REPORT OF
MARKET CONDUCT EXAMINATION
OF

ALLSTATE LIFE INSURANCE COMPANY
Northbrook, Illinois

AS OF
August 9, 2004

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: October 5, 2004

ALLSTATE LIFE INSURANCE COMPANY

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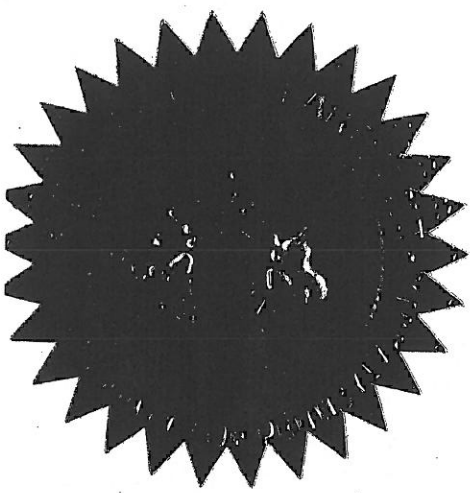
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
ALLSTATE LIFE INSURANCE COMPANY 3100 Sanders Road Northbrook, IL 60062	:	Sections 605, 606, 623 and 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. §§ 235, 236, 253 and 323.3)
	:	
	:	Sections 404-A, 406-A, 408-A(e)(1)(i) and (ii), 408-A(e)(2)(i) and 411-B of the Insurance Company Law, Act of May 17, 1921, P.L. 682, No. 284 (40 P.S. §§ 625-4, 625-6, 625-8, and 511b)
	:	
	:	Section 5(a)(1)(i) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections 51.5, 81.6(c), 83.3, 83.4b, 83.55, 146.3 and 146.6
	:	
	:	Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC04-09-022

CONSENT ORDER

AND NOW, this 5th day of OCTOBER, 2004, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent neither admits nor denies the violations noted in the Examination Report.

FINDINGS OF FACT

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

(a) Respondent is Allstate Life Insurance Company, and maintains its address at 3100 Sanders Road, Northbrook, Illinois 60062.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2002 through December 31, 2002.

(c) On August 9, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on September 2, 2004.

(e) After consideration of the September 2, 2004 response, the Insurance Department has modified the Examination Report as attached.

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

(i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;

(ii) Section 606 of the Insurance Department Act, No. 285 (40 P.S. § 236), which requires all entities to report to the Department all appointments and terminations of appointments in the format and time frame required by the Department's regulations;

(iii) Section 623 of the Insurance Department Act, No. 285 (40 P.S. § 253), which prohibits doing business with unlicensed brokers;

(iv) 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;

(v) 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 to the policyholder 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;

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

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

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

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

(x) 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;

(xi) Section 5(a)(1)(i) of the Unfair Insurance Practices Act (40 P.S. § 1171.5), which prohibits misrepresenting the benefits, advantages, conditions or terms of any insurance policy;

(xii) Title 31, Pennsylvania Code, Section 51.5, which states a company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement, a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth;

(xiii) 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;

(xiv) 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;

(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 83.55, which states the surrender comparison index disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible. A disclosure that is minimally satisfactory to the Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter prior to use is adequate notification to the Department;

(xvii) Title 31, Pennsylvania Code, Section 146.3, which states the claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;

(xviii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the

insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

(xix) Title 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

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

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

(b) Violations of Sections 605, 606 and 623 of the Insurance Department Act (40 P.S.§§ 235, 236 and 253) are punishable as detailed in the Report of

Examination by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

(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) issue an order to cease and desist.

(iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Sections 404-A, 406-A, 408-A and 411-B of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6, 625-8, 625-9, and 511b) are punishable as detailed in the Report of Examination 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 Section 5(a)(1)(i) of the Unfair Insurance Practices Act (40 P.S. § 1171.5) 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.

(e) 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).

(f) Respondent's violations of Title 31, Pennsylvania Code, Section 81.6(c) 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);

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3, 83.4, and 83.5, are punishable, as detailed in the Report of Examination, 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.

(h) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as described above.

ORDER

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

(a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

(b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

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

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

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

7. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and

Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

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

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

12. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: ALLSTATE LIFE INSURANCE COMPANY,
Respondent

President / Vice President

Secretary / Treasurer

RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on Allstate Life Insurance Company, hereinafter referred to as "Company," at their Administrative Office located at 554 Lakeview Parkway, Vernon Hills, Illinois, from May 27, 2003, through July 31, 2003. 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 this Report may result in the imposition of penalties. Generally, practices, procedures, or files that were reviewed by the 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 potential impact upon Company operations or future compliance issues.

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 personnel 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 Company officers and employees during the course of the examination is hereby acknowledged.

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

Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief

Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief

Lonnie L. Suggs
Market Conduct Examiner

Gerald O'Hara
Market Conduct Examiner

Gary Boose
Market Conduct Examiner

Michael Jones
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2002, through December 31, 2002, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania Insurance Laws and Regulations.

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

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

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

III. COMPANY HISTORY AND LICENSING

Allstate Life Insurance Company was incorporated March 6, 1957 and commenced business September 3, 1957. Allstate Insurance Company, established in 1931 by Sears, Roebuck and Co., is the parent of Allstate Life Insurance Company. On June 3, 1993, Sears took Allstate public through an initial public offering of 19.7 percent of the stock of The Allstate Corporation, a holding company for Allstate Insurance Company and its subsidiaries. On July 1, 1995, Sears spun off its remaining 80.3 percent ownership of The Allstate Corporation. The Company is domiciled in the state of Illinois and is a stock life insurance company. The Company is authorized to transact business in 49 states, the District of Columbia and Puerto Rico.

The Company distributes its products through Allstate Agents, which include Exclusive Financial Specialists and Personal Financial Representatives (i.e. agents who are Series 6 and 63 licensed), as well as banks, independent agents, securities firms and through direct response methods (i.e. direct mail and telemarketing). The Company markets primarily life insurance and annuity products. Life insurance consists of traditional products, including term and whole life, interest-sensitive life, immediate annuities with life contingencies, variable life and indexed life insurance. Annuity products include deferred annuities and immediate annuities without life contingencies. Deferred annuities include fixed rate, market value adjusted, indexed and variable annuities. The Company also markets group life and health (including accident) insurance products known as Direct Response Products through a separate division within the Company. Credit insurance marketed to Sears credit cardholders was, until August 2002, also part of the Company's Direct Response Product portfolio.

Allstate Life Insurance Company's Certificate of Authority to write business in the Commonwealth was issued on March 21, 1958, and last renewed on March 1, 2004. The Company's 2003 annual statement reflects direct Pennsylvania premiums for accident and health insurance to be $5,591,913, life insurance $35,570,357 and annuity insurance direct premiums to be $115,173,063.

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 these Regulations, may be reviewed at any time at the discretion of the Department." The Department, in exercising its discretionary authority, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company identified and produced a total of 91 sales brochures and leaflets, 57 mail brochures, 48 seminar brochures, 23 print advertisements, 20 producer product brochures and 3 sales videos. All advertising including the Company's website at www.allstate.com was reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. The following violation was noted:

1 Violation – Title 31, Pennsylvania Code, Section 51.5

A company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth. The required Certification of Compliance was not filed with the Company's 2002 annual statement.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the administrative agreements, riders, amendments, endorsements, enrollment applications and policy forms used in order to verify compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b). Applications and claim forms were also reviewed to determine compliance with Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Warning Notice. The following violations were noted:

177 Violations - 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."

The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. The telephone scripts in 176 files noted did not indicate a fraud statement was disclosed to the enrollees. In the other file noted, the required fraud statement was not included or attached to a claim form (LGC188-4) identified in the Hospital Indemnity Claim section of the review.

VI. AGENT LICENSING

The Company was requested to provide a list of all agents active and terminated during the experience period. Section 606 (40 P.S. §236) of the Insurance Department Act requires all entities to report all appointments and terminations to the Insurance Department. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 623 (40 P.S. §253) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. The Company identified producers from three different sources: Allstate licensed agents (3,799), Telemarketers (581) and Allstate Putnam agents (6,877). The 679 agents identified in the underwriting files during the examination were compared to the Company's list of agents and Insurance Department licensing records to verify compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act. The following violations were noted:

1 Violation - Insurance Department Act, Section 606 (40 P.S. §236)
All entities shall report to the Insurance Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations. The Company failed to report all agent appointments and terminations to the Insurance Department.

47 Violations - Insurance Department Act, Section 605 (40 P.S. §235) Appointment.

(a) No agent shall do business on behalf of any entity without a written appointment from that entity.

(b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.

(c) Insurance entities authorized to do business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.

(d) Each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent.

The company failed to certify and submit appointment fees to the Insurance Department for the 47 agents noted as soliciting business in Pennsylvania.

19 Violations – Insurance Department Act, Section 623 (40 P.S. §253)

Any entity or the appointed agent of any entity accepting applications or orders for insurance or securing any insurance business through anyone acting without a license commits a misdemeanor of the third degree. The 19 producers noted were identified soliciting or securing insurance business for the Company. Department records do not identify them as holding a Pennsylvania insurance license.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 1999, 2000, 2001, and 2002. The Company identified 61 written consumer complaints received during the experience period and provided complaint logs for 1999, 2000, 2001, and 2002. Of the 61 complaints identified, 18 were forwarded from the Department. All 61 complaint files were requested, received and reviewed. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 18 general segments.

A. Underwriting Guidelines
B. Individual Whole Life Policies Issued
C. Individual Universal Life Policies Issued
D. Individual Term Life Policies Issued
E. Individual Life Policies Issued Other Than As Applied For By The Insured
F. Individual Life Policies Declined
G. Individual Life Policies Not-Taken
H. Individual Conversion Policies Issued
I. Direct Accidental Hospital Plan Certificates Issued
J. Direct Hospital Indemnity Plan Certificate Issued
K. Direct Accidental Death Certificates Issued
L. Direct Term Life Certificates Issued
M. Direct Term Life Certificates Issued with Accidental Death
N. Direct Guaranteed Term Life Issued with Accidental Death
O. Direct Life, Accidental Death and Health Certificates Not-Taken
P. Individual Life Policies Not-Taken
Q. Allstate Annuities Issued
R. Putnam Annuities Issued
S. Annuities Not-Taken

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

A. Underwriting Guidelines

The Company was requested to provide copies of all underwriting guidelines and procedural manuals in use during the experience period. The Company provided the following 4 guidelines for review:

(1) CD ROM, Underwriting Guides and Procedures dated March, 1994, revised January, 2003

(2) CD ROM Life Agents, Field Underwriting Guide, January, 2003

(3) Direct Response Underwriting Process Document

(4) Direct Response New Business Process and Procedures Manual dated January 2000.

The underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner; and no underwriting practices or procedures were in place that could possibly be considered discriminatory in nature, or specifically prohibited by statute or regulation.

No violations were noted in the underwriting guidelines.

B. Individual Whole Life Policies Issued

The Company was requested to provide a listing of all individual whole life policies issued during the experience period. The following table summarizes the type of whole life policies identified, the universe and the number randomly selected.

Universe	Type of Whole Life Policies	Sample
462	Individual Whole Life	50
31	Individual Whole Life Male	10
41	Individual Whole Life Female	10
1	Individual Whole Life WLVCF	1
535	Totals	71

The 71 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

4 Violations -Title 31, Pennsylvania Code, Section 83.4

(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 4 files noted did not contain a copy of the required agent's certification of disclosure.

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 30 files noted did not contain verification of the date of policy delivery.

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

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

C. Individual Universal Life Policies Issued

The Company was requested to provide a listing of all individual universal life policies issued during the experience period. The following table summarizes the type of universal life policies identified, the universe and the number randomly selected.

Universe	Type of Universal Life Policies	Sample
479	Individual Universal Life (ULP92)	50
94	Individual Life Equity	15
8	Individual Universal Life (100R)	8
581	Totals	73

The 73 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 (c)

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

1 Violation – Title 31, Pennsylvania Code, Section 83.3

(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.

The file noted did not contain the required written disclosure statement.

2 Violations -Title 31, Pennsylvania Code, Section 83.4

(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 2 files noted did not contain the required agent's certification of disclosure.

1 Violation – Title 31, Pennsylvania Code, Section 83.55

(a) The agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index statement was given upon delivery of the policy or earlier at the request of the life insurance applicant.

(b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. The file noted did not contain the required surrender cost index disclosure.

24 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)
When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 24 files noted did not contain verification of the date of policy delivery.

2 Violations - Insurance Company Law, Section 408-A (40 P.S. §625-8)
If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. The agents certification and the applicants acknowledgement in regards to the illustration used was not signed in the 2 files noted.

D. Individual Term Life Policies Issued

The Company was requested to provide a listing of all individual term life policies issued during the experience period. The following table summarizes the type of term life policies identified, the universe and the number randomly selected.

Universe	Type of Term Life Policies	Sample
801	Individual Life Level Gold Term (LB Gold)	75
495	Individual 5 Year Renewal Term	50
231	Individual Life Level Best Term	25
34	Joint Home Mortgage Plan	10
11	Individual Level Best Gold Term (LBGLD)	11
7	Individual 1 Year Renewal Term	7
2	Individual Life Level Platinum	2
1581	Totals	180

The 180 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(c)
The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The file noted did not contain the required replacement notice.

1 Violation – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement
(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. The file noted did not contain the required disclosure statement.

1 Violation -Title 31, Pennsylvania Code, Section 83.4

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

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

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 51 files noted did not contain verification of the date of policy delivery.

9 Violation – Insurance Company Law, Section 406-A (40 P.S. §625-6)
No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The applications in the 9 files noted contained alterations without the applicants written consent.

3 Violations- Insurance Company Law, Section 408-A (40 P.S. §625-8)
If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. The 3 files noted were not in compliance with this requirement.

3 Violations-Insurance Company Law, Section 408-A(e)(1)(ii) (40 P.S. §625-8)
If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled "Revised Illustration." The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the policy time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The 3 files noted were not in compliance with this requirement.

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

The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form the applicant shall acknowledge that no illustration was provided and shall further acknowledge that no illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer as soon as practical after the application is signed by the applicant. The file noted was not in compliance with this requirement.

E. Life Policies Issued Other Than As Applied For By The Insured

The Company identified a universe of 34 individual life policies issued other than as applied for by the insured during the experience period. All 34 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:

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 7 files noted did not contain verification of the date of policy delivery.

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

If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled "Revised Illustration." The statement

required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the policy time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The 8 files noted were not in compliance with this requirement.

F. Individual Life Policies Declined

The Company identified a universe of 155 life policies declined during the experience period. A random sample of 25 files was selected, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. All 25 applicants were declined coverage due to medical history. The following violations were noted:

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

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. One file noted did not contain a copy of the required disclosure statement or agent's certification that such statement has been provided to the purchaser.

G. Individual Life Policies Not-Taken

The Company identified a universe of 4 life policies not-taken during the experience period. All 4 files were requested, received and reviewed. The files were reviewed for compliance to issuance and underwriting statutes and regulations. The following violations were noted:

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

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

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 3 files noted did not contain verification of the date of policy delivery.

H. Individual Life Conversion Policies Issued

The Company identified a universe of 140 Individual Life Conversion policies issued during the experience period. 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:

11 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)
When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 11 files noted did not contain verification of the date of policy delivery.

3 Violations – Insurance Company Law, Section 406-A (40 P.S. §625-6)
No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The applications in the 3 files noted contained alterations without the insureds consent.

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

The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form the applicant shall acknowledge that no illustration was provided and shall further acknowledge that no illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer as soon as practical after the applicant signs the application. The file noted was not in compliance with this requirement.

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

If the policy is issued other than as applied for a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for a basic illustration contained in this act and shall be labeled "Revised Illustration." The statement shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The 2 files noted were not in compliance with this requirement.

I. Direct Accidental Hospital Plan Certificates Issued

The Company identified a universe of 720 direct response group accidental hospital plan certificates issued during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

25 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 25 transcript files noted were incomplete. All 25 transcripts reviewed indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. This individual would be listed as the agent of record.

J. Direct Hospital Indemnity Plan Certificates Issued

The Company identified a universe of 2,988 direct response group hospital indemnity plan certificates issued during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

25 Violations – Insurance Department Act, Section 903 (40 P.S. § 323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 24 transcript files noted were incomplete and 1 file did not have any enrollment record. In addition, 14 enrollment files were missing the transcription date. All 24 incomplete transcript files indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. This individual would be listed as the agent of record.

K. Direct Accidental Death Certificates Issued

The Company identified a total universe of 5,110 direct response group accidental death certificates issued during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

22 Violations – Insurance Department Act, Section 903 (40 P.S. § 323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 21 transcript files noted were incomplete and 1 file did not have the enrollment record. In addition 6 files were missing the transcription date. All 21 incomplete transcripts indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. This individual would be listed as the agent of record.

L. Direct Term Life Certificates Issued

The Company identified a total universe of 10,598 direct response group term life certificates issued during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

12 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 12 transcript files noted were incomplete. All 12 incomplete transcripts indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. In addition, the agents name was not indicated in the 12 transcript files noted.

M. Direct Term Life Certificates Issued with Accidental Death

The Company identified a universe of 403 direct response group term life with accidental death certificates issued during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

16 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 16 transcript files noted were incomplete. All 16 incomplete transcripts indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. This individual would be listed as the agent of record.

N. Direct Guaranteed Term Life Issued with Accidental Death

The Company identified a total universe of 539 direct response guaranteed term life certificates issued with accidental death during the experience period. The Company utilizes direct mail and telephone solicitations for marketing various insurance products. The solicitations and enrollments are recorded on tape to ensure accuracy of enrollment and provide back-up documentation for verifying enrollment. This direct marketing approach is conducted using various call centers (Producer Region) throughout the United States. A random sample of 25 enrollment transcripts was requested, received and reviewed. The telephone transcripts were reviewed to verify compliance with underwriting, issuance, and licensing statutes and regulations. The following violations were noted:

18 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

The enrollment transcripts in the 18 transcript files noted were incomplete. All 18 incomplete transcripts indicated the Company began tape recording the enrollment conversation after the solicitation of the sale. Once the member agreed to the coverage offer, the call would be switched to another individual to verify the sale and complete the enrollment process. This individual would be listed as the agent of record.

O. Direct Life, Accident and Health Certificates Not-Taken

The Company identified a total universe of 305 direct response group life, and accident and health certificates not-taken during the experience period. A random sample of 45 files was selected, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

31 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
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 verify the financial condition of the Company or person and ascertain whether the Company or person has complied with the laws of this Commonwealth.

P. Individual Life Policies Not-Taken

The Company identified a universe of 28 life policies not-taken or returned during the contract "free look" period. A random sample of 14 files was requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violation was noted:

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

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

Q. Allstate Annuities Issued

The Company identified a universe of 126 Allstate annuities issued during the experience period. A random sample of 59 files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 81.6(c)
The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The 2 files noted did not contain the required replacement form.

33 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 the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 33 files noted did not contain verification of the date of policy delivery.

R. Putnam Annuities Issued

The Company identified a total universe of 629 Putnam annuities issued during the experience period. A random sample of 54 annuity 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:

18 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)
When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity.
The 18 files noted did not contain verification of the date of policy delivery.

S. Annuities Not-Taken

The Company identified a total universe of 189 annuities not taken or returned during the contract Free Look period of the experience period. A random sample of 43 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 - Unfair Insurance Practices Act, No. 205, Section 5 (40 P.S. §1171.5(a)(1)(i)

Unfair Methods of Competition and "Unfair or Deceptive Acts or Practices" in the business of insurance means:

1. Making, publishing, issuing or circulating any estimate, illustration, circular, statement, sales presentation, omission comparison which:

   (i) Misrepresents the benefits, advantages, conditions or terms of any insurance policy.

The producer, in the file noted, misrepresented an annuity contract as being a tax sheltered mutual fund.

8 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 the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. The 8 files noted did not contain verification of the date of policy delivery.

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

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

(1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.

(2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.

(3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used while processing claims during the experience period. The Company provided 2 claims manuals: Claims-Core Process Manual Life, July 1999, and Claims –Core Process Manual Direct Response, May 1999. The claim manuals 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 Claims review was sorted and conducted in 7 general segments.

A. Group and Individual Direct Response Life Claims
B. Individual Mortgage Security Protection Claims
C. Accidental Death and Dismemberment Claims
D. Hospital Indemnity Claims
E. Individual Life Claims
F. Annuity Claims
G. Long-Term Care Claims

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

A. Group and Individual Direct Response Life Claims

The Company identified a universe of 565 group direct response life claims and 21 individual direct response life claims received during the experience period. A random sample of 50 group claim files and all 21 individual claim files were selected, 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. The following violation was 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 status letter within 30 days in the file noted.

B. Individual Mortgage Security Life Claims

The Company identified a universe of 3 Mortgage Security Life claims during the experience period. All 3 claim files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest. The following violation was 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 status letter within 30 days in the file noted.

C. Accidental Death and Dismemberment Claims

The Company identified a universe of 75 accidental death and dismemberment claims during the experience period. A random sample of 25 claim files were selected, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers

pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. The 2 claim files noted were missing the dates of claim notification.

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 status letter within 30 days in the file noted.

D. Hospital Indemnity Claims

The Company identified a universe of 288 hospital indemnity claims during the experience period. A random sample of 40 claim files was selected, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

E. Individual Life Claims

The Company was requested to provide a list of all individual life claims received during the experience period. The Company identified a universe of 297 life claims. A random sample of 50 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. The following violations were noted:

4 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. The 4 claim files noted were not provided for review.

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 status letter within 30 days in the file noted.

1 Violation - Insurance Company Law, Section 411B, Payment of Benefits

(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. The company failed to pay the required interest in the claim file noted.

F. Annuity Claims

The Company identified a universe of 104 individual annuity claims received during the experience period. A random sample of 50 files was selected, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

4 Violations - Title 31, Pennsylvania Code, Section 146.6

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

G. Long-Term Care Claims

The Company was requested to provide a list of all long-term care claims received during the experience period. The Company identified a universe of 9 claims. All 9 claim files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

XI. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

2. The Company must review 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).

3. The Company must review and revise Licensing procedures to ensure compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act of 1921 (40 P.S. §§235, 236 and 253). Note! Effective June 3, 2003, Licensing Sections of the Insurance Department Act were replaced and amended by Sections 641.1-A, Section 671-A and Section 671.1-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71 and 310.71a).

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 internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

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

7. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).

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

9. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).

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

XII. COMPANY RESPONSE

Allstate.
FINANCIAL

September 1, 2004

Sent via Express Delivery

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

RE: Allstate Life Insurance Company - Market Conduct Examination
Examination Warrant Number: 02-M11-023

Dear Mr. Stemcosky:

Allstate Life Insurance Company, hereafter referred to as the "Company" or "Allstate Life", received the Report of Examination, hereafter referred to as the "Report", on August 10, 2004. The Company has reviewed the Report which covers an examination period of January 1, 2002, to December 31, 2002.

The Company respectfully submits the attached responses to the Report. Exhibit 1 addresses various issues raised in the Report, some of which were not referenced within the "Recommendations" section of the Report. Exhibit 2 is the Company's response to each of the ten recommendations specifically identified by the Department in Section XI of the Report.

Once again, the Company thanks the Department for the opportunity to review and improve Company practices, as well as for the opportunity to receive professional and courteous instruction from the examiners during the examination process.

Sincerely,

Dave Henreckson, FLMI, ALHC
Compliance Department

Copy to: Angela Fontana
Anne Walton
Linda Jung

Allstate Life Insurance Company
3100 Sanders Road, N5 Northbrook, Illinois 60062 Phone 847.402.5695 Fax 847.326.5589 Email dhenre12@allstate.com

EXHIBIT 1

Exhibit 1 addresses various issues raised in the Report, some of which were not referenced within the "Recommendations" section of Pennsylvania's Report. The Sections noted below refer to corresponding Sections as referenced in Pennsylvania's Report for Allstate Life.

Section III. Company History

The Company wishes to advise the Department that, as of December 31, 2003, the Company ceased all marketing activities in Pennsylvania related to our Direct Response business. Moreover, the Company's block of direct marketed business marketed to Sears cardholders was sold effective January 1, 2004, with a transition period running through September 30, 2004; and this block of the Company's business has had no marketing activity in any state to Sears or any other credit cardholders since June 30, 2004. The Company currently has a smaller block of direct marketed business which is being transitioned to a third party administrator for administrative handling while the Company continues to pursue prospective reinsurers. However, we again stress that, since December 31, 2003, no sales have occurred in Pennsylvania and the Company has no current plans for the future marketing of these products directly to credit cardholders.

The Company History section of the Report notes that the Company's portfolio includes variable life products. Although such a statement is accurate for the Company's current portfolio, it was not accurate for the time period under review as Allstate Life did not market any variable life products during that time. The Company apologizes to the extent it inadvertently provided any information to state otherwise.

Section IV. Advertising

The Company would like to advise that the appropriate advertising Certificate of Compliance for the annual statement period ending December 31, 2003, was provided to the Department.

Section VI. Agent Licensing

Section VI of the Report (page 8) references "48 Violations" for the Insurance Department Act, Section 605. However, in the last sentence of this section of the Department's Report, only "47 agents" are referenced in violation of this Act. The Company's records and the Department's Exit Summary also indicate the total number of violations to be 47, not 48. The Company respectfully requests that this information be revised to 47.

The Company wishes to advise the Department that 46 of the 47 appointment violations, and all 19 of the licensing violations were a result of our Direct

Response business, which the Company ceased marketing in Pennsylvania as of December 31, 2003.

VIII. UNDERWRITING

Sections G. and P. Individual Life Policies Not-Taken

The Department appears to have repeated the four violations noted in Section G (Report page 24) also in Section P (pages 33-34). Our review of Section G of the Report reveals that these violations appear to be from the examiner's Exit Summary Section 17; while Section P of the Report appears to combine both Exit Summary Sections 17 and 35. The Company respectfully requests that this information be revised by removing the following from Section P of the Report:

- The three violations for Section 404-A as shown on page 33-34 of the Report, as these are already included in Section G (page 24 of the Report).
- One of the violations for Section 83.4b as shown on page 34 of the Report. This violation was already accounted for on page 24 of the Report.

Section S. Annuities Not-Taken

The Company believes that the single disclosure violation of Title 31, Section 83.4b, pertaining to an annuity contract, referenced in Section S (Report page 37), was noted by the Department in error. This violation was not referenced in the Company's final Exit Summary provided by the examiners. Moreover, please note that Title 31, Section 83.2, which deals with the applicability of Pennsylvania's disclosure rules, states that the requirement does not apply to annuities. The Company previously brought this to the attention of the Department in our response dated September 23, 2003. After receiving the Company's response on this matter, the Department removed all violations pertaining to Section 83.4b from the Exit Summary document. The Company believes that the Department has inadvertently referenced this violation in error, and we respectfully request that this violation be removed from this Section of the Report.

X. CLAIMS

A. Group Life Claims

The Company believes that the reference to the violation of Title 31, Section 146.6 noted in this Section of the Report (page 41) may have been referenced by the Department in error. The Exit Summary which the Department previously provided to the Company states that "No violations were noted" in the review of the Company's group life claims. The Company respectfully requests that this information be revised.

EXHIBIT 2

Exhibit 2 includes the Company's response to each of the ten recommendations specifically identified by the Department in Section XI of the Report.

XI. Recommendations – Company Response

Recommendation 1

The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

Company Response

The Company has reviewed its internal control procedures to ensure compliance with Title 31, Pennsylvania Code, Chapter 146. The Company believes that our procedures adhere to the various requirements of Chapter 146; however, the Company has issued a reminder to claim personal to help ensure that status letters are sent within 30 days, and 45 days thereafter for all pending life and annuity claims, as well as to help ensure that claim staff properly image all claim documents for retention purposes.

Recommendation 2

The Company must review 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).

Company Response

The Company has reviewed its internal control procedures regarding the payment of claim interest, pursuant to the requirements of Section 411B of the Insurance Company Law of 1921. The Company regularly conducts internal claim file audits to help ensure compliance in the payment of claim interest, and will continue to do so in the future. During the exam, the Pennsylvania Insurance Department identified a single case where the Company neglected to pay the appropriate amount of interest. The Company took immediate corrective action on August 26, 2003, and sent an interest check to the payee in the amount of $11.40. This isolated case was due to human error, which we regret. The Company believes it has adequate procedures in place to help ensure compliance with Section 411B, and that this single instance was not reflective of its procedures.

Recommendation 3

The Company must review and revise Licensing procedures to ensure compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act of 1921 (40 P.S. Sections 235, 236 and 253). Note! Effective June 3, 2003, Licensing Sections of the Insurance Department Act were replaced and amended by Sections 641.1-A, Section 671-A and Section

671.1-A of the Insurance Department Act of 1921 (40 P.S. Sections 310.41a, 310.71 and 310.71a).

Company Response
The Company will continue to monitor its licensing procedures to help ensure compliance with Sections 605, 606, and 623 of the Insurance Act of 1921. All but one of these violations were a result of the Company's Direct Response business. Please be advised that, as of December 31, 2003, the Company ceased all marketing activities of Direct Response products in Pennsylvania, and the Company has no current plans for the future marketing of these products directly to credit cardholders. While any specific issues regarding the Company's licensing and appointment process for our Direct Response channel no longer exist, the Company regrets these errors.

With regard to the Company's licensing and appointment process for agents selling our traditional products, the Company believes it has appropriate procedures in place to help ensure compliance with Pennsylvania's laws. The Company regrets the single appointment violation identified during the examination for our traditional marketing channels. The Company will continue to monitor its licensing activity to ensure ongoing compliance.

Recommendation 4
The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings related 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).

Company Response
All alleged violations of Section 903 of the Insurance Department Act of 1921 (40 P.S. Section 323.3), identified during the exam, resulted from the sales transactions of our Direct Response telemarketed business.

Section 903(a) requires the retention of certain records so that the Department may "verify the financial condition of the company" and "**ascertain whether the company ... has complied with" Pennsylvania law** (emphasis added). Because our research reveals that neither Section 903 nor any other Pennsylvania statute directly specifies requirements pertaining to the recordings of insurance transactions conducted by telephone, then the absence of recordings or portions of recordings should not in and of itself be a violation of Section 903. Absent any law providing for a particular type of format, it should suffice for an insurer to produce the substance of information, regardless of format, requested by the Department so that it can make a determination of whether the company has complied with Pennsylvania law. Accordingly, we maintain that we adhered to Section 903.

For 108 cases, the Department alleges that the tape transcripts the Company provided to the Department for review were "incomplete". These 108 cases included transcripts (including the respective enrollment dates and agent information) to accurately and thoroughly capture the customer's choices, the applicant's name and address, and other information relevant to the sale. The Company maintains that it provided complete transcripts in these cases, as the Company provided complete copies of what the Company recorded in each case. Our research reveals that neither Section 903 nor any other Pennsylvania law requires that, in the context of a telemarketing call, the entire telephone conversation be recorded. Accordingly, the Company maintains that it is in compliance with Section 903.

Next, the Department identified 26 enrollment records where the tape transcripts the Company provided did not include the enrollment dates and/or agent names. The Department alleges that these 26 cases, without this information, are in violation of Section 903. However, as previously communicated to the Department, the Company did provide to the Department, during the examination phase, other hard copy records which showed the dates on which the enrollments occurred, and the agent information. Because Section 903 does not deal specifically with requirements for regulating recorded sales activity and because our research reveals that Pennsylvania law is silent as to the specific manner in which various data must be captured and retained during the insurance enrollment process, the Company believes that it complied with Section 903 when it was able to provide the Department with hard copy records showing this information.

Finally, the Department identified 15 cases allegedly in violation because the Company was unable to locate the sales tapes for 15 of its transactions; nevertheless, the Company respectfully submits that its computer records should be sufficient documentation, and therefore, the Company believes it is in compliance with Section 903 for these 15 cases.

Please note that as of December 31, 2003, Allstate Life ceased all marketing activities of Direct Response products in Pennsylvania, and the Company has no current plans for the future marketing of these products directly to credit cardholders.

Recommendation 5

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

Company Response

The Company's service center compliance units have been instructed to continue to monitor activity for the handling of replacement business.

The Company believes that, overall, its procedures do adhere to the requirements of Section 81, and that these few deviations noted (only two

violations for the service center which handles life business, and two violations for the service center which handles annuity business) were not reflective of the Company's normal practice. Nevertheless, the Company will review its procedures to determine if additional measures should be taken.

Recommendation 6

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

Company Response

The Company has reviewed its internal control procedures to ensure compliance with Title 31, Pennsylvania Code, Chapter 83. The Company will issue a reminder to handlers within the service center regarding the requirements of Chapter 83. In addition, the Company plans to prepare agent communication to help ensure that agents fully understand the requirements of Chapter 83.

Recommendation 7

The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. Section 625-4).

Company Response

The Company developed a new procedure for obtaining delivery receipts. This procedure was implemented on August 1, 2004, with field communication disseminated to sales agencies in July 2004. The Company is confident that this improved procedure, as well as other enhancements, will help ensure that the Company satisfies the Pennsylvania delivery receipt requirements.

Recommendation 8

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

Company Response

The Company believes Section 406-A of the Insurance Company Law of 1921 is capable of more than one interpretation. The Company maintains that one reasonable interpretation of the statute is that it only requires the applicant to initial material changes (or more formal action, such as an amendment, as appropriate). Such interpretation is consistent with the purpose of a law of this nature. The public policy behind the statute is arguably to make sure that changes aren't made without the insured's consent that might impact the issuance of a policy or the rate an applicant obtains. It does not stand to reason that an applicant would need protection from an insignificant change that does not impact the coverage or premium in any way.

The Company has reviewed the 50 alleged violations noted by the Department, and believes that 41 of these cases clearly did not contain alterations which were material. As we have previously communicated, the Company already provides written guidelines to underwriters to help identify those items on the application which would typically require either an amendment to the application or other action, as appropriate. In addition, the Company plans to take affirmative steps to ensure that the service center teams handling new business better monitor applications for instances where alterations are present. The Company is also considering a field communication to remind agents of their obligations under Section 406-A.

Once again, the Company respectfully requests that the Department reexamine the 41 cases previously noted to the examiners, and revise the Report accordingly, as the Company maintains that these cases did not violate Section 406-A, as they were immaterial to the risk, posed no hindrance to the underwriting process, and were no threat to the applicant's ability to procure the insurance.

Recommendation 9

The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. Section 625-8).

Company Response

The Company has taken affirmative steps to satisfy the Department's recommendation to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921. The Company has increased its training efforts with new business and compliance staff, and has increased our monitoring of illustration activity. Moreover, as noted in our response to recommendation number 7, we have implemented a new process for helping to ensure that the Company receives the policy delivery receipts required by Pennsylvania Code 404-A. The Company believes that this new process will also help to improve our compliance with obtaining properly completed illustrations which are mailed with the polices on the back end of the sale transactions, such as in cases when revised illustrations are issued.

Recommendation 10

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

Company Response

The Company respectfully submits that it was in compliance with Title 18, Pennsylvania Consolidated Statutes, Section 4117(k). The Company's files did not require a fraud statement and it does not believe it was required by Pennsylvania law to do so. Section 4117(k), Insurance Forms and Verification of Services, requires that the fraud statement be included on insurance forms;

specifically on applications for insurance and all claim forms. Since an application form was not used for our telephone enrollments, the Company's position is that, outside of the claim context, there is no requirement that the reviewed files include a fraud notice.

Moreover, the Company views the telemarketing presentation as an advertisement because it is a prepared sales talk or presentation, and it is material for use by agents, brokers, or solicitors as defined at 31 Pennsylvania Code Section 51.1. The Company's position is that there is no requirement under 18 Pa. C.S. Section 4117(k) to incorporate the fraud notice in advertising materials including the telemarketing scripts.

All alleged violations of Section 4117(k) resulted from the Company's Direct Response business. Please be advised that, as of December 31, 2003, the Company ceased all marketing activities in Pennsylvania related to our Direct Response business.