

**REPORT OF
MARKET CONDUCT EXAMINATION
OF
RELIANCE STANDARD LIFE INSURANCE
COMPANY
Chicago, Illinois**

**AS OF
May 19, 2006**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 10, 2006

RELIANCE STANDARD LIFE INSURANCE COMPANY

TABLE OF CONTENTS

Order	
I.	Introduction 3
II.	Scope of Examination 6
III.	Company History and Licensing 7
IV.	Advertising 9
V.	Forms 10
VI.	Producer Licensing 11
VII.	Consumer Complaints 14
VIII.	Underwriting 15
	A. Underwriting Guidelines 16
	B. Group Disability Policies Issued 17
	C. Group Life Policies Issued 17
	D. Group Life Policies Terminated 18
	E. Group Disability Policies Terminated 19
	F. Group Accident and Health Policies Terminated 19
	G. Group Life Conversions 20
	H. Annuity Contracts Issued 20
	I. Accidental Death and Dismemberment Policies Issued 22
	J. Life Policy Conversions 22
	K. Long Term Disability Policy Conversions 23
	L. Annuity Contracts Terminated 24
	M. Life Policies Terminated 25
	N. Accidental Death And Dismemberment Policies Terminated 25
	O. Annuity Contracts Issued As Replacements 26
	P. Annuity Contracts Not-Taken 27
	Q. Disability Policies Not-Taken 27
	R. Disability Policies Declined 28
IX.	Internal Audit and Compliance Procedures 29

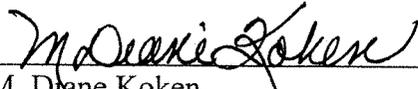
X.	Claims	30
	A. Accident and Health Claims	32
	B. Unique Disability Claims	32
	C. Life Claims	33
	D. Supplementary Contracts Claims	35
	E. Third Party Administered Life Claims	36
XI.	Recommendations	37
XII.	Company Response	39

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

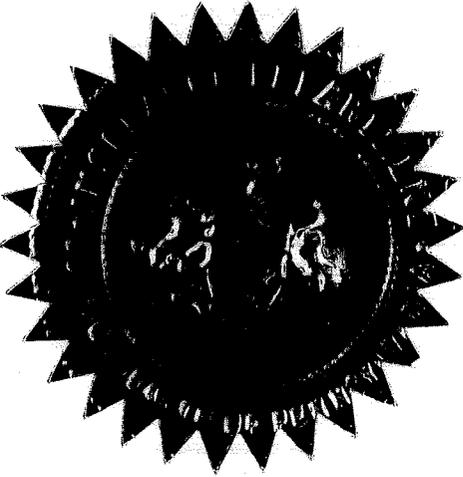
IN RE: The Act of April 9, 1929, P.L. 177, No. 175, known as The
Administrative Code of 1929

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

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



M. Diane Koken
Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
RELIANCE STANDARD LIFE	:	Section 903(a) of the Insurance
COMPANY	:	Department Act, Act of May 17, 1921,
2001 Market Street, Suite 1500	:	P.L. 789, No. 285 (40 P.S. § 323.3)
Philadelphia, PA 19103-7090	:	
	:	Section 671-A of Act 147 of 2002
	:	(40 P.S. § 310.71)
	:	
	:	Sections 404-A, 411-B and 412 of the
	:	Insurance Company Law, Act of
	:	May 17, 1921, P.L. 682, No. 284
	:	(40 P.S. §§ 625-4, 511b and 512)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	51.5, 81.4(B)(1), 81.6(A)(1),
	:	81.6(A)(2)(ii), 146.3, 146.5, 146.6 and
	:	146.7
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC06-06-021

CONSENT ORDER

AND NOW, this *10th* day of *July*, 2006, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Reliance Standard Life Insurance Company, and maintains its address at 2001 Market Street, Suite 1500, Philadelphia, Pennsylvania 19103-7090.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2004 through December 31, 2004.

- (c) On May 19, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on June 16, 2006.
- (e) The Examination Report notes violations of the following:
 - (i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;
 - (ii) Section 671-A of Act 147 of 2002 prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act (40 P.S. § 310.71).
 - (iii) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the

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

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

from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid;

- (v) Section 412 of the Insurance Company Law, No. 284 (40 P.S. §512), which prohibits a policy of life insurance to be delivered except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, co-partnerships, associations and corporations may insure the lives and health of officers, directors, principals, partners and employees, without the signing of a personal application as required;
- (vi) Title 31, Pennsylvania Code, Section 51.5, which requires, together with the annual statement, a company to file a Certificate of Compliance executed by an authorized officer of the company, which states 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;
- (vii) Title 31, Pennsylvania Code, Section 81.4(b)(1), which states if replacement is involved, the agent or broker shall present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities;

- (viii) Title 31, Pennsylvania Code, Section 81.6(A)(1), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction;
- (ix) Title 31, Pennsylvania Code, Section 81.6(A)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by Section 83.3, or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within five working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner;
- (x) Title 31, Pennsylvania Code, Section 146.3, requires the claim files of the insurer 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;

- (xi) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;

- (xii) Title 31, Pennsylvania Code, Section 146.6, requires that every insurer shall complete investigation of a claim within 30 days after notification of the claim, unless such investigation cannot reasonably 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;

- (xiii) Title 31, Pennsylvania Code, Section 146.7, which provides that an insurer may not deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to the provision, condition or exclusion is included in the denial. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial;
and

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

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent’s violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;

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

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

- (d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11):
 - (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).

ORDER

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

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

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

(d) Respondent shall pay Twenty Thousand Dollars (\$20,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

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

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

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

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

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

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

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

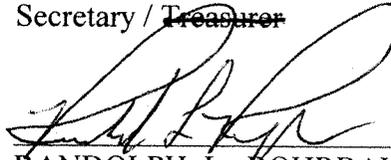
BY: RELIANCE STANDARD LIFE
INSURANCE COMPANY Respondent



President / Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on Reliance Standard Life Insurance Company, hereafter referred to as "Company," at the Company's offices located in Philadelphia, Pennsylvania, July 18, 2005, through September 2, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

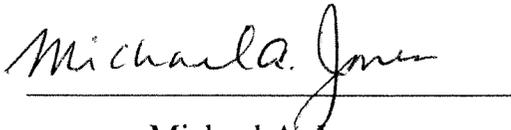
The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

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



Daniel Stemcosky, AFE, FLMI

Market Conduct Division Chief



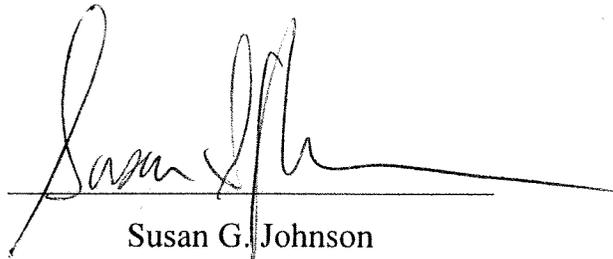
Michael A. Jones

Market Conduct Examiner



Frank W. Kyazze, FLMI, ALHC

Market Conduct Examiner

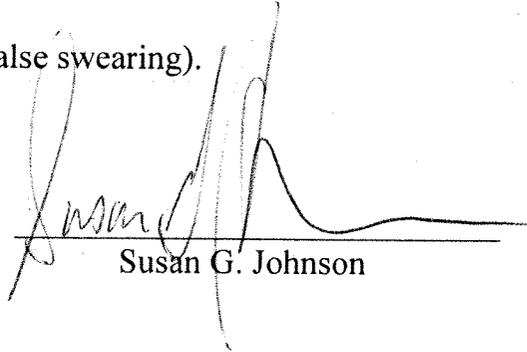


Susan G. Johnson

Market Conduct Examiner

VERIFICATION

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



Susan G. Johnson

Sworn to and Subscribed Before me

This 19 Day of *May*, 2006



Notary Public

COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2008

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, 2004, through December 31, 2004, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

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

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

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

III. COMPANY HISTORY AND LICENSING

Reliance Standard Life Insurance Company was incorporated in 1907, as the Central Life Insurance Company of Illinois. In 1965, the company was renamed Reliance Standard Life Insurance Company (RSL). The Company is domiciled in Illinois and is headquartered in Philadelphia, PA.

Reliance Standard Life Insurance Company is owned by Delphi Financial Group, a publicly traded insurance holding company (NYSE:DFG). Through Reliance Standard Life Insurance Company and its other corporate subsidiaries, Delphi offers a variety of insurance coverages and Matrix Absence SolutionsSM, an integrated employee benefit solution that manages all aspects of employee absence to enhance productivity

Reliance Standard Life Insurance Company provides group coverage to employers as components of basic employee benefit programs. Coverage options include: group life, group disability income, personal accidental death and dismemberment, integrated disability, administrative services and group dental and vision.

Specialized voluntary coverage options are also marketed to employers with enhanced and/or cafeteria-style employee benefit plans. Reliance Standard Life Insurance Company distributes its products through independent agents and brokers.

Reliance Standard Life Insurance Company also provides Asset Accumulation products for individuals seeking to maximize protection and capital preservation for retirement. It offers a complete portfolio of deferred and immediate annuity

products, including market value adjustment options, for qualified and non-qualified markets. Annuities are also sold through independent agents and brokers.

Reliance Standard Life Insurance Company is licensed in all states (except New York), the District of Columbia, the U.S. Virgin Islands and Puerto Rico.

As of their December, 2004, annual statement for Pennsylvania, Reliance Standard Life Insurance Company reported premium for life insurance in the amount of \$19,966,267, annuity considerations in the amount of \$7,336,168 and premium for accident and health in the amount of \$23,607,400.

IV. ADVERTISING

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

The Company provided a list of 10 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of handouts and brochures. The 10 advertising pieces and the Company’s web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. The following violation was noted.

1 Violation - Title 31, Pennsylvania Code, Section 51.5 Certificate of Compliance

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 Company did not provide the required Certificate of Compliance.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). The following violations were noted:

3 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 noted applications did not contain the required fraud statement.

Form Type	Form Number	Form Description
Application	LRS-8798-0296	Group Term Life Master
Application	LRS-6422-A Ed. 2/84	Group Life, Policy
Application	LRS-8604-002-0790	Group Accident Policy

VI. PRODUCER LICENSING

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

The Company provided a list of 1,013 group agents and 481 annuity agents. A random sample of 100 group agents and 100 annuity agents were compared to departmental records of agents to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam.

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

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

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

The following **23** individuals were listed as producers on **32** applications reviewed in the policy issued sections of the exam. Department records do not identify these individuals as being appointed by the company at the time of application.

#	Last Name	First Name	Section	# Applications
1	Caldwell	David	1d	1
2	Redcliffe	Scott	1d	2
3	Zee	Eric F	1c	1
4	Dugan	Gerald F	1c, 1d	3
5	Milys	Nicholas	1c	1
6	Crabble	John B	1c	1
7	Pletz	Darcy	1d	1
8	D’Alessandro	Roy	1d	1

9	Rauch	Pamela	1d	1
10	Grant	Gregory	1d	1
11	Rovnak	Paul	1d	1
12	Brown	Christine	1d	1
13	Parker	Bernard	5a	1
14	Pedrow	David A	5a, 7c	2
15	Sefchok	Jeff	5a	1
16	Gross	Jerry	5a	1
17	Matusz	Joseph J	5a, 7c	4
18	Tamborrelli	Rocco	5a	1
19	Lowery	Marsha G	5a	1
20	Bennett	Kent A	5a	3
21	Naleppa	Michael C	7c	1
22	Sciolla	David J	7c	1
23	Dempwolf	John A	7c	1

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 2001, 2002, 2003 and 2004. The Company identified 8 written consumer complaints and provided complaints logs for 2001, 2002, 2003 and 2004. All 8 consumer complaints were complaints forwarded from the Department. All 8 consumer complaint files were requested, received and reviewed.

The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. The following is a synopsis of the 8 complaints reviewed.

Number - 8	Complaint Reason	Percentage - 100%
1	Claim Denial/Processing	12.5%
1	Annuity Surrender	12.5%
4	Payment Concerns	50%
2	Unpaid benefits	25%

No violations were noted.

VIII. UNDERWRITING

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

- A. Underwriting Guidelines
- B. Group Disability Policies Issued
- C. Group Life Policies Issued
- D. Group Life Policies Terminated
- E. Group Disability Policies Terminated
- F. Group Accident And Health Policies Terminated
- G. Group Life Conversions
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- O. Annuity Contracts Issued As Replacements
- P. Annuity Contracts Not-Taken
- Q. Disability Policies Not-Taken
- R. Disability Policies Declined

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

A. Underwriting Guidelines

The Company was requested to provide copies of all established written underwriting guidelines in use during the experience period. Underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature or specifically prohibited by statute or regulation. No violations were noted.

The following manuals and guides were provided and reviewed:

- A. Underwriting Manual Group/Special Risk Group Term
- B. LTD Manual Master
- C. All LTD Policies and Procedures Manuals
- D. Special Risk Plan Guidelines
- E. Special Risk Underwriting Guidelines
- F. Special Risk Rating Manual
- G. Special Risk Reinsurance
- H. Group Special Risk Underwriting Manual
- I. Voluntary Term Life Underwriting Manual
- J. All Voluntary Accidental Death and Dismemberment
Procedures, Products and Policies

B. Group Disability Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The company identified 215 group disability policies issued. A random sample of 25 policy files was requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. The following violations were noted:

4 Violations - Insurance Department Act, Section 903 (40 P.S. §323.3)

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

C. Group Life Policies Issued

The Company identified a universe of 131 group life policies issued during the experience period. A random sampling of 25 policy files was requested. Of the 25 files requested, 24 files were received and reviewed. One file was not applicable to this section. The policy files were reviewed to determine compliance to issuance statutes and regulations. The following violations were noted:

3 Violations - Insurance Department Act, Section 903 (40 P.S. § 323.3)

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

D. Group Life Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience period. The Company identified a universe of 98 group life policy files. A random sample of 50 files was requested. Of the 50 files requested, 40 files were received and reviewed. The policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premiums. The following violations were noted:

10 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The Company did not provide the noted files.

E. Group Disability Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience. The Company identified a universe of 96 group disability policies terminated. A random sample of 50 files was requested, received and reviewed. The 50 policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted:

8 Violations - Insurance Department Act, Section 903 (40 P.S. §323.3)

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

F. Group Accident and Health Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience. The Company identified a universe of 26 group accident and health policies terminated. All 26 policy files were requested, received and reviewed. The policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium.

7 Violations - Insurance Department Act, Section 903 (40 P.S. §323.3)

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

G. Group Life Conversions

The Company was requested to provide a list of all certificate holders converting group insurance during the experience period. The Company identified a universe of 16 certificate holders converting their group life coverage upon termination to an optional group life insurance plan. All 16 conversion files were requested, received and reviewed. The optional group life insurance certificate, issued as a conversion in the 16 files, certifies coverage under a Group Policy issued in the Commonwealth of Pennsylvania. No violations were noted.

H. Annuity Contracts Issued

The Company identified a universe of 201 annuity contracts issued during the experience period. A random sampling of 50 contracts was requested, received and reviewed. Of the 50 files reviewed, 37 were identified as group annuity contracts and 13 were individual annuity contracts. The contract files were

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

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall:

Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not completed in the noted applications.

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. Verification of the date of contract delivery could not be established in the noted files.

I. Accidental Death and Dismemberment Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 6 accidental death and dismemberment policies issued. All 6 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:

6 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 noted applications did not contain the required fraud statement.

J. Life Policy Conversions

The Company identified a universe of 31 life policies converted during the experience period. All 31 files were requested. Of the 31 files requested, 30 were received and reviewed. One file was listed as an out of state file; as a result, the file is out of our jurisdiction. The 30 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

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

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

2 Violations - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, co-partnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. The noted files did not contain the applicant's signature on the application.

K. Long Term Disability Policy Conversions

The Company was requested to provide a list of all long term disability policies converted during the experience period. The Company identified a universe of 2 policy files. Both files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

L. Annuity Contracts Terminated

The Company was requested to provide a list of all annuities terminated during the experience period. The Company identified a universe of 75 contract files. A random sample of 25 files was requested, received, and reviewed. One file was determined to be outside of the experience period. The 24 files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. The files terminated due to death were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

3 Violations – Title 31, Pennsylvania Code, Section 146.6

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

3 Violations- Title 31, Pennsylvania Code, Section 146.7

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

M. Life Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 92 life policies terminated. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premiums. The following violations were noted:

2 Violations - Insurance Department Act, Section 903 (40 P.S. §323.3)

(a) Every Company or person subject to examination in accordance with this Act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The reason for termination was not evident in the noted files.

N. Accidental Death and Dismemberment Policies Terminated

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

O. Annuity Contracts Issued As Replacements

The Company was requested to provide a list of annuities contracts issued as replacements during the experience period. The Company identified a universe of 103 annuities issued as replacements. A random sample of 50 files was requested, received and reviewed. Of the 50 contract files reviewed, 39 contracts were group contracts and 11 were individual annuity contracts. The files were reviewed to determine compliance with issuance and replacement statutes and regulations. The following violations were noted:

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

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

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

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

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

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification

information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company wasn't sent within 5 working days.

P. Annuity Contracts Not-Taken

The company was requested to provide a list of all annuities not-taken during the experience period. The Company identified a universe of 1 annuity not-taken. The file was requested received and reviewed. The annuity not-taken file was reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

Q. Disability Policies Not-Taken

The Company was requested to provide a list of all policies not-taken during the experience period. The Company identified 7 disability income policies not-taken. All 7 files were requested, received, and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free look provisions of the contract. No violations were noted.

R. Disability Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 7 disability income policies declined. All 7 files were requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. No violations were noted.

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

- A. Disability Based Claims
- B. Short Term Disability Adjudication
- C. Long Term Disability Adjudication
- D. Long Term Disability General Information
- E. General:
 - Adverse Benefit Determination
 - Escheat Process
 - Dates of Service For Provider Payments
 - Vendor Requests
 - Mail Procedures
 - Miscellaneous State Statutes and /or Regulations (for California, Illinois and Maine)
 - Recovering Benefit Overpayments
 - Referral Procedures
 - Late Notice of Claim Procedure
 - Specific State Requirements For Denial and/or Uphold Letters (for California, Illinois, Nebraska, New Hampshire and Ohio)

The Company provided the following procedures guidelines:

- A. Reinsurance Claim Filing Procedures
- B. Voluntary Term Insurance
- C. Waiver of Premium & Extension of Life Insurance Claims.
- D. Voluntary All Risk (VAR) Insurance
- E. Confirming Premium Amounts

- F. Typical Requirements For Preparing a Claim
- G. Group Term Life Insurance
- H. Group Supplemental Life Insurance
- I. Accidental Death And Dismemberment Insurance
- J. Voluntary Term Life Insurance Claim Procedures

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

The Claim file review consisted of 5 areas:

- A. Accident And Health Claims
- B. Unique Disability Claims
- C. Life Claims
- D. Supplementary Contract Claims
- E. Third Party Administered Life Claim

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

A. Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 10 accident and health claims. All 10 claim accident and health files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

B. Unique Disability Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe 1,728 unique disability claims received. A random sample of 50 files was requested. Of the 50 files requested, 49 were received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.3

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

8 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such

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

2 Violations - Title 31, Pennsylvania Code, Section 146.6

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

1 Violation - Title 31, Pennsylvania Code, Section 146.7

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

C. Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 680 life claims. A random sample of 100 claim files was requested. Of the 100 files received, 33 were determined to be waiver of premium claims, and 3 were long term disability

claims. The remaining 64 files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411 B, Payment of Interest (40 P.S. §511b). The following violations were noted:

9 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company did not provide any proof that the noted claims were acknowledged within 10 working days.

6 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 status letters for the noted claims.

4 Violations- Title 31, Pennsylvania Code, Section 146.7

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

1 Violation - Insurance Company Law, Section 411B (40 P.S. §511b)

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

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

(c) The term "left on deposit" shall mean a specific settlement option provided within the life insurance policy under which the death benefit proceeds are retained by the insurer for the beneficiary and are credited with a specific rate of interest. The Company did not provide any proof that interest was paid under the noted claim.

D. Supplementary Contract Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified 37 supplementary contract claims received. All 37 claims files were requested for review. Of the 37 files received, 19 were duplicate claim files. The remaining 18 claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

E. Third Party Administered Life Claims

The Company identified a universe of 81 life claims received during the experience period administered by a third party administrator. A random sampling of 50 files was requested, received, and reviewed. The files were reviewed to determine compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411 B, Payment of Interest (40 P.S. §511b). The following violations were noted.

1 Violation - Title 31, Pennsylvania Code, Section 146.5

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

15 Violations - Title 31, Pennsylvania Code, Section 146.6

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

XI. RECOMMENDATIONS

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

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
3. The Company must review and revise Licensing procedures to ensure compliance with Section 671-A the Insurance Department Act of 1921 (40 P.S. § 310.71).
4. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
5. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.

6. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.
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 and policy delivery requirements of Section 410 and Section 412 of the Insurance Company Law of 1921 (40 P.S. §§510 and 512).

XII. COMPANY RESPONSE

RELIANCE STANDARD

Life Insurance Company

CHARLES T. DENARO

VICE PRESIDENT, SECRETARY AND
DEPUTY GENERAL COUNSEL

2001 Market Street, Suite 1500

Philadelphia, PA 19103-7090

(267) 256-3500

(800) 351-7500

June 15, 2006

VIA OVERNIGHT COURIER

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

**Re: Market Conduct Examination
Examination Warrant Number: 05-M25-014**

Dear Mr. Stemkoski:

Thank you for your letter of May 19, 2006. The Company has carefully reviewed the examination report and respectfully offers the following response.

SECTION III. COMPANY HISTORY AND LICENSING

1. It should be noted that the Company was incorporated in 1907, not 1970.
2. The Company is licensed in all states (except New York), the District of Columbia, the U.S. Virgin Islands and Puerto Rico.
3. The examiners reported premium income for the period ending December 31, 2003. Inasmuch as the examination period was for the period from January 1, 2004 through December 31, 2004, the premium should be reported as of December 31, 2004. As of December 31, 2004, the Company reported Pennsylvania life insurance premiums in the amount of \$19,966,267, annuity considerations in the amount of \$7,336,168 and accident and health insurance premiums in the amount of 23,607,400.

SECTION IV. ADVERTISING

1. Violation of 31 Pa. Code §51.5 Certificate of Compliance

The Company did not file the required Certificate of Compliance during the examination period. The Company's Financial Reporting area maintains checklists of the requirements of the various states for annual statement filings. The requirement for the Certificate of Compliance has been added to the Pennsylvania checklist, and all future annual statement filings will include the required certificate.

a **DELPHI** company

Direct Dial: 267-256-3810 • Facsimile: 267-256-0650
e-mail: charles.denaro@rsl.com

SECTION V. FORMS

1. 3 Violations of 18 Pa. C.S. §4117(k) Required Fraud Language

The Company has undertaken a review of all Pennsylvania application forms, and will add the required language to all applications. In addition, the Company will endeavor to ensure that Pennsylvania policyholders are provided with the correct application containing Pennsylvania's specific language requirement.

SECTION VI. PRODUCER LICENSING

1. 32 Violations of the Insurance Department Act, No. 147, §671-A Appointment of Producers.

The Company acknowledges the 23 producers who were listed on 32 applications. These producers, although properly licensed in Pennsylvania were not appointed by the Company prior to the time that the application was signed. The Company notes that Pennsylvania is one of four states which has not adopted the NAIC Model Producer Licensing Act. Under the Model Act, licensed producers may take applications on behalf of a company for whom they have not been appointed, provided that the appointment is made within 15 days of the application. The Company regrets this error, and has modified its procedures to require that producers be appointed before being permitted to take applications on its behalf in Pennsylvania. It should also be noted that all 23 producers were subsequently appointed by the Company.

SECTION VIII UNDERWRITING

B. Group Disability Policies Issued

1. 4 Violations of the Insurance Department Act, Section 903, Maintenance of Records.

The Company acknowledges the requirement that appropriate records be maintained in all files. The Company's existing procedures require that all materials pertinent to the underwriting and issuance of a policy be maintained in the appropriate file. The Company will reinforce this requirement in its employee training programs.

C. Group Life Insurance Policies Issued

1. 3 Violations of the Insurance Department Act, Section 903, Maintenance of Records.

The Company acknowledges the requirement that appropriate records, including applications be maintained in all files. The Company's existing procedures require that all materials pertinent to the underwriting and issuance of a policy be maintained in the appropriate file. The Company will reinforce this requirement in its employee training programs.

D. Group Life Policies Terminated

1. 10 Violations of the Insurance Department Act, Section 903, Maintenance of Records.

The Company acknowledges the requirement that appropriate records be maintained in all files and that the files be available for examination by regulatory authorities. The Company's existing procedures require that all materials pertinent to the underwriting and issuance of a policy be maintained in the appropriate file. The Company will reinforce this requirement in its employee training programs.

E. Group Disability Policies Terminated

1. 8 Violations of the Insurance Department Act, Section 903, Maintenance of Records.

The Company acknowledges that the reason for termination should be included in all policy files. The company will reinforce this requirement in its employee training programs. In addition, the Company has recently implemented a new Policy and Claims Administration System. The system is set up so that a policy can not be terminated on the system unless the reason for termination field is completed.

F. Group Accident and Health Policies Terminated

1. 7 Violations of the Insurance Department Act, Section 903, Maintenance of Records.

The Company acknowledges that the reason for termination should be included in all policy files. The company will reinforce this requirement in its employee training programs. In addition, the Company has recently implemented a new Policy and Claims Administration System. The system is set up so that a policy can not be terminated on the system unless the reason for termination field is completed.

H. Annuity Contracts Issued

1. 2 Violations of 31 Pa. Code §81.6(a)(1) Replacement

The Company acknowledges that the replacement question on the application must be answered by the agent, even where no replacement has occurred. The Company's annuity processing staff has been instructed to return any incomplete application to the writing agent for completion.

2. 3 Violations of the Insurance Company Law, Section 404-A Delivery Receipts

The Company acknowledges that delivery receipts must be returned by the writing agent and returned to the Company and maintained in the policy file. The Company has established procedures to follow-up with producers in instances where the delivery receipt has not been returned.

I. Accidental Death and Dismemberment Policies Issued

1. 6 Violations of 18 Pa. C.S. §4117(k) Fraud Statement

The Company has undertaken a review of all Pennsylvania application forms, and will add the required language to all applications. In addition, the Company will endeavor to ensure that Pennsylvania policyholders are provided with the correct application containing Pennsylvania's specific language requirement.

J. Life Policy Conversions

1. 1 Violation of the Insurance Department Act, Section 903, missing application

The Company acknowledges the requirement that appropriate records, including applications be maintained in all files. The Company's existing procedures require that all materials pertinent to the underwriting and issuance of a policy be maintained in the appropriate file. The Company will reinforce this requirement in its employee training programs.

2. 2 Violations of the Insurance Company Law, Section 412, applicants signature on the application.

The Company acknowledges that all applications must be filled out completely, and include the signature of the applicant. Administrative personnel have been instructed to return incomplete applications for correction. The Company will reinforce this requirement in its employee training programs.

L. Annuity Contracts Terminated

1. 3 Violations 31 Pa. Code §146.6, Notifications to Claimants

The Company acknowledges that timely status letters were not sent to these three claimants. The Company's procedures require that timely status letters be sent to all claimants. This requirement will be reinforced through additional training.

2. 3 Violations of 31 Pa. Code §146.7, Acceptance or denial of claims.

The Company acknowledges that notice of acceptance or denial was not provided within the required 15 days. The Company has instituted procedures to comply with this requirement, and the annuity claims staff will be given additional training in the procedures.

M. Life Policies Terminated

1. 2 Violations of the Insurance Department Act, Section 903, Maintenance of Records

The Company acknowledges the requirement that appropriate records be maintained in all files. The Company's existing procedures require that all materials pertinent to the underwriting and issuance of a policy be maintained in the appropriate file. The Company will reinforce this requirement in its employee training programs.

O. Annuity Contracts Issued as Replacements

1. 2 Violations of 31 Pa. Code §81.4(b)(1), Dating of Replacement Forms

The Company has instituted procedures to review all applications and replacement forms for completeness and correctness. These procedures will be reinforced with additional training.

2. 1 Violation of 31 Pa. Code §81.6(a)(1), Replacement question

The Company has instituted procedures to review all applications and replacement forms for completeness and correctness. These procedures will be reinforced with additional training.

3. 1 Violation of 31 Pa. Code §81.6(a)(2)(ii), Replacement Notifications

In the case cited, the Company was unable to determine the nature of the plan being applied for from the initial application. A request for additional information was sent to the annuitant, and upon receiving a satisfactory response, the replacement notification was sent within the required five day period. The Company does have procedures in place to ensure compliance with 31 Pa. Code §6(a)(2)(ii). In this instance, it was not possible to send the replacement notice until clarification was received from the applicant.

X. CLAIMS

B. Unique Disability Claims

1. 1 Violation of 31 Pa. Code §146.3, Maintenance of Records

The Company is in the process of deploying a new Claims Administration System. Once the system is implemented, all new claims will be digitally imaged, stored electronically and available on the claims system. This change will eliminate the possibility of misplaced files.

2. 8 Violations of 31 Pa. Code §146.5, Acknowledgment of Claims

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the strictest in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore,

we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees.

In addition, all disability claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for disability claims.

3. 2 Violations of 31 Pa. Code §146.6, Claim Status

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the strictest in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore, we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees.

In addition, all disability claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for disability claims.

4. 1 Violation of 31 Pa. Code §146.7, Notice of Acceptance or Denial of Claims

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the most strict in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore, we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees

In addition, all disability claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for disability claims.

C. Life Claims

1. 9 Violations of 31 Pa. Code, Section 146.5, Acknowledgment of Claims

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the strictest in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore, we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees.

In addition, all life claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for life claims.

2. 6 Violations of 31 Pa. Code §146.6, Notification of Claim Status

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the strictest in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore, we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees.

In addition, all life claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for life claims.

3. 4 Violations of 31 Pa. Code §146.7, Acceptance of Denial of Claims

The Company had previously incorporated the California Unfair Claims Practices Regulations into the Claims Department Administrative Procedures Manual, as it was our understanding that they were the most strict in the nation, and that adherence to the California requirements would satisfy the requirements of all other states. We have determined, that in certain instance, the Pennsylvania Unfair Claims Practices Regulations are more stringent, and therefore,

we have incorporated the Pennsylvania regulations into the Claims Department Administrative Procedures Manual made available to all employees

In addition, all life claim examiners have been given training in the Pennsylvania Unfair Claims Practices Regulations.

The Company is also in the process of implementing a new Claims Administration System. We are exploring the possibility of producing automated acknowledgment letters using our new claims administration system when that system is deployed for life claims.

4. 1 Violation of the Insurance Company Law, §411B, Payment of interest

The company maintains a chart for the payment of statutory interest in each state, and the chart is a part of the Life Claims Procedures Manual. The failure to pay interest in this one instance was an inadvertent oversight.

The Company is implementing a new Claims Administration System. We are exploring the feasibility of automated calculation of interest when the system is deployed for life claims.

D. Supplementary Contract Claims

3 Violations of 31 Pa. Code §147.6, Acceptance or Denial of Claims

The regulation cited applies to the underlying Life Insurance Claim, and not to the issuance of the Supplemental Contract. The Supplemental Contract is issued as part of the settlement of an accepted and adjudicated Life Claim.

In all three cases the Life Claims Department sent required notice of acceptance or denial of the claim within 15 working days.

- 2004-218-063, notified of claim on 02/09/04, notice of acceptance sent 02/26/04
- 2004-218-068, notified of claim on 02/09/04, notice of acceptance sent 02/26/04
- 2004-275-077, notified of claim on 12/08/03, notice of acceptance sent 12/15/03

Supporting documentation, supplied by RSL's Life Claims Department, was previously submitted to the examiners.

Issuance of the Supplemental Contract is distinct and separate from acceptance or denial of the Life claim. A Supplemental Contract is only issued when a claim has been accepted. The Supplemental Contract is issued to minor beneficiaries of a life insurance policy when no proof of guardianship over that minor's estate is provided to the Life Claims Department. A request for proof is made only after the claim has been accepted and the required letter of acceptance is sent. A period of time is provided by the Life Claims Department to allow the process of applying for guardianship

over a minor's estate to take place. Upon the expiration of this allowed for time period, a request is made to the Annuity New Business Department to issue a Supplemental Contract for the minor, to be held on deposit until either guardianship papers for the minor's estate are provided or the minor attains the age of majority and makes a request for withdrawal.

It would appear that the Examiners are citing the date of notification of the claim as compared to the date the Supplemental Contract, rather than notification date compared to the claim acceptance date, and deeming a violation of Title 31, Pennsylvania Code, Section 146.7 to have taken place.

We respectfully suggest that this is in error.

E. Third Party Administered Life Claims

1. 1 Violation of 31 Pa. Code Section 146.5, Acknowledgement of Claims

The Company's individual life insurance claims are administered by Protective Life Insurance Company, pursuant to a 100% reinsurance agreement and contemporaneous administration agreement. Protective has over \$150 Billion of life insurance in force and in excess of \$16 billion in assets and is rated A+ (Excellent) by A.M. Best. The Company is satisfied that Protective has the appropriate procedures in place to ensure compliance with the Pennsylvania Unfair Claims Practices Regulations. The Company, will however, bring this error to Protective's attention, and reiterate the necessity for compliance.

2. 15 Violations of 31 Pa. Code §146.6, Status of Claims

The Company's individual life insurance claims are administered by Protective Life Insurance Company, pursuant to a 100% reinsurance agreement and contemporaneous administration agreement. Protective has over \$150 Billion of life insurance in force and in excess of \$16 billion in assets and is rated A+ (Excellent) by A.M. Best. The Company is satisfied that Protective has the appropriate procedures in place to ensure compliance with the Pennsylvania Unfair Claims Practices Regulations. The Company, will however, bring this error to Protective's attention, and reiterate the necessity for compliance.

XI. RECOMMENDATIONS

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of 18 Pa. C.S. §4117(k).

Response: The Company has undertaken a review of all applications and will ensure that the required language is included in all application forms designed for use in Pennsylvania. In addition, although not required under 18 Pa. C.S. §4117(k), the Company will also include the fraud language in enrollment forms designed for use in Pennsylvania.

2. The Company must review and revise internal control procedures to ensure compliance with the requirement of 31 Pa. Code, Chapter 146, Unfair Claims Settlement Practices.

Response: As previously set forth supra, the Company has incorporated the Pennsylvania Unfair Claims Settlement Practices Regulations into its Claims Procedures Manuals, and has given all claims examiners additional training in the Pennsylvania Regulations. In addition, the Company is currently in the process of implementing a new Claims Administration System which will automate certain functions currently performed manually by examiners, hence eliminating violations caused by human error.

3. The Company must review and revise licensing procedures to ensure compliance with Section 671-A of the Insurance Department Act.

Response: As previously indicated, the Company's licensing, marketing and administrative areas have been advised of the Pennsylvania requirement for pre-appointment of producers. The Company will not permit producers to represent the Company in Pennsylvania prior to appointment, and will not accept Pennsylvania applications from producers who are not appointed.

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.

Response: As indicated with greater specificity in the individual responses supra, the Company has taken steps necessary to ensure compliance with Section 903(a). These steps include additional training of personnel and digital imaging and storage of files.

5. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pa. Code, Chapter 51.

Response: As previously indicated, the Company maintains state checklists of filing requirements for the annual statement. The advertising certification requirement has been added to the Pennsylvania checklist.

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

Response: Supervisors in the policy administration area have been alerted to the requirement, and additional training has been provided to administrative staff.

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.

Response: The Company has implemented procedures, including withholding of producer commissions where required delivery receipts have not been provided to the Company.

8. The Company must review internal control procedures to ensure compliance with application and policy delivery requirements of Sections 410 and 412 of the Insurance Company Law of 1921.

Response: As previously indicated in the Company's responses, the Company has reinforced its procedural requirements with additional training for administrative personnel.

The Company would like to take this opportunity to thank the Department and each of the individual examiners for the professionalism, cooperation and courtesy extended during the examination. We look upon examinations such as this one as learning opportunities. Reliance Standard Life Insurance Company prides itself on its record of regulatory compliance, and endeavors to remain in compliance with all state and federal laws and regulations. While we strive for 100% compliance, in any operation where human beings are involved, mistakes will be made. Through the examination process, we are able to learn where we have made mistakes, and to implement appropriate corrective actions to benefit both the Company and the consumer.

Very truly yours,

Charles T. Denaro