

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**HARTFORD LIFE AND ANNUITY INSURANCE
COMPANY**

Simsbury, Connecticut

**AS OF
February 28, 2007**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 20, 2007

HARTFORD LIFE AND ANNUITY INSURANCE COMPANY

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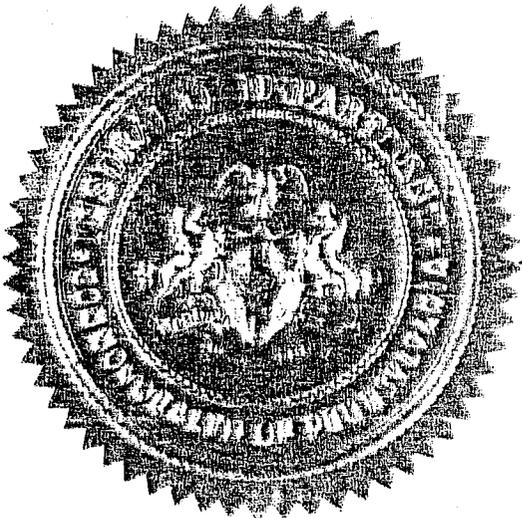
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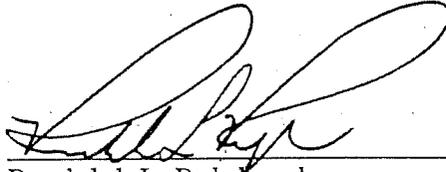
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20th day of February, 2007, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.





Randolph L. Rohrbaugh
Acting Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
HARTFORD LIFE AND ANNUITY : Section 903(a) of the Insurance
INSURANCE COMPANY : Department Act, Act of May 17, 1921,
200 Hopmeadow Street : P.L. 789, No. 285 (40 P.S. § 323.3)
Simsbury, Connecticut 06089 : :
: Section 671-A of Act 147 of 2002
: (40 P.S. § 310.71)
: :
: Sections 354, 404-A, 406-A, 408-
: A(e)(1)(i) and (ii), 408-A(e)(5) and
: 412 of the Insurance Company Law,
: Act of May 17, 1921, P.L. 682,
: No. 284 (40 P.S. §§ 477b, 625-4,
: 625-6, 625-8 and 512)
: :
: Title 31, Pennsylvania Code, Sections
: 81.4, 81.4(b)(1), 81.5(b), 81.6(a)(1),
: 81.6(a)(2)(ii), 81.6(c), 82.14(a)(b),
: 83.4a, 83.4b, 83.55, 146.3, 146.5,
: 146.6 and 146.7
: :
Respondent. : Docket No. MC07-04-008

CONSENT ORDER

AND NOW, this 20th day of APRIL, 2007, this Order is hereby
issued by the Insurance Department 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.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is Hartford Life and Annuity Insurance Company, and maintains its address at 200 Hopmeadow Street, Simsbury, Connecticut 06089.
- (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 February 28, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on March 30, 2007.

(e) The Examination Report notes violations of the following:

(i) Section 903(a) of the Insurance Department Act (40 P.S. § 323.3), which requires every company subject to examination to keep all books, records, accounts, papers, documents and any computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require in order that its representatives may readily verify the financial condition of the company, and ascertain whether the company has complied with the laws of this Commonwealth;

(ii) Section 671-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 354 of the Insurance Company Law (40 P.S. § 477b), which prohibits issuing, selling, or disposing of any policy, contract or certificate until the forms have been submitted to, and formally approved by, the Insurance Commissioner;

(iv) 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 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;

(v) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. §625-6), prohibits alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent;

(vi) 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;

(vii) Section 408-A(e)(1)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states if the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration”. The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered;

(viii) Section 408-A(e)(5) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states a copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until 3 years after the policy is no longer in force;

- (ix) Section 412 of the Insurance Company Law, No. 284 (40 P.S. §512), which prohibits a policy of life insurance to be delivered except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, co-partnerships, associations and corporations may insure the lives and health of officers, directors, principals, partners and employees, without the signing of a personal application as required;

- (x) Title 31, Pennsylvania Code, Section 81.4, which states that if replacement is involved, the producer 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 form as described in Appendix A, or other substantially similar form filed and accepted prior to use by the Commissioner;

- (xi) Title 31, Pennsylvania Code, Section 81.4(b)(1), which states that 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;

- (xii) 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;

- (xiii) Title 31, Pennsylvania Code, Section 81.6(a)(1), which requires an insurer that uses an agent or broker in a life insurance or annuity sale shall require with or as part of a completed application for life insurance or annuity, a statement signed by the agent or broker regarding whether the broker knows replacement is or may be involved in the transaction;

- (xiv) 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 as required by Section 83.3, 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;

- (xv) 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;

- (xvi) Title 31, Pennsylvania Code, Section 82.14(a)(b), which states an insurer seeking approval to enter into the variable life insurance business in this Commonwealth shall establish, maintain and file at the discretion of the commissioner, a written statement specifying the standards of suitability to be used by the insurer. The standards of suitability shall specify that no recommendation shall be made to an applicant to purchase a variable life insurance policy and that no variable life insurance policy shall be issued in the absence of reasonable grounds to believe that the purchase of the policy is suitable for the applicant on the basis of information furnished after reasonable inquiry of the applicant concerning the applicant's insurance and investment objectives, financial situation and needs and other information known to the insurer or to the agent making the recommendation;
- (xvii) 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;
- (xviii) 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;

- (xix) Title 31, Pennsylvania Code, Section 83.55, which states the surrender comparison index disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible. A disclosure that is minimally satisfactory to the Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter prior to use is adequate notification to the Department;
- (xx) Title 31, Pennsylvania Code, Section 146.3, which requires the claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed;
- (xxi) 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;

- (xxii) 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

- (xxiii) Title 31, Pennsylvania Code, Section 146.7, which requires within 15 working days after receipt by the insurer of properly executed proof of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer.

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Section 671-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 violation of Section 354 of The Insurance Company Law is punishable by the following, under Section 354 of The Insurance Company Law (40 P.S. § 477b):

- (i) suspension or revocation of the license(s) of Respondent;
- (ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;
- (iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.

(d) Respondent's violations of Sections 404-A, 406-A, 408-A and 412 of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6 and 625-8) 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.

- (e) 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);

- (f) 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.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 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

5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department 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 Seventy-Five Thousand Dollars (\$75,000.00) 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. Fraser, Office

Manager, 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.

6. In the event the Insurance Department 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 Insurance Department 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 Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department 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.

8. 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.

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

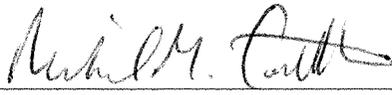
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee 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 delegee.

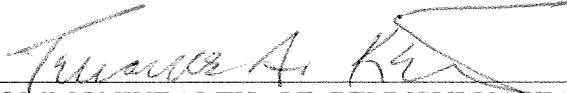
BY: HARTFORD LIFE AND ANNUITY
INSURANCE COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA
By: Terrance A. Keating
Deputy Chief Counsel

I. INTRODUCTION

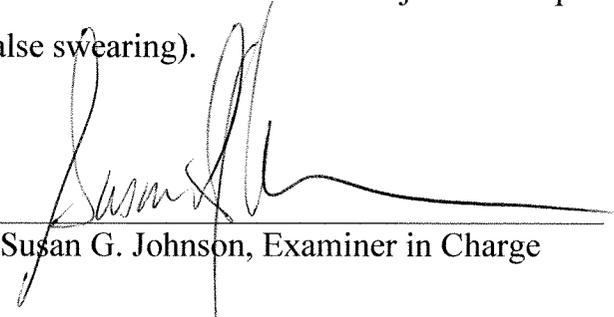
The Market Conduct Examination was conducted on Hartford Life and Annuity Insurance Company, hereafter referred to as "Company," at the Company's office located in Hartford, Connecticut, June 13, 2006, through September 1, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania 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.

VERIFICATION

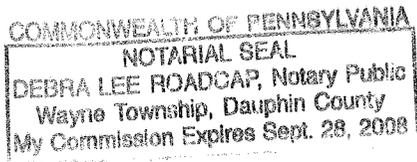
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


Susan G. Johnson, Examiner in Charge

Sworn to and Subscribed Before me

This *8th* Day of *February*, 2007

Debra Lee Roadcap
Notary Public

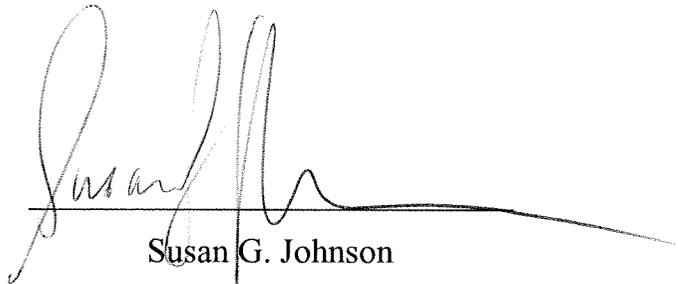


The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

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



Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief



Susan G. Johnson
Market Conduct Examiner

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

Hartford Life and Annuity Insurance Company was incorporated on January 9, 1956, in the State of Wisconsin, as a stock life insurance company and was originally incorporated as National Assurance Corporation. In 1982, the Company changed its name to ITT Life Insurance Corporation. In 1993, the Company was renamed ITT Hartford Life and Annuity Insurance Company, and in 1997, was renamed Hartford Life and Annuity Insurance Company. Effective May 1, 1996, the Company was redomesticated from Wisconsin to Connecticut.

The Company is a wholly-owned subsidiary of Hartford Life Insurance Company which, in turn, is a wholly-owned subsidiary of Hartford Life and Accident Insurance Company. Hartford Life and Accident Insurance Company is a wholly-owned subsidiary of Hartford Life, Inc. which, in turn, is a wholly-owned subsidiary of Hartford Holdings, Inc. The Hartford Financial Services Group, Inc., a publicly-traded Delaware corporation listed on the New York Stock Exchange, owns 100 percent of the issued and outstanding common stock of Hartford Holdings, Inc.; and Hartford Fire Insurance Company, a wholly-owned subsidiary of The Hartford Financial Services Group, Inc., owns 100 percent of the issued and outstanding preferred stock.

As of their December, 2005, annual statement for Pennsylvania, Hartford Life and Annuity Insurance Company reported direct premium for ordinary life insurance and annuities in the amount of \$48,066,743; group life deposit-type contract funds and other considerations in the amount of \$311,089,543; and direct premium for accident and health in the amount of \$2,629.

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 a copy of their advertising Certificate of Compliance, as required by Title 31, Pennsylvania Code, Section 51.5.

No violations were noted.

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, Pennsylvania Consolidated Statutes, Section 4117(k).

The following violations were noted:

56 Violations - Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b)

It shall be unlawful for any insurance company, doing business in the Commonwealth of Pennsylvania, to issue, sell, or dispose of any policy, contract, or certificate, covering life insurance, or use application, riders, or endorsements, in connection therewith, until the forms have been submitted to, and formally approved by, the Insurance Commissioner. Verification of form approval could not be established in the noted files. The form number, description and frequency of use are listed in the table below.

Form Number	Description	Frequency of Use
APP04HLI-L	Variable Annuity Application	2
APP04HLI-LOUT-PA-05	Variable Annuity Application	1
PLAPP04-L-PA	Variable Annuity Application	9
APP04HLI-LOUT-PA	Variable Annuity Application	9
APP04HLI-L-PA	Variable Annuity Application	9
APP03HLI-LOUT	Variable Annuity Application	1
APP03HLI-D	Variable Annuity Application	2
APP03HLI	Variable Annuity Application	1
PLAPP04-L	Variable Annuity Application	6
APP03HLI-L	Variable Annuity Application	1

HL-14901	Replacement Form	5
None	Surrender Comparison Index Disclosure	3
APP04HLI-NCDSC-PA	Variable Annuity Application	1
HLASHAPP99	Variable Annuity Application	1
APP03HLI-DXC	Variable Annuity Application	1
HLASHAPP2004-L-PA	Variable Annuity Application	1
APP04HLI-OUT	Variable Annuity Application	1
PLAPP03-L	Variable Annuity Application	1
APP03HLI-P	Variable Annuity Application	1

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 list of 44,142 active and terminated producers. A random sample of 200 producers was selected for review. All 200 producers were compared to departmental records of agents to verify appointments, terminations and licensing. In addition, a comparison was made on the producers identified on applications reviewed in the policy issued sections of the exam. The following violations were noted:

6 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 4 producers or agencies. The Company listed these producers as active; however, Department records did not indicate their appointment.

Producer
Jay Austin
Seabury & Smith, Inc.
Peter Shannon
John Surdoval

The 2 noted individuals were listed as producers on 2 applications reviewed in the policy issued sections of the exam. Department records do not identify these individuals as being appointed by the Company at the time of application.

Producer
Mark Brennan
Lester Botkin

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 2001, 2002, 2003, and 2004. The Company identified 20 written consumer complaints and provided complaints logs for 2001, 2002, 2003 and 2004. Of the 20 complaints identified, 5 were forwarded from the Department. All 20 consumer complaint files were requested, received and reviewed.

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, Pennsylvania 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 17 general segments.

- A. Underwriting Guidelines
- B. Variable Annuity Contracts Issued
- C. Term Life Policies Issued
- D. Universal Life Policies Issued
- E. Individual Variable Life Policies Issued
- F. Interest Sensitive Life Policies Issued
- G. Fixed Annuity Contracts Issued
- H. Annuity Contracts Declined
- I. Individual Life Policies Declined
- J. Annuity Contracts Terminated
- K. Life Policies Terminated
- L. Variable Annuity Contracts Issued as Replacements
- M. Individual Term Life Policies Issued as Replacements
- N. Universal Life Policies Issued as Replacements
- O. Variable Life Policies Issued as Replacements
- P. Individual Life Policies Not-Taken
- Q. 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 producer 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 copies of all established written underwriting guidelines in use during the experience period. Underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following guidelines were reviewed:

1. Decline Procedure
2. Underwriting Associate Training Manual
3. Financial Statement Terms
4. Life Insurance Producer's Field Underwriting Guide
5. Ascent 2.0
6. Swiss Re
7. Help Your Clients Achieve Favorable Exam Results
8. Preferred Plus Criteria Slightly Altered After Routine Review
9. Face-to-Face Returns to Offer Clients Additional Coverage without New Medical Exams or Tests
10. New Guidelines Significantly Increase Coverage Limits for Income Replacement
11. Reach More Clients with the Hartford's New Foreign Travel Exclusion Rider
12. The Hartford Helps You Expand Your Markets
13. Hartford Further Enhances "No Sweat" Underwriting

B. Variable Annuity Contracts Issued

The Company identified a universe of 3,349 variable annuity contracts issued during the experience period. A random sample of 50 annuity contracts was requested, received and reviewed. Of the 50 annuity contracts reviewed, 1 file was issued outside of the experience period. The remaining 49 contracts files were

reviewed to determine compliance with issuance, replacement statutes and regulations. The following violations were noted:

1 Violation - 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. Evidence that the replacement form was dated at the time of application could not be verified in the file noted.

10 Violations - 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 10 files noted.

11 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall:
Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement on replacement was not answered in the 11 files noted.

10 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 (1) 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. Confirmation that written communication was sent within 5 workings days from the date the application was received by the home or regional office could not be established in the 10 files noted.

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 required notice of replacement was not evident in the file noted.

23 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 annuity contract delivery could not be confirmed in the 23 files noted.

1 Violation– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The file noted contained an alteration without the applicant's consent.

C. Term Life Policies Issued

The Company identified a universe of 494 life policies issued during the experience period. A random sample of 50 term life policies 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:

3 Violations - Title 31, Pennsylvania Code, Section 81.4

(b) If replacement is involved, the agent or broker shall: (1) 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 form as described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and left with the applicant. The agent's signature wasn't evident on the replacement form in the 3 files noted.

7 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows

replacement is or may be involved in the transaction. The agent's question on replacement was not completed on the applications in the 7 files noted.

2 Violations - 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 required agent's certification of the disclosure statement was not evident in the 2 files noted.

1 Violation - 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 the file noted.

D. Universal Life Policies Issued

The Company identified a universe of 429 universal life policies issued during the experience period. A random sample of 50 universal life 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:

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 2 files 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. Confirmation that the replacement letter to the replaced company was sent within 5 working

days from the date the application was received could not be established in the file noted.

1 Violation – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. The Cost Surrender Comparison Index Disclosure was not evident in the file noted.

1 Violation – 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 agent's certification and applicant's acknowledgement of the illustration used was signed and dated after the application date.

13 Violations– Insurance Company Law, Section 408-A(e)(1)(ii)

(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 issued other than as applied for, a revised

basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The revised illustrations provided were not labeled as “Revised” or the signed certification and acknowledgement of the delivery of an illustration was not evident in the 13 files noted.

3 Violations – Insurance Company Law, Section 408-A(e)(5) (40 P.S. §625-8)

A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. The agent’s certification and the applicant’s acknowledgment in regards to the illustration usage were not evident in the 3 files noted.

1 Violation - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, co-partnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. Copied pages from a previously declined application were evident and the applicant’s signature could not be verified on the new application in the file noted.

E. Individual Variable Life Policies Issued

The Company identified a universe of 519 variable life policies issued during the experience period. A random sample of 50 life policies 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 - Insurance Department Act, Section 903 (40 P.S. §323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. Pertinent information was missing from the file noted.

1 Violation - 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 file noted.

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall:
Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows

replacement is or may be involved in the transaction. The agent's question on replacement was not completed on the application in the 2 files noted.

2 Violations – Title 31, Pennsylvania Code, Section 82.14(a)(b)

An insurer seeking approval to enter into the variable life insurance business in this Commonwealth shall establish, maintain and file at the discretion of the Commissioner, a written statement specifying the standards of suitability to be used by the insurer. The standards of suitability shall specify that no recommendation shall be made to an applicant to purchase a variable life insurance policy and that no variable life insurance policy shall be issued in the absence of reasonable grounds to believe that the purchase of the policy is suitable for the applicant on the basis of information furnished after reasonable inquiry of the applicant concerning the applicant's insurance and investment objectives, financial situation and needs and other information known to the insurer or to the agent making the recommendation. Suitability was not determined in the files noted. Suitability questions acknowledging variable or fixed death benefit, increasing or decreasing cash value and prospectus receipt were not completed.

3 Violations– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The applications in the 3 files noted were altered without the application's consent.

F. Interest Sensitive Life Policies Issued

The Company identified a universe of 4 interest sensitive life policies issued during the experience period. All 4 life policy files were 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:

3 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 agent's certification and applicant's acknowledgement of the illustration was signed and dated after the application date.

G. Fixed Annuity Contracts Issued

The Company identified a universe of 2 fixed annuity contracts issued during the experience period. The 2 annuity contracts were requested, received and reviewed. The contracts files were reviewed to determine compliance with issuance, replacement statutes and regulations. The following violations were noted:

2 Violations - 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 on the application in the 2 files noted.

H. Annuity Contracts Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 161 annuity contracts declined. A random sample of 25 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. No violations were noted.

I. Individual Life Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 160 individual life policies declined. A random sample of 25 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. No violations were noted.

J. Annuity Contracts Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 655 annuities terminated. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. The files terminated due to death were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

K. Life Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 277 life insurance policies terminated. A random sample of 25 files was requested, received and reviewed. The policies files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

L. Variable Annuity Contracts Issued as Replacements

The Company identified a universe of 1,632 variable annuity contracts issued as replacement, during the experience period. A random sample of 50 replacement 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

If replacement is involved, the agent or broker shall: (1) 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 form as described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and left with the applicant. The agent's signature wasn't evident on the replacement form in 1 file and the replacement form was dated after the application date in the remaining file noted.

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 statement on replacement was not answered in the noted application.

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement on replacement was not completed on the application in the file noted.

31 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 (1) 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. Confirmation that written communication was sent within 5 workings days from the date the application was received by the home or regional office could not be established in the 31 files noted

2 Violations - 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 required notice of replacement was not evident in the 2 files noted.

34 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 the 34 files noted.

3 Violations— Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The 3 files noted contained alterations without the applicant's consent.

M. Individual Term Life Policies Issued as Replacements

The Company identified a universe of 117 life policies issued as replacements during the experience period. A random sample of 25 individual term life replacement files was requested, received and reviewed. The replacement policy 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

If replacement is involved, the agent or broker shall: (1) 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 form as described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and left with the applicant. The agent's signature wasn't evident on the replacement form in the 2 files 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 2 files noted.

5 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The application did not contain an agent's statement regarding replacement in the 5 files noted.

3 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 documented or was sent after the required 5 working days of the date of application receipt in the 3 files 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 required agent's certification of disclosure was dated after the application date in the file noted.

N. Universal Life Policies Issued as Replacements

The Company identified a universe of 217 universal life policies issued as replacements during the experience period. A random sample of 25 life replacement 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:

5 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 5 files noted.

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 statement was not answered on the application in the file noted.

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement on replacement was different from the insured statement on replacement in the file noted.

3 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 3 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. Confirmation that the replacement letter to the replaced company was sent within 5 working days from the date the application was received could not be established in the 3 files noted.

3 Violations - 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 required agent's certification of disclosure was dated after the date of application in the 3 files noted.

5 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. The required certified Cost Surrender Comparison Index Disclosure was not evident in the 5 files noted.

3 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 agent's certification and applicant's acknowledgement of the illustration was signed and dated after the application date in the 3 files noted.

12 Violations– Insurance Company Law, Section 408-A(e)(1)(ii)

(40 P.S. §625-8)

If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled "Revised Illustration." The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The 12 files noted contained revised illustrations but the illustrations were not labeled as "Revised".

7 Violations - 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 required agent's certification of disclosure was not evident in the 7 files noted.

O. Variable Life Policies Issued as Replacements

The Company identified a universe of 202 variable life policies issued during the experience period. A random sample of 25 variable life 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:

1 Violation - Insurance Department Act, Section 903 (40 P.S. §323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. Pertinent information was missing in the file noted.

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

If replacement is involved, the agent or broker shall: (1) 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 form as described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or

broker and left with the applicant. The agent's signature wasn't evident on the replacement form in the 1 file noted and the replacement form was dated after the application date in the other file noted.

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 statement was not answered in the application in the file noted.

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not completed in the 2 files noted.

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 (1) 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. Confirmation that the replacement letter to the replaced company was sent within 5 working

days of the date the application was received, could not be established in the 1 file noted and the replacement letter to the replaced company was not documented in the other file noted.

2 Violations – Title 31, Pennsylvania Code, Section 82.14(a)(b)

An insurer seeking approval to enter into the variable life insurance business in this Commonwealth shall establish, maintain and file at the discretion of the Commissioner, a written statement specifying the standards of suitability to be used by the insurer. The standards of suitability shall specify that no recommendation shall be made to an applicant to purchase a variable life insurance policy and that no variable life insurance policy shall be issued in the absence of reasonable grounds to believe that the purchase of the policy is suitable for the applicant on the basis of information furnished after reasonable inquiry of the applicant concerning the applicant's insurance and investment objectives, financial situation and needs and other information known to the insurer or to the agent making the recommendation. Suitability was not determined in the files noted. Suitability questions acknowledging variable or fixed death benefit and increasing or decreasing cash value were not completed.

1 Violation – Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The application was altered without the applicant's consent in the file noted.

P. 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 110 individual life policies not-taken. A random sample of 25 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.

Q. Individual Term Life Conversions

The Company identified a universe of 12 individual term life conversion policies issued during the experience period. All 12 term life conversion files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance and underwriting 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: (1) 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 form as described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and left with the applicant. The replacement form was not evident in the 2 files noted.

2 Violations – Insurance Company Law, Section 408-A(e)(1)(ii)

(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 issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The illustration provided at policy delivery was not labeled “Revised” in the 2 files noted.

IX. INTERNAL AUDIT & 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.

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:

1. Annuities On-Line Claims Manual
2. Individual Life On-Line Claims Manual
3. Waiver of Premium Claims
4. Accident & Health Disability 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. Annuity Claims
- B. Life Waiver of Premium Claims
- C. Life Claims
- D. Disability Claims

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

A. Annuity Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 117 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:

4 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. Acknowledgement of a claim within 10 working days could not be established in the 4 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 a timely status letter for the 3 claims noted.

B. Life Waiver of Premium Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 4 life waiver of premium claims. All 4 life waiver of premium claims were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. Pertinent information was missing in the claim noted.

4 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 a timely status letter for the 4 claims noted.

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 for the 2 claims noted.

C. Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 54 life claims received. All 54 claim files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were 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 a timely status letter for the 3 claims noted.

1 Violation - 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 for the claim noted.

D. Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 4 disability claims. All 4 claim files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

4 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 a timely status letter in the 4 claims noted.

1 Violation - Title 31, Pennsylvania Code, Section 146.7

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

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 Section 671-A of the Insurance Department Act of 1921 (40 P.S. §310.71).
3. 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).
4. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).
5. 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).
6. The Company must review internal control procedures to ensure compliance with application requirements of Section 412 of the Insurance Company Law of 1921 (40 P.S. §§510 and 512).
7. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. §477b).
8. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

9. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
10. The Company must review internal control procedures to ensure compliance with variable life insurance suitability requirements of Title 31, Pennsylvania Code, Chapter 82.
11. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

XII. COMPANY RESPONSE

VIA E-MAIL
VIA FACSIMILE
VIA OVERNIGHT MAIL



March 30, 2007

Debra A. Hampson
*Assistant Vice President and
Senior Counsel
The Hartford
Law Department
Direct Dial: (860) 843-4057
Fax: (860) 843-8665*

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

Re: Report of Examination of Hartford Life and Annuity Insurance Company ("HLAN")
Company Response

Dear Mr. Stemcosky:

Enclosed please find HLAN's response to the recommendations in the above noted report.

Sincerely,

Debra Hampson

Enclosure

Hartford Life
200 Hopmeadow Street
Simsbury, CT 06089
Mailing Address: P.O. Box 2999
Hartford, CT 06104-2999

COMPANY RESPONSE

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.

COMPANY RESPONSE: The Company maintains that its claims practices are in compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. However, the Company acknowledges that the Department's interpretation of the regulation differs from the Company's, particularly with respect to the definition of "Notification of Claim" found in Title 31, Pennsylvania Code, Chapter 146.2. The Company agrees to review and amend its claims procedures to be consistent with the Department's interpretation of the regulation.

2. The Company must review and revise Licensing procedures to ensure compliance with Section 671-A of the Insurance Department Act of 1921 (40 P.S. §310.71).

COMPANY RESPONSE: The Company is planning both system enhancements and additional personnel training to enhance the controls already in place to address compliance with Section 671-A of the Insurance Department Act of 1921 (40 P.S. §310.71).

3. 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).

COMPANY RESPONSE: The Company is revising its contract delivery process in order to address compliance with Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).

4. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).

COMPANY RESPONSE: The Company agrees to review its internal control procedures and address compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).

5. 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).

COMPANY RESPONSE: The Company has reviewed its internal control procedures regarding compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. 625-8) and have added additional controls.

6. The Company must review internal control procedures to ensure compliance with application requirements of Section 412 of the Insurance Company Law of 1921 (40 P.S. §§510 and 512).

COMPANY RESPONSE: The Company noted only 1 violation of Section 412 of the Insurance Department Act of 1921 (40 P.S. §510 and 512) stated in the Final Exam Report.

Based on this the Company believes its procedures are adequate, but will remind employees of the importance of complying with this section of the Act.

7. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. §477b).

COMPANY RESPONSE: The Company finds that clerical error caused discrepancies between the form numbers appearing on application forms in use and those form numbers filed with the Department of Insurance. The Company has tightened its controls around the form numbers of filed forms to ensure that only forms and form numbers filed and approved with the Department of Insurance are made available for use.

8. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

COMPANY RESPONSE: The Company is reviewing its internal control procedures to determine the effectiveness of the controls in place to comply with the replacement requirements of Title 31, Pennsylvania Code, Section 81. Revisions may occur and may include both system enhancements and additional training of affected staff.

9. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such a manner and for such a period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3)

COMPANY RESPONSE: The Company noted only 2 violations of Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3) stated in the Final Exam Report. Based on this the Company believes its procedures are adequate, but will remind employees of the importance of complying with this section of the Act.

10. The Company must review internal control procedures to ensure compliance with variable life insurance suitability requirements of Title 31, Pennsylvania Code, Chapter 82.

COMPANY RESPONSE: The Company agrees to review its internal control procedures and address compliance with variable life insurance suitability requirements of Title 31, Pennsylvania Code, Chapter 82.

11. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

COMPANY RESPONSE: The Company agrees to review its internal control procedures to address compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.