REPORT OF

MARKET CONDUCT EXAMINATION

OF

CHASE LIFE AND ANNUITY COMPANY

AS OF

March 24, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of MARCH 24, 2006 of the

CHASE LIFE AND ANNUITY COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: _____

DATE: 26 MARCH 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26TH DAY OF MARCH 2007.

_____

Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

CHASE LIFE AND ANNUITY COMPANY

AS OF

MARCH 24, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 26TH day of MARCH, 2007.

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SALUTATION

September 18, 2006

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 06.704, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Chase Life and Annuity Company

hereinafter referred to as the "Company." The Company is incorporated under the laws of the State of Delaware. This examination reviewed the operations of the Company. The on-site phase of the examination was conducted at the following location:

2500 Westfield Drive Elgin, IL 60123

The examination is as of March 24, 2006.

Examination work was also completed off-site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers these areas include:

Company Operations/Management
Complaint Handling
Marketing and Sales
Producer Licensing
Policyholder Service
Underwriting and Rating
Claims

Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a market conduct examination through a review of the written procedures of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive overview of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

HISTORY AND PROFILE

The Company was originally incorporated under the laws of the State of Ohio on June 30, 1925 as the Inland Casualty Company and commenced business as a casualty insurer on January 1, 1926. By subsequent amendments to its Article of Incorporation, the name was changed to Inland Fire Insurance Company, The Ohio Life Company and then to its

current name. The Articles of Incorporation were also amended for the purpose of transferring the Company to a legal reserve life insurance company. The Company was re-licensed to write life insurance and accident and health coverage and was authorized to issue annuities. Effective August 1, 2001, the Company re-domesticated from Ohio to Delaware.

On December 15, 2003, the Insurance Commissioner of the State of Delaware ordered and approved a statutory merger for the Company. As ordered and approved, affiliated entities, Sun States Life Insurance Company and Western Hemisphere Life Insurance Company, merged into the Company on January 1, 2004. CBD Holding Ltd. was and remains the sole shareholder of all parties to this transaction. The company assumed responsibility for all obligations and liabilities of Sun States and Western Hemisphere, effective with the merger.

NOTE

The current examination of the Company began on December 17, 2005. On February 7, 2006, during the course of this examination, JPMorgan Chase & Co. announced that it signed a definitive agreement to sell its life insurance and annuity underwriting business, of the Company, to Protective Life Corporation (PLC). The sale was completed on July 3, 2006. A merger of the Company into PLC occurred on January 1, 2007.

Since this baseline examination was already in progress, the decision was made to continue with the examination. It was not known at the time of examination whether or not PLC would integrate the Company into its own management system, if PLC would revise all or some of the Company's procedures, or if the Company business would continue as before. Given the questions about the future management of the Company, the examiners did not issue any Recommendations or Requests for Corrective Action.

The findings of the examiners are as of March 24, 2006, a time when the Company was still under the control of JPMorgan Chase & Co. This report does not contain the usual discussion or conclusions regarding the procedures used by the Company. No representations or statements made in this report apply to Protective Life Corporation since the review focused on the time period when the Company was still owned by JPMorgan Chase & Co.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Life and Annuity Insurer found in Chapter XV of the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the *NAIC's Market Conduct Examiners' Handbook.*

Some standards are measured using a single type of review, while others use a combination of all of the types of review. The types of review used in this examination fall into three (3) general categories: “generic,” “sample” and “electronic.”

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners’ Handbook and the *NAIC’s Market Conduct Examiners’ Handbook*. For statistical purposes, an error tolerance level of seven percent (7%) is used for claim reviews and a ten percent (10%) tolerance level is used for other types of reviews. The sampling techniques used are based on a ninety-five percent (95%) confidence level. This means that there is a ninety-five percent (95%) confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI’s actual tolerance for deliberate error.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically evaluates one-hundred percent (100%) of the records of a particular type.

Standards are measured using tests designed to adequately determine how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners’ Handbook for a Life and Annuity Insurer. Each standard applied is described and the result of the testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the *NAIC’s Market Conduct Examiners’ Handbook* are stated and contained within a bold border.

Each Standard contains a brief description of the purpose or reason for the Standard. The "Result" is indicated and examiner “Observations” is noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with the exception of the following two standards which read as follows:

- “The Company is licensed for the lines of business that are being written.”

- “The Company cooperates on a timely basis with examiners performing the examinations.”

Standard A 07

NAIC Market Conduct Examiners' Handbook - Chapter XV §A, Standard 7 & Chapter XVII §A, Standard 7

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b)

The review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company's operations are in conformance with the Company's certificate of authority.

Results: **Pass**

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company's Delaware Certificate of Authority.

Standard A 09

NAIC Market Conduct Examiners' Handbook - Chapter VIII §A, Standard 9

The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3

The review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to ensure the Company is cooperating with the state in the completion of an open and cogent review of the Company's operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and thereby minimizing cost.

Results: **Pass**

Observations: During the course of the examination the Company was provided with fifty-one (51) Information Requests (IR's) and all responses were returned timely. The Company's communication with the examiners was very responsive. The examiners experienced no delays during the course of the examination.

B. COMPLAINTS/GRIEVANCES

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IR items) and complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "…maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each

complaint." Delaware's definition of a complaint is: "…any written communication primarily expressing a grievance."

Observations: The Company provided a database with no logged complaints received for the examination period in review. The review of the Complaint Handling process is noted in Procedure 43.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this section. The processes usually include:

- a planning function wherein direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for the Company's staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Audit (Internal and External)

Observations: The Company provided the examiners several internal and external audit procedures and supporting documents, including charts, reports, policy standards and overviews of the procedure. The Company's audit procedures are clear and unambiguous, with step by step instructions and mandates for the employee to follow. Each audit included a detailed description of the prior audit information, the audit type and scope, business overview and context, key findings and risk implications, audit and risk ratings and the status of any action plans implemented based on the findings of an audit.

No discrepancies with applicable statutes or regulations are noted. The procedures are updated and reviewed at least on an annual basis with monthly and quarterly reviews for all of the procedures. Specific procedure establishment dates were not provided to the

examiners, however, all documents contained an early 2006 version date. No formal training information was provided for these procedures, however, the Company stated that most of its training is conducted on the job.

The Retail and Operations Audit team provides all Retail Financial Services (RFS) and Centralized Transaction Operations (CTO) functions for the Company. The Insurance and Audit divisions are staffed from members of the RFS and CTO team. There are sixty-three (63) individuals on this team, with thirty-six (36) individuals having some level of professional certification, including CPA, advanced insurance designations and securities' licenses. No formal training information for these staff members was provided.

Internal Audits are an independent risk assessment function established within the organization to evaluate, test, and report on the adequacy and effectiveness of management's systems of internal control. In general, the Company has established a three pronged approach for the measurement of all procedures. This approach includes conducting audits and oversight reviews throughout the year via three different divisions: Internal Audit, the Operational Risk Assessment Team via the Control Self-Assessment (CSA) audits, and the Compliance Division.

The Auditor reports directly to the Board of Directors through the Audit Committee. The Auditors provide quarterly reports to the Audit Committee on significant changes to the audit plan as well as suspicious activities or unusual statistics noticed within a certain line of business. The frequency and scope of the audit are determined from the on-going assessment of risk. Generally audits are performed on an annual basis for all lines of business.

The scope of an audit within the Company typically entails audits, follow-up audits, change activity audits and continuous audits. Annual planning for the program of audits is performed by the Audit Managers and approved by members of the Audit Management Team. In instances where an audit utilizes a third party during an internal audit review, the Audit Manager will establish the scope of the audit, manage the day to day activities of the audit and review the work performed by the third party to ensure it is conducted in accordance with the Company's policies and standards.

Audit results are communicated through formal reports that provide an overall opinion or conclusion on the adequacy and effectiveness of controls designed to mitigate key risks and to limit loss exposure. The risks and controls audited are those reflected in the Business CSA, which includes the key financial and application controls designated as such under Sarbanes-Oxley. Reports also include an audit rating reflecting an opinion on the overall control environment of the area under review and specific action plans needed in order to reduce risk.

Reports are issued no later than thirty (30) days from the completion of the fieldwork. The Audit Managers are responsible for ensuring that reports are distributed to the appropriate individuals within the various levels of management.

Activation of the audit process is determined from the on-going assessment of risk for each line of business. High risk issues are tracked through the Executive Management Report (EMR). The EMR is a company wide mechanism for reporting significant information to Senior and Executive Management. This report is produced and distributed at the RFS line of business and the corporate levels. Each EMR includes key control issues, a summary of audit activity and a summary of regulatory examination issues. A condensed version of the RFS EMR report is provided to the Insurance Risk Committee on a monthly basis so that they may discuss the progress of issues related to the Insurance group. Management utilizes the findings of the EMR reports as well as other specific audit reports to prioritize which action plans in each line of business merit attention.

The Compliance Department is responsible for the ongoing monitoring and reporting of sales of the Company's Annuity Product. The Compliance Department is involved in the development of advertising and marketing materials, as well as the pre-sale, sale, and post-sale processes and audits. These audits and oversight functions include branch audits, tele-script auditing, application reviews and post-sale reviews.

During 2004 significant issues were identified with the technology controls within the Company. These deficiencies prompted a request to Management from the Internal Audit department that a self-assessment be conducted of the Company's technology controls as compared to corporate's requirements. Over 900 action items were identified and worked on through 2005. During 2005, the Phoenix process, an internal risk management tracking system, was integrated into the audit process. Each auditor is responsible for inputting into the Phoenix system all issues from an Internal Audit report once the final report has been submitted to management. The Lines of Business or Organizational Risk Management are then responsible for inputting action plans into Phoenix. The Company's Insurance group began using this system in late 2005 to track all risk issues identified by an external audit report, regulator, management or internal audit report.

Procedure 03 – Company Records, Central Recovery and Backup

Observations: A copy of the Record Retention Procedure and workflow chart for document imaging and archiving was provided to the examiners. In addition, a copy of the Company's State of New York record retention guidelines was provided and reviewed. The Records Retention procedures were adopted October 1, 2001, and revised November 1, 2002. This procedure is reviewed by both the Legal Department and the Compliance Department on an annual basis. The procedures and appropriate responsibilities are provided in writing to all persons subject to its provisions. Affected persons are utilizing these procedures. This was confirmed by the examiners after conducting various tours of the Company's operations and staff interviews. Training on the submission and retrieval of files are handled at the departmental level.

Active customer policy files are stored on various media, including paper records, microfilm, and electronic imaging. The retention period is for the life of the policy, plus an additional ten (10) years. Inactive records are archived on microfilm or imaged and are

permanently maintained. The Company maintains sufficient detail of records and clarity to reconstruct the underwriting/rating of a policy or claim handling.

Storage of imaged and microfilm files is handled by a third party vendor, Iron Mountain. This third party is obligated to protect non-public information of the Company's customers and agrees in writing to protect such information with regard to various performance standards. The Company uses only those off-site storage facilities that are approved by Company management.

Third party vendors are notified in writing of their obligation to protect and maintain the confidentiality of all personal information. Technology Risk Management establishes minimum control requirements for protecting all Company sensitive information processed by or stored at Outside Service Providers

When files are submitted for archiving, management reviews all Iron Mountain transmittal forms to verify that the correct destruction date has been included. Inactive files are keyed into an Access database that identifies the type of records submitted, the archived date and the Iron Mountain storage number. Policy files are archived in the Company's image repository and are quality checked via random samples to ensure the indexing criteria is correct. Items submitted with incorrect data can be edited by the Office Services team once the correct information has been verified. Backups of all information are conducted twice per day by the Chase Home Finance Department. The record retention schedule was observed by the examiners on the Company's intranet. Recoveries have not been necessary during the examination period.

Appropriate managers and supervisors must periodically screen records to determine if they are active or inactive. Records determined to be inactive are reviewed for possible storage in the designated records center.

Procedure 05 – Anti-fraud

Observations: Written Anti-Fraud procedures were provided to and reviewed by the examiners. The procedures contained a list of activities performed within the Company's Fraud Prevention, Detection, and Reporting Plan. These procedures describe guidelines for uncovering and reporting fraud in two different areas: Initial Application and Contract Maintenance. Written copies of the Anti-Fraud procedures are provided to all affected personnel. These procedures were implemented on October 1, 2001 and updated on February 20, 2002. An Anti-Fraud employee workflow chart was also provided to the examiners. These procedures include step-by step directions for the employees to follow. No discrepancies with applicable statutes and regulations are noted.
The Company's current Anti-Fraud department is staffed with various interdepartmental individuals including Compliance, Annuity Service Center and Sales Representatives. Implementation of the Anti-Fraud plan is performed throughout the Sales and Customer Service related processes and procedures. The Compliance and Audit Departments are responsible for the plans oversight.

The Company measures effectiveness of its procedures in several ways. The Compliance Department performs regular spot reviews of randomly selected applications and contract files. The Compliance Department routinely reviews and determines the suitability of all contract applications in excess of $100,000 and $200,000, depending on the type of contract. The Compliance Department also reviews and determines the suitability of all contracts with additional premiums that raise the contract value in excess of $50,000, and the review includes all cancellations/surrenders that occur within the first year of the contract.

The Accounting and Compliance Departments also routinely review all claims and withdrawals in excess of $100,000, whether they are for a death benefit or merely a request to withdraw more than $100,000.

The TPA (Annuity Service Center) will review each application, change request, withdrawal request, additional premium payment, and claim for suspected fraudulent activity. Any suspect activity or suspect request is reported to the Compliance Department for further investigation. All contract activity is held until the Compliance Department completes the review and contacts the Annuity Service Center with instructions.

Once the Compliance Department is notified of possible fraudulent conduct or acts, they notify the specific State Insurance Department within the required time period set forth by that state. The Company's various departments will partner with the Fraud Department of the State to investigate and report all suspected fraud.

Management conducts internal and external audits on this procedure on an annual basis. All Company Sales Representatives are trained in fraud detection and reporting as part of the Company's "Know Your Customer Training" classes.

Procedure 06 – Disaster Recovery

Observations: Documents provided to the examiners included Disaster Recovery Plans documented in the Living Disaster Recovery Plan (LDRPS) and the Retail Resiliency Management Planning standard utilized to develop the LDRPS plans. Retail Financial Services Information Technology Clean Management procedures were also provided. The Resilience Planning Standard document was published December 15, 2004 and revised July 14, 2005. The Clean Management Plan was published May 13, 2002 and last updated July 1, 2005. The procedures are clear, unambiguous and provide the employees with step by step processes to follow. No discrepancies with applicable statutes and regulations are noted. The procedures are provided in writing to key recovery personnel responsible for performing the procedure. Key personnel must have multiple current copies of the plan and be easily accessible, such as at home and the office. A printed copy of the plan is also stored outside the production zone, or at a location that does not rely upon resources within the production zone.

The examiners were provided a summation of the disaster recovery plan. Various tests are performed throughout the year that consists of Awareness Training, Call Tree Tests, Walk Thru Tests, Table Top Tests and Physical Tests. The Company conducts a business impact analysis of the various data flow processes to determine the Recovery Time Objective (RTO) for each application. Disaster recovery plans are established based on the RTOs and go through the various testing scenarios as indicated above. A portion of the procedure calls for the verification of the elements of the Disaster Recovery Plan. This test is conducted on an annual basis with the application development team in the Information Technology Department.

Elements of the Disaster Recovery Plan are tested every forty-eight (48) twenty-four (24) or twelve (12) months depending on the Recovery Time Objectives (RTO). The Disaster Recovery (DR) team goes through the various testing scenarios. Errors are recorded in a Lotus Notes database called Project Information Center (PIC). The DR Manager is responsible for ensuring that errors are identified with a plan of action for remediation.

Every manager in the Company is responsible for developing and maintaining contingency plans as part of the corporate-wide Business Continuity Program. Minimum requirements have been established for each critical business unit to provide essential business and technology services levels. Continuity plans must explicitly address the business, operations and technology components of a business unit, including those critical services and functions provided by third parties.

The Resiliency Planning Standard establishes control requirements to enable consistent and comprehensive planning efforts across business processes, business units, application and infrastructure support groups which will provide for the orderly and efficient reaction to or recovery from any disruptive event.

The Company measures the effectiveness of its disaster recovery procedure in several ways. These metrics include six (6) specific metrics in the Clean Management Process document, including Maintenance of Application Inventory and Status, Standards Development Adherence and Improvement, Proactive Auditing and Management, Delivery Process Integration, Communication and Organization Alignment. The Disaster Recovery Plan is reviewed on an annual basis during the Company's Walk-thru/Awareness Training procedures in January of each year.

The Disaster Recovery Committee (DRC) also conducts a pre-audit of the plan prior to the walkthrough date to identify any known deficiencies, identify questions to ask and note any changes that need to be documented. Additional purposes of a Pre-Audit Review is to ensure that the Plan document is up-to-date, supports the environment, and is executable prior to the Auditing Department completing their review. Based upon the examiners review of the 2005 Disaster recovery testing report the procedure is performing as intended.

Procedure 16 – Replacement

Observations: The Company maintains its written procedures regarding replacements in several Company documents. All of these procedures were initially issued in October 2001, and revised in the years following. The procedures are readable and logically organized with processes being presented through the use of if-then statements, *e.g.*, "If it is not a replacement, Then Go to Step 3." The procedures are centered on replacements either taking place in New York or in states other than New York for internal and external replacements. Each of these procedures appears to focus on 1035 exchanges.

The procedures appear to be compliant with applicable statutes. Although the procedure is logically organized and easily followed, it fails to indicate a step or process used to ensure that the agent or sales representative is not twisting or churning the insured. From Step One of the procedural documents it is assumed that the customer has personally sought this replacement. The Company indicated that the manager examines monthly reports related to external replacement (non-conserved business), and uses these reports to "look for trends." This appears to be a reactive process as the measurement and analysis does not capture the insureds that are retained through the Company's efforts to "save the business," nor does it investigate the possibility of other potential problems including poor advertising, bad agents, churning, or twisting, as mentioned above. There is no trend analysis regarding these attempts to replace coverage. Additionally, it is not evident that the Company utilizes the "trends" in replacement to improve or address any potential problems.

The Company indicates in its procedure a list of forms that are intended for delivery to the customer in the case of a replacement. The Company also references the twenty (20) day time standard required by statute to provide requested information to a replacing insurer.

The examiners did not observe the training provided to Company employees. If employees receive these procedures and the appropriate forms they could easily follow the flow of the procedure, however, it is not evident that this occurs from the procedures provided.

Procedure 25 – Correspondence Routing

Observations: The Company has a procedure for Correspondence Routing that is comprised of several documents describing the process for telephone calls to the Service Center, as well as the routing of various documents received at the Company. The written procedure section for correspondence routing are translated to a flow chart that describes the entire process in a clear manner. The detail and style of the procedure is similar to the "If – Then" process described in Procedure 16 - Replacements.

Inquiries made by telephone are directed to the Company's Service Center. The Company utilizes an Interactive Voice Response (IVR) function that is capable of handling some of the requests received, such as providing the contract value, active interest rates, mail or fax information, etc. The Company has indicated that the IVR, in

addition to assisting contract owners, also offers an option for a sales representative to "call in to the Sales Support Desk."

The procedure also indicates the routing for "all applications, forms, correspondence, and checks from the Sales Representatives." These documents are routed to a location referred to as "CISC" for processing. The Company also utilizes a lockbox for the receipt of documents.

Measurements for this procedure were not observed. The procedure was last revised on June 12, 2002. No conflicts with Delaware's statutes or regulations are noted.

Procedure 34 – Termination

Observations: The Company's procedure for Terminations was originally issued in October 2001, with the most recent revision date of February 2002. There are two pieces to the procedure, one that describes the process during the free-look period of a policy, and the other addressing the steps to take when the policy is beyond the free-look period. Requests for termination must be made in writing. If a request for termination is made by telephone, "the customer will be sent the appropriate form to complete." The Company does not consider a request as official until a signed form is received with the original contract or a "Lost Contract Statement." After the free-look period the Company assesses surrender charges for the first five (5) years in decreasing percentage amounts.

The procedure contains specific requirements indicating each "step," "person," and "action" that is required. References to other Company procedures pertinent to specific steps are also included. However, specific timeliness standards for termination processing are not explicitly stated in the procedure. The process for policy rescission was not observed in the provided materials.

No conflicts with Delaware's statutes or regulations are noted.

Procedure 42 – Adjustor and Claim Processor Training

Observations: The Company did not provide a written Adjustor and Claim Processor Training Procedure. On the job training is the method of training utilized by the Company. Levels of signing authority for dollar amounts of benefits are given based on experience. During the course of a claims review conducted by the Internal Audit section of the Company, it was noted that the Claims Department failed, "to provide thorough and adequate training for California claim regulations to its claim agents." This same document indicated that "corrective actions and training have been implemented or will be shortly," and that "testing will be performed in 2005 to ensure procedures are being followed." However, no procedure was provided to the examiners.

The lack of training noted in the audit document indicates that no formal procedure exists. The lack of a procedure indicates that there may have been errors that were not detected previously with regards to Adjustor and Claim Processor Training.

Procedure 43 – Claim Handling

Observations: The Company maintains a written Claim Handling procedure as part of the Company's Claim Manual. This procedure is consistent with the interviews and practices observed by the examiners during an on-site visit. The Claims Department processes both the life insurance claims and annuity claims.

A claims database with accompanying form letters is utilized by the Company during the claims process to update the policy's status and to determine and locate required materials for each claim. A copy of each document received or sent by the Company is maintained in hard copy within an individual file for each claim. Images are made of each of these documents. The hard copies are maintained for forty-five (45) days before being sent to Archives.

When a claim is received, if the contract is active, the Company sends a letter to the claimant indicating the documentation needed in order to process the claim. This letter, termed the "claim kit," is mailed within three (3) days of receipt of the claim. Once the completed claim kit is returned to the Company it is reviewed for its validity. If it is determined that the claim is invalid it is sent to the Company's Compliance Department for a possible fraud investigation. If the claim is deemed valid, it is reviewed by a Claim Examiner for completeness and then processed. A check is written to the Beneficiary or Beneficiaries. Each Claim Examiner is authorized to work on and sign off on claims based on the dollar amount of the benefit.

Claim handlers are assigned one of their peers for a daily review of that peer's work. This assignment is changed on a monthly basis. As described in the procedure, each claim handler knows the assignments as well as which of their peers is assigned to review his or her workload.

A selection of five percent (5%) to ten percent (10%) of claims from the prior month's volume is selected for review by management on a monthly basis. Follow-up activity logs are also reviewed for adherence to the procedure. The Company indicates that it uses its Internal Audits as an additional means to measure the effectiveness of this procedure. Please see Procedure 44 - Internal Claim Audit for additional information.

Procedure 44 – Internal Claim Audit

Observations: The Company provided two (2) statements of policy for Internal Claim Audit and supplemented these documents with examples of the reports generated by the Auditors. Procedures for the audits are included in the statement. The policy and procedures contain a revision date of March 10, 2006, and were created in June 1997. The Audit Management Team has authorized the March 2006 edition.

The procedure indicates that reports include an audit rating of "satisfactory, marginal or inadequate." The assignment of these ratings - based on the procedures listed in the policy statement - appears subjective rather than objective. As seen in the document, reports include an audit rating reflecting an opinion on the overall control environment of

the area under review. Definitions of these ratings are vague. A satisfactory rating is defined as, "Controls are adequately designed and operating effectively, and no significant control deficiencies were noted." Meanwhile an inadequate rating is defined as, "Controls are not adequately designed or effective. Significant control deficiencies exist without sufficient mitigation."

The reports provided do not contain these rating classifications, instead they contain letter grades and as such pre-date this edition of the policy statement and procedures. The procedures inform auditors how to convert such report grades for use with the current system. Reports also contain a matrix designed to capture further discussion of the issues and the proposed action plans, and include a target date for implementation and improvement.

The procedure states that, "the audit report is the culmination of fully engaged discussions with the lines of business." This statement is rather nebulous and does not indicate other testing that may be required. The procedure also indicates that generally only key controls over key risks are audited. The risks and controls audited should generally be those reflected in the Business Control Self-Assessment (CSA), which should include key financial and application controls designated as such under Sarbanes-Oxley (SOX). It could be potentially problematic only auditing key controls over key risks. Items that are not identified as key yet are potentially the cause of concern for the Company may remain unchecked in this system.

Procedure 45 – Claim File Documentation

Observations: The Company's procedure for Claim File Documentation is found within its procedure for Claim Handling, specifically in a document entitled, "Death Claims." This document includes a full list of the documentation necessary to complete the claim file. Procedures for record retention also indicate that the Company will retain claim files for "six (6) calendar years after all elements of the claim are resolved and the file is closed or until after the filing of the report on the examination in which the claim file was subject to review, whichever is longer." Statute of limitations requires a minimum ten (10) year retention period; given this it is possible that the Company has purged claim files prematurely.

Though the procedure appears to cover the necessary steps needed for a Claim File Documentation procedure, it is unclear if measurements are in place specifically for the documentation of claim files. Review of the Internal Claim Audit reports indicate that documentation is at least partially examined. One of the reports, under an issue labeled, "Claim & Annuitization Policies & Procedures," indicates that "management should develop and implement formal written policies and procedures for both the annuitization and death claim processes and ensure that they are communicated to all processors. At a minimum, the following items should be addressed: …procedures and documentation standards for following up with customers for missing information for dated claims, and customer authentication procedures." This report is dated June 23, 2005, while the Death Claims document shows an issue date of February 2002 with a revision date of March 12, 2004. This inconsistency calls into question the efficacy of one or more of the following

Company's procedures: Internal Claim Audit, Claim File Documentation, and Claims Handling.

SUMMARY

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

LIST OF RECOMMENDATIONS

Please refer to the NOTE on page three (3) of this report.

CONCLUSION

The examination was conducted by Donald P. Koch, Brian T. Tinsley, Sean Connolly,

Cindy Amann and Nobu Koch and is respectfully submitted,

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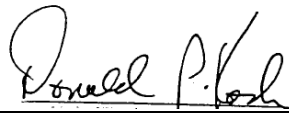

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