

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

PROTECTIVE LIFE INSURANCE COMPANY
Brentwood, Tennessee

**AS OF
July 6, 2006**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: August 24, 2006

PROTECTIVE LIFE INSURANCE COMPANY

TABLE OF CONTENTS

Order	
I. Introduction	3
II. Scope of Examination	6
III. Company History and Licensing	7
IV. Advertising	8
V. Forms	9
VI. Producer Licensing	10
VII. Consumer Complaints	12
VIII. Underwriting	13
A. Underwriting Guidelines	14
B. Asset Protection Division-Los Angeles Office-Group Coverage	14
C. Life Of The South-Third Party Administrator-Group Coverage	15
D. Raleigh Office-Group Coverage	16
E. Universal Life Policies Issued	17
F. Term Life Policies Issued	19
G. Whole Life Policies Issued	21
H. Variable Universal Life Policies Issued	22
I. Life Policies Declined	23
J. Variable Universal Life Policies Declined	23
K. Life Policies Terminated	24
L. Variable Universal Life Policies Terminated	24
M. Life Policies Issued as Replacements	24
N. Variable Universal Life Policies Issued as Replacements	27
O. Life Policies Not-Taken	29
P. Variable Universal Life Policies Not-Taken	30
Q. Life Conversions	30
R. Variable Universal Life Conversions	31
S. Immediate Annuities Issued	31

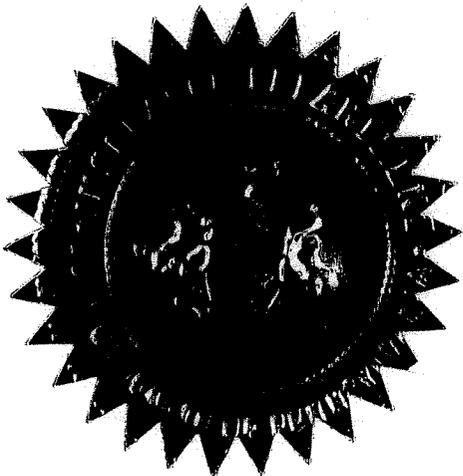
T.	Variable Annuities Issued	32
U.	Indexed Annuities Issued	33
V.	Fixed Annuities Issued	33
W.	Variable Annuities Issued	34
X.	Fixed Annuities Terminated	34
Y.	Variable Annuities Issued as Replacements	35
Z.	Immediate Annuities Issued as Replacements	36
AA.	Fixed Annuities Issued as Replacements	37
IX.	Group Credit Annual Audits	39
X.	Internal Audit & Compliance Procedures	42
XI.	Claims	43
A.	Accident and Health Claims	44
B.	Life Claims	45
C.	Asset Protection Division-Los Angeles-Accident and Health Claims	45
D.	Asset Protection Division-Los Angeles-Life Claims	46
E.	Life Of The South-Third Party Administrator-Accident and Health Claims	47
F.	Raleigh Office-Life Claims	47
G.	Raleigh Office-Credit-Accident and Health Claims	48
XII.	Recommendations	49
XIII.	Company Response	51

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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

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

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



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
PROTECTIVE LIFE INSURANCE	:	Section 903(a) of the Insurance
COMPANY	:	Department Act, Act of May 17, 1921,
P.O. Box 2606	:	P.L. 789, No. 285 (40 P.S. § 323.3)
Birmingham, AL 35202	:	
	:	Section 671-A of Act 147 of 2002
	:	(40 P.S. § 310.71)
	:	
	:	Sections 404-A, 411B and 412 of the
	:	Insurance Company Law, Act of May
	:	17, 1921, P.L. 682, No. 284 (40 P.S.
	:	§§ 625-4, 511 and 512)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	73.133(e), (g) and (f), 81.4(b)(1),
	:	81.6(a)(1), 81.6(a)(2)(ii), 81.6(c),
	:	83.3, 83.4a, 83.4b, 146.5, 146.6,
	:	146.7
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC06-08-024

CONSENT ORDER

AND NOW, this *24th* day of *AUGUST*, 2006, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Protective Life Insurance Company, and maintains its mailing address at Post Office Box 2606, Birmingham, Alabama 35202.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2004 to June 30, 2005.
- (c) On July 6, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on August 5, 2006.
- (e) After consideration of the August 5, 2006 response, the Insurance Department has modified the Examination Report as attached.
- (f) The Examination Report notes violations of the following:
 - (i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination 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 may require, in order that its representatives may ascertain whether the company has complied with the laws of the 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 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;

- (iv) Section 411-B of the Insurance Company Law, No. 284 (40 P.S. §511b), which states life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than 180 days after the death of the insured, and the death benefits are not paid within 30 days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid;

- (v) Section 412 of the Insurance Company Law, No. 284 (40 P.S. §512), which states 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 the child, and persons, copartnerships, 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;
- (vi) Title 31, Pennsylvania Code, Section 73.133(e), which requires an insurer to be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first policy year and at least annually thereafter, to assure compliance with this chapter and other applicable insurance laws and regulations. The examination shall verify the accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually;
- (vii) Title 31, Pennsylvania Code, Section 73.133(f), which requires each insurer to make available for Department inspection upon request its creditor examination procedures;

- (viii) Title 31, Pennsylvania Code, Section 73.133(g), which requires the insurer to establish and maintain a written record of each creditor examination. This record shall be maintained for at least 3 years from the date of examination or until the conclusion of the next succeeding regular examination by the Department of its domicile, whichever is later;
- (ix) 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;
- (x) 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;
- (xi) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the

case of life insurance, the disclosure statement 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;

- (xii) Title 31, Pennsylvania Code, Section 81.6(c), which requires the replacing insurer to maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities;
- (xiii) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;
- (xiv) Title 31, Pennsylvania Code, Section 83.4a, which states the agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant;

- (xv) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;
- (xvi) Title 31, Pennsylvania Code, Section 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;
- (xvii) 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;
- (xviii) 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; and

- (xix) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent’s violations of Section 671.1-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
- (i) suspension, revocation or refusal to issue the certificate of qualification or license;

- (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.

- (c) Respondent's violations of Sections 404-A, 411-B and 412 of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 511 and 512) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

- (d) Respondent's violations of Title 31, Pennsylvania Code, Sections 73.133 subject the Respondent to an Order of the Commissioner, the violation of which would result in a penalty of up to \$250 and up to \$1000 for willful violation, as well as revocation or suspension of license in addition to any other penalty provided by law (40 P.S. §1007.12; 40 P.S. §1007.14).

- (e) Respondent's violations of Title 31, Pennsylvania Code, Sections 81.4 and 81.6 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, Sections 83.3 and 83.4 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 146.5, 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 Deputy Insurance Commissioner orders and Respondent consents to the following:

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

- (c) Respondent shall comply with all recommendations contained in the attached Report.

- (d) Respondent shall pay Sixty Thousand Dollars (\$60,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

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

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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 Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

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

BY: PROTECTIVE LIFE INSURANCE
COMPANY, Respondent



~~President / Vice President~~ Richard J. Bielen
Senior Vice President, Treasurer



~~Secretary / Treasurer~~ Deborah J. Long
Senior Vice President, General Counsel



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

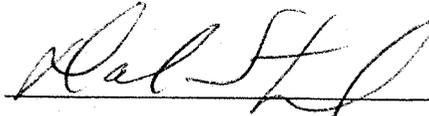
The Market Conduct Examination was conducted on Protective Life Insurance Company; hereafter referred to as "Company," at the Company's office located in Birmingham, Alabama, July 25, 2005, through September 27, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

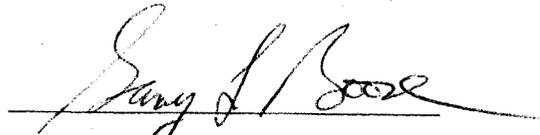
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials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

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

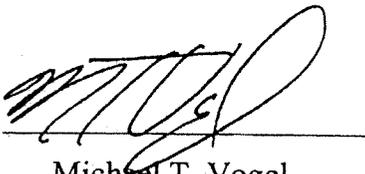
The undersigned participated in the Examination and in the preparation of this Report.



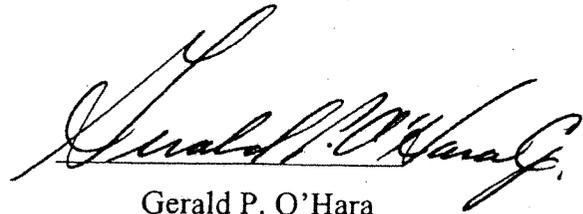
Daniel Stemcosky, AIF, FLMI
Market Conduct Division Chief



Gary L. Boose, LUTC
Market Conduct Lead Examiner



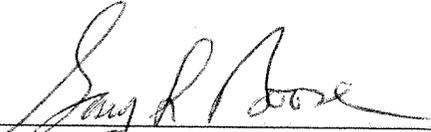
Michael T. Vogel
Market Conduct Examiner



Gerald P. O'Hara
Market Conduct Examiner

Verification

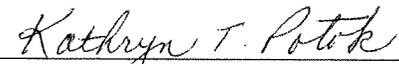
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Gary L. Boose, Examiner in Charge

Sworn to and Subscribed Before me

This 5th Day of July, 2006



Notary Public

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Kathryn T. Potok, Notary Public
Upper Dublin Twp., Montgomery County
My Commission Expires Nov. 13, 2007
Member, Pennsylvania Association Of Notaries

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 July 1, 2004, through June 30, 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, Rating 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

Protective Life Insurance Company commenced business on September 1, 1907, and was incorporated in the State of Alabama on July 24, 1907. The Company redomesticated to the State of Tennessee on December 29, 1992. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on April 9, 1981. The Company is authorized to do business in 49 states plus the District of Columbia, American Samoa, Guam, Puerto Rico and the U.S. Virgin Islands.

The Company offers a variety of life, annuity, credit life, and credit accident and health lines of insurance coverage.

As of the 2004 annual statement for Pennsylvania, the Company reported direct premium for ordinary and group life insurance and annuity considerations in the amount of \$20,326,269, for credit life (group & individual) in the amount of \$3,282,152, and for credit accident and health (group & individual) in the amount of \$3,967,827.

IV. ADVERTISING

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

The Company provided a list of 1,476 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Direct Mailers/Applications, Telemarketing Scripts, Brochures, News Paper/Magazine Advertisements, Flyers, Envelopes, Trade Publication Advertisements, as well as the Company’s Web Page. The advertising materials and the Company’s web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. No violations were noted

V. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice, Title 31, Pennsylvania Code, Chapter 73, and Insurance Department Act, Section 903 (40 P.S. §323.3). The applicable sections are as follows: 73.114 insurability requirements, 73.115 benefits exclusions, 73.116 age requirements, 73.130 election of coverage and disclosure requirements, 73.133 group examination and audits and 73.136(a) approval of forms and rates. The following violation was noted:

1 Violation – Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” Application Form #U643N5/01 was missing a fraud statement as reviewed in the Life Conversions section of the exam.

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 producers from doing business on behalf of or as a representative 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-A (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all producer terminations to the Department.

The Company provided a list of 4,970 producers. A random sample of 165 producers was selected, received and reviewed. The entire list was compared to departmental records of producers 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:

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

(a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurer appoints the insurance producer. An insurance producer is not required to be appointed when not acting as a representative of an insurer.

(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 following 2 individuals were listed as producers on 4 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.

AGENT LAST NAME	NUMBER OF APPLICATIONS
Weigand	1
Peters	3

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2001, 2002, 2003, and 2004. The Company identified a total of 11 consumer complaints received during the experience period of which 8 were forwarded from the Department. All 11 consumer complaint files were requested and received for review. The company also provided complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log.

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

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 27 general segments.

- A. Underwriting Guidelines
- B. Asset Protection Division-Los Angeles Office-Group Coverage
- C. Life of the South-Third Party Administrator-Group Coverage
- D. Raleigh Office-Group Coverage
- E. Universal Life Policies Issued
- F. Term Life Policies Issued
- G. Whole Life Policies Issued
- H. Variable Universal Life Policies Issued
- I. Life Policies Declined
- J. Variable Universal Life Policies Declined
- K. Life Policies Terminated
- L. Variable Universal Life Policies Terminated
- M. Life Policies Issued as Replacements
- N. Variable Universal Life Policies Issued as Replacements
- O. Life Policies Not-Taken
- P. Variable Universal Life Policies Not-Taken
- Q. Life Conversions
- R. Variable Universal Life Conversions
- S. Immediate Annuities Issued
- T. Variable Annuities Issued
- U. Indexed Annuities Issued
- V. Fixed Annuities Issued
- W. Variable Annuities Issued
- X. Fixed Annuities Terminated
- Y. Variable Annuities Issued as Replacements
- Z. Immediate Annuities Issued as Replacements
- AA. Fixed Annuities Issued as Replacements

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

A. Underwriting Guidelines

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

The following guidelines were received and reviewed:

1. Underwriting Department Overview
2. Declined Applications
3. Quality Control
4. Underwriting Guidelines Insurance Application Review
5. Letters used in the claims processes (DVD)
6. Life Claims Procedural Guidelines
7. Health Claims Procedural Guidelines
8. Narrative statement explaining internal control methods
9. Information Security Program

B. Asset Protection Division-Los Angeles Office-Group Coverage

The Company was requested to provide a list of all group policies and certificates issued, declined and terminated during the experience period. The table below lists the Asset Protection Division group coverage sections and the universes identified by

the Company. The table also reflects the random samples selected for each section reviewed.

Coverage Description	Universe	Sample
Group Policies Issued	385	50
Group Policies Terminated	81	25
Group Disability Certificates Issued	3,419	125
Group Life Gross Certificates Issued	3,351	125
Group Life Net Certificates Issued	147	75
Group Certificates Declined	92	25
Group Disability Certificates Terminated	100	50
Group Life Certificates Terminated	111	50
Total		525

The group policy files were reviewed to ensure compliance with underwriting and issuance laws and regulations. The credit certificate issued files were reviewed to ensure compliance with contract provisions, issuance, and rating law and regulations. The credit terminated files were reviewed to ensure compliance with contract provisions, termination laws and regulations, as well as the proper return of any unearned premium. The credit declined files were reviewed to ensure that declinations were not the result of any discriminatory underwriting practice. In review of the 525 files, no violations were noted.

C. Life of the South-Third Party Administrator-Group Coverage

The Company was requested to provide a list of all group policies and certificates issued, declined and terminated during the experience period. The table below lists the Life of the South coverage sections and the universes identified by the Company. The table also reflects the random samples selected for each section reviewed.

Coverage Description	Universe	Sample
Group Policies Issued	5	5
Group Disability Certificates Issued	3	3
Group Life Certificates Issued	111	50
Group Policies Terminated	20	10
Group Certificates Declined	2	2
Group Disability Certificates Terminated	1	1
Group Life Certificates Terminated	9	9
Total		80

The group policy files were reviewed to ensure compliance with underwriting and issuance laws and regulations. The credit certificate issued files were reviewed to ensure compliance with contract provisions, issuance, and rating law and regulations. The credit terminated files were reviewed to ensure compliance with contract provisions, termination laws and regulations, as well as the proper return of any unearned premium. The credit declined files were reviewed to ensure that declinations were not the result of any discriminatory underwriting practice. In review of the 80 files, no violations were noted.

D. Raleigh Office-Group Coverage

The Company was requested to provide a list of all group policies and certificates issued, declined and terminated during the experience period. The table below lists the following Raleigh Office group credit coverage sections and the universes identified by the Company. The table also reflects the random samples selected for each section reviewed.

Coverage Description	Universe	Sample
Single Premium Credit Life Certificates Issued	3789	75
Single Premium Credit Health Certificates Issued	2,527	75
Single Premium Credit Life Certificates Terminated	101	25
Single Premium Credit Health Certificates Terminated	66	25
Monthly Outstanding Balance Credit Life Certificates Issued	833	50
Monthly Outstanding Balance Credit Health Certificates Issued	214	40
Total		290

The credit certificate issued files were reviewed to ensure compliance with contract provisions, issuance, and rating law and regulations. The credit terminated files were reviewed to ensure compliance with contract provisions, termination laws and regulations, as well as the proper return of any unearned premium. The credit declined files were reviewed to ensure that declinations were not the result of any discriminatory underwriting practice. In review of the 290 files, no violations were noted.

E. Universal Life Policies Issued

The Company was requested to provide a list of individual universal life policies issued during the experience period. The Company identified a universe of 412 universal life policies issued during the experience period. A random sample of 50 files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting and replacement statutes and regulations. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 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 agents question on replacement was not completed on the application.

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

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

2 Violations – Title 31, Pennsylvania Code, Section 83.4a

(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. The disclosure forms in the 2 files noted were dated after the application date.

4 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 4 files noted.

F. Term Life Policies Issued

The Company identified a universe of 924 term life policies issued during the experience period. Of the 924 term life policies issued, 50 were requested, received and reviewed. The term life policies 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. The application was not provided in the file noted.

6 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 replacement question was not answered in the 6 files noted.

4 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. (Appendix A of the Regulation). The 4 files noted did not contain a disclosure statement.

20 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 disclosure statement was dated after the application date in 16 noted files and not dated in the 4 other noted files.

6 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 6 files noted.

G. Whole Life Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 4 whole life policies issued. All 4 whole life policies were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violation was noted:

1 Violation – Title 31, Pennsylvania Code, Section 83.4a

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. The disclosure statement in the file noted was dated after the date of application.

H. Variable Universal Life Policies Issued

The Company identified a universe of 11 variable universal life policies issued during the experience period. All 11 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:

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

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

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.

I. Life Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 159 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. Variable Universal Life Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 1 variable universal life policy declined. The file was requested, received and reviewed. The file was 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.

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 717 life insurance policies terminated. A random sample of 25 files was requested, received and reviewed. The policy 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 Universal 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 1 variable universal life insurance policy terminated. The file was requested, received and reviewed. The policy was reviewed to ensure compliance with contract provisions, termination laws and regulations, as well as proper return of any unearned premium. No violations were noted.

M. Life Policies Issued as Replacements

The Company identified a universe of 339 life policies issued as replacements during the experience period. A random sample of 50 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:

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, copartnerships, 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. The file noted did not contain the applicant's signature on the application.

6 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 6 files noted.

3 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 a part of the application in 2 of the 3 files noted. The agent's question was not answered in the remaining file.

5 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 in the 5 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 file noted did not contain a copy of the required notice of replacement.

3 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The 3 files noted did not contain evidence that a written disclosure was provided.

8 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

disclosure statement was dated after the application date in 4 noted files and not dated in the 4 other noted files.

2 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 2 files noted.

N. Variable Universal Life Policies Issued as Replacements

The Company identified a universe of 3 variable universal life policies issued as replacements during the experience period. All 3 life policies 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:

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

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

O. Life Policies Not-Taken

The Company was requested to provide a list of all policies not-taken during the experience period. The Company identified 4 life policies not-taken. All 4 files were requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free-look provisions of the contract. The following violation was 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.

P. Variable Universal Life Policies Not-Taken

The Company was requested to provide a list of all policies not-taken during the experience period. The Company identified 2 variable universal life policies not-taken. Both files were requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

Q. Life Conversions

The Company was requested to provide a list of all life conversions converted during the experience period. The Company identified a universe of 52 life conversion policies issued. A random sample of 25 files was requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted:

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

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

insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the 2 files noted.

R. Variable Universal Life Conversions

The Company was requested to provide a list of all life conversions converted during the experience period. The Company identified 1 variable universal life policy issued. The file was requested, received and reviewed. The file was reviewed to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

S. Immediate Annuities Issued

The Company was requested to provide a list of all annuities issued during the experience period. The Company identified a universe of 2 immediate annuities issued as internal/external replacements. The 2 files were requested, received and reviewed. The annuity files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

T. Variable Annuities Issued

The Company was requested to provide a list of all annuities issued during the experience period. The Company identified a universe of 9 variable annuities issued. All 9 files were requested, received and reviewed. The annuity files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

5 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 5 files noted.

U. Indexed Annuities Issued

The Company identified a universe of 3 indexed annuity contracts issued during the experience period. All 3 files were requested, received and reviewed. The annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. No violations were noted.

V. Fixed Annuities Issued

The Company was requested to provide a list of all annuities issued during the experience period. The Company identified a universe of 23 fixed annuities issued. All 23 annuity contracts were requested, received and reviewed. Annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were 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 policy delivery could not be established in the 23 files noted.

W. Variable Annuities Terminated

The Company was requested to provide a list of all annuities terminated during the experience period. The Company identified a universe of 61 variable annuities terminated. A random sample of 25 files was selected, received and reviewed. The files were reviewed to ensure that compliance with contract provisions, terminations laws and regulations, and the proper return of any unearned premium. No violations were noted.

X. Fixed Annuities Terminated

The Company was requested to provide a list of all annuities terminated during the experience period. The Company identified a universe of 5 fixed annuities terminated. All 5 files were requested, received and reviewed. The files were reviewed to ensure compliance with contract provision, termination laws and regulations, as well as the proper return of any unearned premium. No violations were noted.

Y. Variable Annuities Issued as Replacements

The Company was requested to provide a list of all annuities issued during the experience period. The Company identified a universe of 17 annuities issued as replacements. All 17 replacement files were requested, received and reviewed. The annuity 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.

4 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 in the 4 files noted.

4 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 4 files noted.

Z. Immediate Annuities Issued as Replacements

The Company was requested to provide a list of all annuities issued during the experience period. The Company identified 2 immediate annuities issued as replacements. Both files were requested, received and reviewed. The annuity files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

AA. Fixed Annuities Issued as Replacements

The Company was requested to provide a list of all annuities issued as replacements during the experience period. The Company identified a universe of 40 fixed annuities issued as replacements. A random sample of 25 replacement files was requested, received and reviewed. The annuity files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

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

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the following files, the replacement form was dated after the application date. The replacement form was dated after the application date 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 agents question on replacement was not completed on the application 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 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was not documented in the 3 files noted.

IX. GROUP CREDIT ANNUAL AUDITS

The Company was requested to provide a list of all active group policyholders issued and/or in force during the experience period. The Company initially identified a universe of 856 group credit policyholders. Subsequent to the onsite exam, the Company identified another 88 group credit policyholders in their Raleigh office. Random samples of 100 groups from the initial universe and 25 groups from the Raleigh universe were selected and the Company was requested to provide copies of the group's required annual examinations. Of the 125 group audits requested, none were received. The Company did provide the following target audits:

1. Protective LA – Credit
Insurance Administration
APD Audit ID 04-10
2. Life of the South
Third Party Administrator
APD Audit ID 04-07
3. Protective LA – Credit
Insurance Administration
APD Audit ID 05-09
4. Life of the South
Third Party Administrator
APD Audit ID 05-02
5. Protective LA
Claims Review: January '04 thru May '04
6-28-2004
Premium Rates and Refunds checked
6. Life of the South
Refund Sample Administrative Piece
January '04 thru April '04
7-3-2004
Premium Review Issues
Claim Review Issues

During the examination and in subsequent discussions with the Company, it was determined that the initial universe of 856 group credit policyholders was misstated. Of the 856 group policyholders, the number of distinct and unique group credit policyholders was 385. Including the 88 group credit policyholders from the Raleigh office, the total number of active group credit policyholders is 473. The audits were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e), (f), and (g) of Section 73.133 provides for the insurers responsibility in conducting an annual examination of creditors to ensure compliance and the requirements to establish and maintain written records of its creditor examination. The following violations were noted.

473 Violations – Title 31, Pennsylvania Code, Section 73.133(e)(g), Claims and examination procedures.

(e) Creditor examination. An insurer shall be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first policy year and at least annually thereafter to assure compliance with this chapter and other applicable insurance laws and regulations of the Commonwealth. The examination shall verify the accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and any other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually.

(g) Record of examination. The insurer shall establish and maintain a written record of each creditor examination. This record shall be maintained for at least 3 years from the date of examination or until the conclusion of the next succeeding regular examination

by the Department of its domicile, whichever is later. The Company did not provide any group creditor annual audit examinations.

1 Violation – Title 31, Pennsylvania Code, Section 73.133(f), Claims and examination procedures.

(f) Inspection of examination procedures. Each insurer shall make available for Department inspection upon request its creditor examination procedures. The Company did not provide the examiners with creditor examination procedures that were filed with the Department, germane to the annual audit procedures of the group accounts as required.

X. 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.

The Insurance Marketplace Standards Association (IMSA), Qualified Independent Assessor's Supplemental Report was reviewed with no unsatisfactory gaps identified. No violations were noted.

XI. CLAIMS

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 claim manuals and procedures (guidelines) 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 Company provided information on disk with regard to the following:

1. Handling Workflow
2. System Processing
3. Group Credit Disability Claims
4. Group Credit Life Claims
5. Group Life Claims
6. Claims Procedural Bulletins

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 7 areas:

- A. Accident and Health Claims
- B. Life Claims
- C. Asset Protection Division-Los Angeles-Accident and Health Claims
- D. Asset Protection Division-Los Angeles-Life Claims
- E. Life Of The South-Third Party Administrator-Accident and Health Claims
- F. Raleigh Office-Life Claims
- G. Raleigh Office-Credit-Accident and Health Claims

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

A. Accident and Health Claims

The Company was requested to provide a list of all accident and health claims received during the experience period. The Company identified a universe of 278 accident and health claims. A random sample of 55 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code and 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. The Company failed to acknowledge the 4 claims noted within 10 working days.

B. Individual Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 81 individual life claims received. A random sample of 50 files, was 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:

8 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 8 claims noted.

C. Asset Protection Division-Los Angeles-Accident and Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 597 accident and health claims. A random sample of 50 accident and health claims was 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). No violations were noted.

D. Asset Protection Division-Los Angeles-Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 94 life claims. A random sample of 50 life claim files was 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:

7 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 7 claims noted.

9 Violations - Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b)

(a) Life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than one hundred eighty days after the death of the insured, and the death benefits are not paid within thirty days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid.

(b) Notwithstanding section 6 of the act of May 11, 1949 (P.L. 1210, No. 367), referred to as the Group Life Insurance Policy Law, this section shall apply to all life insurance policies except variable insurance policies.

(c) The term "left on deposit" shall mean a specific settlement option provided within the life insurance policy under which the death benefit proceeds are retained by the insurer for the beneficiary and are credited with a specific rate of interest. The Company failed to provide interest in the 9 claims noted. Subsequent to the exam, the Company indicated interest was paid to the 9 claimants in the total amount of \$4,771.61.

E. Life of the South-Third Party Administrator-Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 2 accident and health claims. The 2 files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

F. Raleigh Office-Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 282 life claims. A random sample of 25 life claims was 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). No violations were noted.

G. Raleigh Office-Credit Accident and Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 2,481 credit accident and health claims. A random sample of 50 claims was 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:

1 Violation - 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 claim noted.

4 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 4 claims noted.

XII. 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 implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. 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.
3. 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).
4. 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).
5. The Company must review and revise procedures to ensure compliance with annual audit procedure requirements of Title 31, Pennsylvania Code, Section 73.133.
6. The Company must implement procedures to ensure compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133.
7. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
8. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83

9. 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).
10. 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. §512).
11. The Company must review and revise internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company Law of 1921 (40 P.S. §511b).

XIII. COMPANY RESPONSE

Post Office Box 2606
Birmingham, Alabama 35202
205-268-1000



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Senior Associate Counsel

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Toll-Free Number: 1-800-627-0220
E-mail: lynn.williams@protective.com

August 5, 2006

VIA FAX and UPS OVERNIGHT DELIVERY

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

Re: Examination Warrant Number: 05-M24-012
Protective Life Insurance Company (NAIC No. 68136)

Dear Mr. Stemcosky:

I am in receipt of your letter dated July 6, 2006 concerning the Report of Examination of Protective Life Insurance Company covering the period July 1, 2004, through June 30, 2005.

Attached is a copy of Protective's responses and the corrective actions that have been or will be taken in response to the recommendations listed in Section XII of the Report. The responses and corrective actions are numbered to correspond to the recommendations listed on pages 51 and 52 of the Report. Also attached are several changes that we request be made to the Report.

On behalf of Protective, I would like to express our appreciation for how professionally and efficiently this exam was conducted while the examiners were on-site. We found the examiners to be very knowledgeable, considerate and easy to work with.

I would like to thank you in advance for your consideration of our responses and requested changes. If you have any questions concerning any of these, or if you need additional information, please let me or Laura Bagby know.

Yours truly,

A handwritten signature in black ink, appearing to read "Lynn Williams", written over a horizontal line.

(Mrs.) Lynn W. Williams, CLU

Doc. # 68848
Attachments:

**Protective Life Insurance Company Responses and Corrective Actions
To Pennsylvania Market Conduct Examination RECOMMENDATIONS**

- 1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).**

The Life and Annuity Division of the Company agrees that form number U-643N 5/01, a life conversion application, did not have the required fraud statement. This form was replaced with the life conversion application form number F-ILD-234-PA (2/03), which contains the required fraud statement. Please see Attachment A. At the time that the new form was approved, the appropriate areas were notified to destroy existing stock of the replaced form; however, it appears that an individual agent had and used a copy of the replaced form. Audits are being performed on a random basis to ensure that only currently approved forms are used.

- 2. 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.**

Several Divisions of the Company were cited for being out of compliance with Title 31, Pennsylvania Code, Chapter 146.

With respect to the Accident & Health Claims area of the Life and Annuity Division, the claims personnel have undergone extensive training regarding unfair claims practices. They have been reminded that, if payment has not been made, an acknowledgement that notice of the claim has been received must be made within 10 days of receiving the notification of a claim. Please note that, although acknowledgement was not sent within the required 10 days of receiving notification, all of these claims were paid within 15 days of receipt of the notice.

With respect to the Life Claims area of the Life and Annuity Division, the claims personnel have undergone extensive training regarding unfair claims practices. They have been reminded that a claim investigation must be completed within 30 days after notification of a claim. If the investigation cannot be completed within 30 days, a reasonable written explanation for the delay must be provided, and such an explanation must be provided every 45 days thereafter until the claim is completed. Please note that although we were mistakenly using the date proof of loss was received rather than the notice of claim date, follow-up letters were sent every 30 days.

With respect to the Life Claims area of the Life and Annuity Division, an upgrade to the Individual Life Correspondence system has occurred. This upgrade enables the life claims area to set date parameters for follow-up correspondence to print and be mailed.

Effective January 1, 2006, all letters are being mailed out from the date notice of claim is received rather than the date proof of loss is received.

With respect to the Asset Protection Division, in January, 2006, a new imaging system was introduced which improves the delivery time for incoming mail. This system allows electronic images to be distributed immediately to the examiners. It is believed that this enhancement has improved and will continue to improve the response time. In addition, the requirements of Chapter 146 have been reiterated to all claims personnel.

The administrator of the Raleigh claims has been reminded of the time requirements for processing claims in accordance with Chapter 146.

- 3. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A and Section 671-A of the Insurance Department Act of 1921 (40 P.S. Sections 310.41a, 310.71 and 310.71a).**

The Company has revised our appointment procedures to require proof of confirmation of the appointment from the State before closing the file.

- 4. 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. Section 323.3).**

The current process of the Life and Annuity Division is to scan and maintain all records. The Company will reinforce procedures to ensure compliance with Section 903 of the Insurance Department Act of 1921.

- 5. The Company must review and revise procedures to ensure compliance with record retention requirements of Title 31, Pennsylvania Code, Section 73.133(h).**

Please refer to the response to Recommendation 6 below.

- 6. The Company must implement procedures to ensure compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133.**

The Asset Protection Division has implemented procedures to ensure compliance with the annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133 and will perform annual examinations of every creditor in accordance with the provisions of this Section using the Annual On-Site Credit Insurance Audit form provided to the Company by the Insurance Department of the Commonwealth of

Pennsylvania. Although annual on-site audits were not done, we have noted on the attached audit checklist (Attachment B), the items that were audited on a continuing basis through computerized processes. Submitted business is keyed into a database system that reveals any discrepancies. The discrepancies are resolved or returned to the account by the end of each month. Also, please note that all claims are handled by the Company rather than by the creditors.

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

The Life and Annuity Division has reviewed the present procedures for compliance with the replacement regulations and the requirements concerning the timely sending of replacement letters to the existing insurer and maintaining copies of the letters have been reinforced. Procedures are being implemented so that an application will be returned to the agent for completion if the replacement question has not been answered by the agent. Replacement notices dated the same date as the application will be required for all applications indicating replacement is involved. A bulletin will be sent to all Pennsylvania agents reminding them of the requirements of the replacement regulation.

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

The Life and Annuity Division of the Company has revised the current procedures to ensure that the disclosure form, when required, is completed and dated on the same date of, or before, the application sign date. Applications received without the required disclosure form properly completed will be returned to the agent. A bulletin will be sent to all Pennsylvania agents reminding them of the disclosure requirements.

9. 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. Section 625-4).

The Life and Annuity Division will send a bulletin to all Pennsylvania agents reminding them of the requirement of delivery receipts. In addition, a procedure has been implemented so that commissions are not paid until a completed policy receipt is received by the Company. In an audit performed in May, 2006, 25 Pennsylvania files were audited for policy delivery receipts. All 25 files had the required receipts, and all receipts were complete and in the file.

10. The Company must review internal control procedures to ensure compliance with the application requirements of Section 412 of the Insurance Company law of 1921 (40 P.S. Section 512).

The Life and Annuity Division currently has a process in place that requires the signature of the applicant. This process has been reinforced with the field, and follow-up audits will be done to ensure compliance.

11. The Company must review and revise internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company law of 1921 (40 P.S. Section 511b).

The Asset Protection Division of the Company has revised its Death Claim Worksheets to include a section for identification of state statutory interest payments. The Division is in the process of identifying program changes that would automate these procedures and/or generate reports for review.

APPLICATION FOR CONVERSION OR EXCHANGE

PROTECTIVE LIFE INSURANCE COMPANY
P.O. BOX 2606 • BIRMINGHAM, ALABAMA 35202

Please Print Using Dark Ink.

SECTION I THE PROPOSED INSURED	NAME	DATE OF BIRTH	STATE OF BIRTH	SOCIAL SECURITY NO.
	SEX	MARITAL STATUS	OCCUPATION	HOME TELEPHONE NO.
				BUS. TELEPHONE NO.
	HOME ADDRESS		CITY, STATE, ZIP	

SECTION II THE OWNER	NAME	SOCIAL SECURITY NO.
	HOME ADDRESS	HOME TELEPHONE NO.

SECTION III THE BENEFICIARY	PRIMARY (Relationship and Percentage)	CONTINGENT (Relationship and Percentage)

SECTION IV THE POLICY APPLIED FOR	Fill In Policy Number of Policy To Be Converted or Exchanged	
	EXISTING POLICY NO.	
	NEW PLAN OF INSURANCE	AMOUNT APPLIED FOR
	DEATH BENEFIT OPTION <input type="checkbox"/> LEVEL <input type="checkbox"/> INCREASING	
PREMIUM FREQUENCY: <input type="checkbox"/> Ann. <input type="checkbox"/> Semi-Ann. <input type="checkbox"/> Quart. <input type="checkbox"/> PAC		CASH WITH APPLICATION \$
		PREMIUM AMOUNT \$

DECLARATIONS

A) No Agent can make, alter or discharge any contract, accept risks, or waive the Company's rights or requirements.

B) Changes will be made only with the Owner's written consent.

Any person who knowingly with intent to defraud any insurance company or other person, files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which may be a crime and may subject such person to criminal and civil penalties, according to state law.

Remarks:

PROPOSED INSURED (Sign name in full)

OWNER (If other than insured)

Child Age 18 or Older

Signature of Parent or Guardian

SIGNED AT _____
(City and State)

WITNESS _____

DATE _____

AGENT _____
(Signature / Agent Number)

ANNUAL ON-SITE CREDIT INSURANCE AUDIT

CREDITOR NAME _____

DATE _____

I. DOCUMENTATION:

- | | | |
|--|---|-----------------------------|
| a. Premium amounts correct? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| b. Insurance amounts correct? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| c. Debtor information (name, address, age) correct? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| d. Term of coverage same as term of indebtedness? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| e. If truncated - term of indebtedness for truncated coverage equal to at least 1/3 of term of indebtedness remaining when coverage is elected or renewed? (rounded to next full year) | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |

II. COVERAGE TYPES: *(Set up in system per policy language)*

- | | |
|--|-------|
| a. Net (simple or variable interest) | _____ |
| b. Gross (Pre-computed, Rule of 78 or Add on interest) | _____ |

III. COMPLETENESS:

- | | | |
|---|---|-----------------------------|
| a. All portions of certificate completed? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| b. Any changes or corrections to certificate initialed by debtor? (if applicable) | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |

IV. ISSUANCE OF CERTIFICATES/INDIVIDUAL POLICIES:

- | | | |
|---|---|-----------------------------|
| a. Certificates/individual policies approved by Pennsylvania Insurance Department? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| b. Insured given at time indebtedness incurred copy of group certificate/notice of proposed insurance for group coverage or individual policies/applications for individual coverage? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| c. If certificates/individual policies not issued immediately, certificates/individual policies issued by either creditor or insurer? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| d. If certificates/individual policies issued by creditor, copies maintained by creditor? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| e. Any "insured's copy" of certificates/individual policies found in creditor's files? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| f. Insureds issued corrected certificates/individual policies when discrepancies were found in originals? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |

V. ELECTION BY DEBTORS:

- | | | |
|---|---|-----------------------------|
| a. Certificates/individual policies issued only upon written request by debtor? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| b. If Joint Debtors, did each debtor sign for coverage and have opportunity to apply in the application for any available coverage offered? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| c. Insured provided opportunity to choose second beneficiary? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| d. Insured's estate automatically shown as second beneficiary? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |

VI. WITNESSING OF APPLICATION:

- a. Applications for debtors' coverages were properly witnessed? Yes ___ No ___

VII. REFUNDS:

- a. Refunds being made for life and disability coverages on early loan terminations? Yes No ___
- b. Refunds being made for disability coverage when indebtedness is paid in full by life insurance proceeds? Yes No ___
- c. Refunds being calculated correctly using the proper refund rule (net/actuarial, gross/rule of 78, level/pro rata)? Yes No ___
- d. Refunds being credited to indebtedness payoffs or paid to the debtors? Yes ___ No
- e. Refunds for one month of coverage made on the basis that a full month refund is made for 15 or less days of coverage and no refund is made for coverage of more than 15 days? (Refunds per policy) Yes ___ No ___

VIII. PAYMENT OF CLAIMS:

- a. If processed by creditor, claims paid promptly? Yes N/A No ___
- b. If processed by creditor, claim denials processed and documented properly? Yes N/A No ___
- c. If processed by creditor, claim payments calculated correctly? Yes N/A No ___
- d. If not processed by creditor, claims promptly reported to insurer or claim administrator? Yes No ___
- e. Claim payments used to pay off loan? Yes No ___
- f. Excess proceeds paid to insured debtor if living, second beneficiary if named in certificate/individual policy, or to debtor's estates? Yes No ___

IX. REFUND OF COMPENSATION:

- a. Proper adjustments made for compensation received by creditor in case of early termination or cancellation? (A proper adjustment would be based on the rate applicable at the time a coverage went into effect) Yes No ___

X. EXCEPTIONS:
