presentations, Newspaper Advertisements, Magazine Advertisements, Radio Advertisements, Cards, Illustrations, Product Guides, Internet Advertisements, Emails and Fact Sheets. A sample of 200 pieces of advertising was requested, received and reviewed. The 200 advertising materials and the Company’s web site (www.genworth.com), were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. The following violations were noted:

2 Violations -Title 31, Pennsylvania Code, Section 51.29

(a) An advertisement shall not directly or by implication falsely represent that a contract or combination of contracts is an introductory, initial, or special offer, or that applicants will receive substantial advantages not available at a later date or that the offer is available only to a specified group of individuals.

(b) An advertisement shall not directly or by implication falsely represent that only a number of policies will be sold, or that a time is fixed for the discontinuance of the sale or the particular policy advertised.

The advertising pieces noted list the product as a “Special Offer”.

| Form Number | Form Description | Distribution |
|--------------------|------------------------------------|---------------------|
| 3824L 10/04/05 | Good News, John Q. Sample | Direct Mail |
| 37449NATL | Good News, Mr. John Q. Sample, Jr. | Direct Mail |

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). No violations were noted.

VI. PRODUCER LICENSING

The Company was requested to provide a list of all producers active and terminated during the experience period. Section 671-A (40 P.S. §310.71) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 641.1-A (40 P.S. §310.41a) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. Section 671.1 (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all agent terminations to the Department.

The Company provided a universe of 15,978 producers. A random sample of 100 producers was selected for review. The 100 producers were reviewed and compared to Department records of producers to verify appointments, terminations and licensing. In addition, a comparison was made of the producers identified on applications reviewed in the policy issued sections of the exam. The following violations were noted:

4 Violations - Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:

- (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer’s holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer’s license is suspended, revoked or otherwise terminated.
- (e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.
- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the following 3 producers, or agencies. The Company listed these producers as active; however, department records did not indicate their appointment.

| Producer | Appointment Date |
|--------------------------------|-------------------------|
| Sirota, Ronald H. | 6/24/02 |
| Locust Street Securities, Inc. | 9/17/03 |
| Doyle, Margaret L. | 4/30/04 |

The following individual was listed as a producer on an application reviewed in the policy issued sections of the exam. Department records do not identify the individual as being appointed by the Company.

| Producer |
|----------------------|
| Budnitz, Emil A. Jr. |

2 Violations - Insurance Department Act, No. 147, Section 641.1-A (40 P.S. §310.41a)

(a) Any insurance entity or licensee accepting applications or orders for insurance or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5000 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

(b) A person that violates this section commits a misdemeanor of the third degree.

The following entity was listed as a producer for the Company; however, Department records do not identify the entity as holding a Pennsylvania insurance license.

| Producer | Appointment Date |
|--------------------------------|-------------------------|
| Locust Street Securities, Inc. | 9/17/03 |

The following individual was listed as a producer on an application reviewed in the policy issued section of the exam. Department records do not identify the individual as holding a Pennsylvania insurance license.

| Producer | Appointment Date |
|----------------------|-------------------------|
| Budnitz, Emil A. Jr. | 9/17/03 |

2 Violations - Insurance Department Act, No. 147, Section 671.1-A (40 P.S.

§310.71a) Termination of Appointments

(a) Termination. - An insurer which terminates an appointment pursuant to section 671-A(d) shall notify the department in writing on a form approved by the department, or through an electronic process approved by the department, within 30 days following the effective date of the termination.

(b) Reason for termination. – If the reason for the termination was a violation of this act or if the insurer had knowledge that the licensee was found to have engaged in any activity prohibited by this act, the insurer shall inform the department in the notification.

The following producers were listed as terminated by the Company but not reported as terminated to the Department. Department records indicate an active status.

| Producer | Termination Date |
|-------------------------------------|-------------------------|
| Commerce Insurance Securities, Inc. | 12/13/05 |
| Bertozzi, Scott E. | 08/11/05 |

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2001, 2002, 2003 and 2004. The Company identified 30 consumer complaints received during the experience period. A random sample of 10 complaint files was requested, received, and reviewed. The Company also provided complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log.

The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices.

No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 22 general segments.

- A. Underwriting Guidelines**
- B. Group Annuity Contracts Terminated**
- C. Individual Single Premium Deferred Annuity Contracts Issued**
- D. Individual Single Premium Immediate Annuity Contracts Issued**
- E. Individual Term Life Policies Issued**
- F. Individual Interest Sensitive Whole Life Policies Issued**
- G. Long Term Care Policies Issued**
- H. Individual Life Policies Declined**
- I. Individual Long Term Care Policies Declined**
- J. Individual Single Premium Deferred Annuity Contracts Terminated**
- K. Individual Single Premium Immediate Annuity Contracts Terminated**
- L. Individual Long Term Care Policies Terminated**
- M. Whole Life Policies Terminated**
- N. Tax Deferred Life Policies Terminated**
- O. Individual Single Premium Deferred Annuity Contracts Issued As Replacements**
- P. Individual Single Premium Immediate Annuity Contracts Issued As Replacements**
- Q. Individual Term Life Policies Issued As Replacements**
- R. Individual Long Term Care Policies Issued As Replacements**
- S. Individual Single Premium Immediate Annuity Contracts Not-Taken**
- T. Individual Single Premium Immediate Annuity Contracts Not-Taken**
- U. Individual Long Term Care Policies Not-Taken**
- V. Individual Term Life Conversions**

Each segment was reviewed for compliance with underwriting practices and included forms identification and agent identification. Issues relating to forms or agent/broker licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines and manuals utilized during the experience period. The manuals and guidelines received were reviewed to ensure that the underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following manuals and guides were provided and reviewed:

1. Medical Underwriting Guidelines
2. Single Premium Immediate Annuity and Structured Settlement Underwriting References and Manuals
3. Life Insurance Underwriting Guidelines
4. Life Insurance Declination Procedures

B. Group Annuity Contracts Terminated

The Company was requested to provide a list of all group policies terminated during the experience period. The Company identified a universe of 3 group policies terminated. All 3 files were requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

The following table summarizes the reasons for termination.

| Number | Termination Reason | Percent |
|---------------|-----------------------------------|----------------|
| 2 | Consumer Request - 1035 Exchange | 67 |
| 1 | Consumer Request - Cash Surrender | 33 |
| Total | | 100 |

C. Individual Single Premium Deferred Annuity Contracts Issued

The Company identified a universe of 486 individual single premium deferred annuity contracts issued during the experience period. A random sampling of 50 annuity contract files was requested, received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the files noted, the replacement form was dated after the application date.

1 Violation - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the file noted.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was not documented in the file noted.

48 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least

a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of Annuity contract delivery date could not be established in the files noted.

3 Violations - Insurance Company Law, Section 410E(a)(2) (40 P.S. §510d)

Individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contract holder shall be permitted to return the contract within at least forty-five (45) days of its delivery. The contract files noted did not contain the required 45-day "free look" statement.

D. Individual Single Premium Immediate Annuity Contracts Issued

The Company identified a universe of 146 individual single premium immediate annuity (SPIA) contracts issued during the experience period. A random sampling of 25 annuity contract files was requested, received, and reviewed. Of the 25 files received, 13 were determined not to be SPIA contracts. The remaining 12 contract files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

9 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The date of contract delivery could not be verified in the files noted.

E. Individual Term Life Policies Issued

The Company identified a universe of 1,149 individual term life policies issued during the experience period. A random sample of 50 policy files was requested, received and reviewed. Of the 50 policy files reviewed, 6 files were determined to be out of our experience period and 1 file was determined to be out of Pennsylvania's jurisdiction. The remaining 43 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the files noted, the replacement form was dated after the application date.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced Company was untimely in the file noted.

20 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in 6 files, and the producer did not sign the delivery receipt in 14 files.

F. Individual Interest Sensitive Whole Life Policies Issued

The Company identified a universe of 35 individual interest sensitive whole life policies issued during the experience period. All 35 policy files were requested, received and reviewed. Of the 25 files, 3 were determined to be out of Pennsylvania's jurisdiction. The remaining 22 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 81.4 (b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form was dated after the application date in the files noted.

12 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in 8 files, and the producer did not sign the policy delivery receipt in 4 files.

8 Violations - Insurance Company Law, Section 408-A(e)(1)(i) (40 P.S. §625-8)

The following applies if a basic illustration is used by a producer in the sale of a life insurance policy. If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the

applicant. The producer certification and applicant's acknowledgement of the illustration used in the files noted was signed and dated after the application date.

1 Violation - Insurance Company Law, Section 408A (e)(2)(i) (40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. The file noted did not include a signed certification and acknowledgement that no illustration was used in the sale of the life insurance policy.

G. Long Term Care Policies Issued

The Company identified a universe of 2,474 long-term care policies issued during the experience period. A random sampling of 50 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

13 Violations - Title 31, Pennsylvania Code, Section 89a.113

(f) The insurer shall maintain records demonstrating delivery date of policies so that this date can be used to determine the commencement of the 30-day policy examination period. Delivery date shall be deemed the date the policy is received by the policyholder. Verification of policy delivery date could not be established in the files noted.

H. Individual Life Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 120 individual life policies declined. A random sample of 10 files was requested, received, and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. The applicants in all 10 files reviewed were declined for medical underwriting. No violations were noted:

I. Individual Long Term Care Policies Declined

The Company was requested to provide a list of all long term care policies declined during the experience period. The Company identified a universe of 490 individual long term care policies declined. A random sample of 25 policy files was requested, received and reviewed. The files were reviewed to ensure that declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. No violations were noted.

The following is a synopsis of the 25 files reviewed.

| Number | Reason for Declination | Percent |
|---------------|-------------------------------|----------------|
| 21 | Medical Underwriting | 84 |
| 4 | Unacceptable Build Ratio | 16 |
| 25 | Total | 100 |

**J. Individual Single Premium Deferred Annuity Contracts
Terminated**

The Company was requested to provide a list of all annuities terminated during the experience period. The Company identified a universe of 824 individual single premium deferred annuity contracts terminated. A random sample of 25 contract files was requested, received and reviewed. Of the 25 files reviewed, 1 was determined to be out of Pennsylvania's jurisdiction. The remaining 24 files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practices. The files terminated due to death were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

**K. Individual Single Premium Immediate Annuity Contracts
Terminated**

The Company identified a universe of 112 individual single premium immediate annuity contracts terminated. A random sample of 25 files was requested, received and reviewed. Of the 25 files reviewed, 6 were determined to be out of Pennsylvania's jurisdiction. The remaining 19 contract files were reviewed to ensure that termination was not the result of any discriminatory underwriting practice. No violations were noted.

L. Individual Long Term Care Policies Terminated

The Company was requested to identify all health insurance policies terminated during the experience period. The Company identified 65 individual long term care policies terminated. A random sample of 10 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

The following is a synopsis of the 10 files reviewed.

| Number | Termination Reason | Percent |
|---------------|---------------------------------|----------------|
| 3 | Insured Request | 30 |
| 7 | Lapsed – Nonpayment of Premiums | 70 |
| 10 | Total | 100 |

M. Whole Life Policies Terminated

The Company was requested to identify all life policies terminated during the experience period. The Company identified 5 whole life policies terminated. All 5 policy files were requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. All 5 files reviewed were terminated at the request of the insured. No violations were noted.

N. Tax Deferred Life Policies Terminated

The Company was requested to identify life policies terminated during the experience period. The Company identified 4 tax deferred life policies terminated. All 4 policy files were requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws, and regulations, and proper return of any unearned premium. All 4 files were terminated at the request of the insured. No violations were noted.

O. Individual Single Premium Deferred Annuity Contracts Issued As Replacements

The Company identified a universe of 94 individual single premium deferred annuity contracts issued as replacements during the experience period. A random sampling of 25 contract files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

2 Violations - Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the files noted, the replacement form was dated after the application date.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The file noted did not contain a copy of the required notice of replacement.

18 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The date of contract delivery could not be verified in 17 files, and the producer did not sign the contract delivery receipt in 1 file.

9 Violations - Insurance Company Law, Section 410E(a)(2) (40 P.S. §510d)

Individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contractholder shall be permitted to return the

contract within at least forty-five (45) days of its delivery. The contract files noted did not contain the required 45-day "free look" statement.

**P. Individual Single Premium Immediate Annuity Contracts Issued
As Replacements**

The Company identified a universe of 21 individual single premium immediate annuity contracts issued as replacements during the experience period. All 21 contract files were requested, received and reviewed. The files were reviewed to determine compliance with issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the files noted, the replacement form was dated after the application date.

2 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the

application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced Company was not timely in the files noted.

15 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The annuity contract delivery date could not be verified in the files noted.

Q. Individual Term Life Policies Issued As Replacements

The Company identified a universe of 190 individual term life policies issued as replacements during the experience period. A random sampling of 25 policy files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The disclosure statement was not evident in the file noted.

1 Violation - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The file noted did not contain a copy of the required agent's certification of disclosure delivery.

11 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be

provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in 4 files, and the producer did not sign the policy delivery receipt in 7 files.

6 Violations - Insurance Company Law, Section 410D(a)(2) (40 P.S. §510c)

Individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such policy or attached thereto a notice stating in substance that the policyholder shall be permitted to return the policy within at least forty-five (45) days of its delivery. The policies issued in the files noted did not contain the required 45-day "free look" statement.

R. Individual Long Term Care Policies Issued As Replacements

The Company identified a universe of 113 long term care policies issued as replacements during the experience period. A random sampling of 25 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violation was noted:

1 Violation - Title 31, Pennsylvania Code, Section 89a.113

(f) The insurer shall maintain records demonstrating delivery date of policies so that this date can be used to determine the commencement of the 30-day policy examination period. Delivery date shall be deemed the date the policy is received by the policyholder. The proof of policy delivery date could not be established in the file noted.

S. Individual Single Premium Deferred Annuity Contracts

Not-Taken

The Company was requested to provide a list of annuities not taken during the experience period. The Company identified a universe of 3 individual single premium deferred annuity contracts not-taken. All 3 annuity contract files were requested, received and reviewed. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

T. Individual Single Premium Immediate Annuity Contracts

Not-Taken

The Company was requested to provide a list of annuities not-taken during the experience period. The Company identified a universe of 4 individual single premium immediate annuity contracts not-taken. All 4 contract files were requested; of which 3 files were received and reviewed. The missing file was determined to be on the list in error. The remaining files were reviewed to ensure compliance with the free-look provisions of the contracts. No violations were noted.

U. Individual Life Policies Not-Taken

The Company was requested to provide a list of all policies not taken during the experience period. The Company identified 3 individual life policies not-taken. All 3 policy files were requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

V. Individual Long Term Care Policies Not-Taken

The Company was requested to provide a list of all health insurance policies not-taken during the experience period. The Company identified 275 individual long term care policies not-taken. A random sample of 10 policy files was requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

W. Individual Life Term Conversions

The Company identified a universe of 1 individual term life conversion policy issued during the experience period. The policy file was requested, received and reviewed. The file was reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violation was noted:

1 Violation - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the producer delivers the individual policy or annuity to the policyholder by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the file noted.

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

The Company was requested to provide copies of their internal audit and compliance procedures. The audits and procedures were reviewed to ensure compliance with Insurance Company Law, Section 405-A (40 P.S. §625-5). Section 405-A provides for the establishment and maintenance of internal audit and compliance procedures, which provides for the evaluation of compliance with all statutes and regulations dealing with sales methods, advertising, and filing and approval requirements for life insurance and annuities. The procedures shall also provide for the following:

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

In addition, the Company's Insurance Marketplace Standards Association (IMSA), Qualified Independent Assessor's Supplemental Report was reviewed with no unsatisfactory gaps identified.

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files.

The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The Company provided the following claim manuals and procedures:

1. Dental Claim Handling Workflow Manual
2. Dental Claim-facts System Processing Manual
3. Dental Approver Manual
4. Group Disability Claims Audit Manual
5. Group LTD Claims Procedures and Training Manual
6. Short Term Disability (STD) Training Manuals (8 Floppy Disks)
7. Group Life Claims Audit Manual
8. Group Life Claims Training Manual
9. Claims Procedural Bulletins
10. Claim-Facts Coding and Processing Manual
11. VSP Provider Reference Manual (Vision)
12. VSP Plan Information Manual (Vision)
13. LTC Claim Processing and Training Material CD Rom
14. LTC Intake Training
15. LTC Genworth Policy Quotes
16. LTC Genworth Sop's
17. LTC New IA Training

18. LTC Weekly Reminders
19. LTC 2005 Tech Tips
20. LTC Assessments
21. LTC Claims Support training materials Apr 2006
22. LTC Policy 5.0 Referral Matrix – 2005
23. LTC SOPs 2005 – Soft Copy
24. LTC FF-1099v141
25. Life and Deferred Annuity, ICA Statement of Principles
26. Life and Deferred Annuity, Life Claims Process Map
27. Life and Deferred Annuity, Processing Death Claims Procedures
28. Life and Deferred Annuity, Summary-RII-Benefits Process map
29. Summary-RII-Deferred Ann-Benefits Process map Vantage sys 2005
30. Processing Death Claims
31. Procedures For Death Claims

The claim manuals and procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of 4 areas:

- A. Single Premium Immediate Annuity Claims
- B. Single Premium Deferred Annuity Claims
- C. Life Claims
- D. Long Term Care Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Single Premium Immediate Annuity Claims

The Company was requested to provide a list all annuity claims received during the experience period. The Company identified a universe of 145 single premium immediate annuity claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

3 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge a claim within 10 working days for the claims noted.

3 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the claims noted.

B. Single Premium Deferred Annuity Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 307 single premium deferred annuity claims. A random sample of 25 claim files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

C. Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 1 individual life claim received. The claim file was requested, received and reviewed. The file was reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). No violations were noted.

D. Long Term Care Claims

The Company was requested to provide a list of all health claims received during the experience period. The Company identified 637 long term care claims. A random sample of 25 claims was requested, received and reviewed. The insured submitted claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and the provider-submitted claim files were reviewed for compliance with Quality Health Care Accountability and Protection Act, No. 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The following violations were noted.

3 Violations - Title 31, Pennsylvania Code, Section 146.6

(a) Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the noted claims.

2 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first- party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide notice of acceptance or denial within 15 working days in the noted claims.

XI. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
2. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A and Section 671.1-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71 and 310.71a).
3. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.
4. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.
5. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

6. The Company must review and revise internal control procedures to ensure compliance with the contract delivery requirements of Title 31, Pennsylvania Code, Chapter 89a. Long-Term Care Model Regulation
7. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
8. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).
9. The Company must review internal control procedures to ensure compliance with Section 410D of the Insurance Company Law of 1921 (40 P.S. §510c) pertaining to the “Free Look” provision requirements for life insurance and endowment insurance.
10. The Company must review internal control procedures to ensure compliance with Section 410E of the Insurance Company Law of 1921 (40 P.S. §510d) pertaining to the “Free Look” provision requirements for annuity and pure endowment contracts.

XII. COMPANY RESPONSE



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December 7, 2006

VIA FACSIMILE & REGULAR MAIL

Mr. Daniel E. Stemcosky, AIE, FLMI
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, Pennsylvania 17120

Re: Market Conduct Examination
GE Capital Assurance Company nka Genworth Life Insurance Company
Examination Warrant Number 05-M26-079

Dear Mr. Stemcosky:

We have received the Report of Examination of General Electric Capital Assurance Company sent to us on November 7, 2006.

We have no comments or rebuttal to make. We have corrected all substantive violations and are strengthening procedures to eliminate the technical violations.

We wish to thank the examiners for their professionalism and courtesy during the examination.

Very truly yours,

Robert J. Bowen
Associate General Counsel

RJB/km