

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

United States Branch of the Sun Life Assurance Company of Canada

NAIC #80802

One Sun Life Executive Park

Wellesley Hills, MA 02481

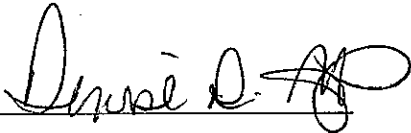
As of

June 30, 2010

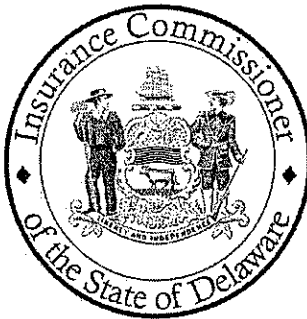
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of June 30, 2010 on

United States Branch of the Sun Life Assurance Company of Canada

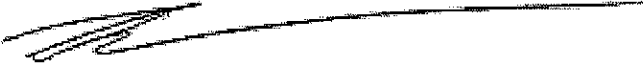
is a true and correct copy of the document filed with this Department.

Attest By: 

Date: 12 April 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12th day of April 2011.



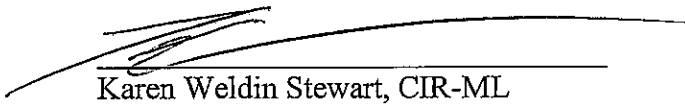
Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
United States Branch of the Sun Life Assurance Company of Canada
AS OF
June 30, 2010

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

Consideration has been duly 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.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 12th day of April 2011

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February 15, 2011

Honorable Karen Weldin Stewart CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 09-501, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

United States Branch of the Sun Life Assurance Company of Canada

The examination was performed as of June 30, 2010. United States Branch of the Sun Life Assurance Company of Canada, hereinafter referred to as the "Company" or as "SLACC," was incorporated under the laws of Canada. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

One Sun Life Executive Park
Wellesley Hills, MA 02481

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

Sun Life Assurance Company of Canada (the "Company") incorporated in Canada in 1865 and commenced business there in 1871. In 1895, the Company commenced business in the United States, using the State of Michigan as its port of entry.

On their 2009 annual statement filed with the Department, the United States Branch of the Sun Life Assurance Company of Canada reported direct premium for ordinary life insurance in the amount of \$25,233,259; and direct premium for accident and health in the amount of \$1,147,900. The Company's main administrative offices are located in Wellesley Hills, Massachusetts.

The examination was announced as part of a series of examinations on companies in the Individual Life Insurance marketplace in Delaware. The companies were chosen based on Delaware's market share, market analysis and the company's complaint index.

The purpose of the examination was to focus on the Company's compliance with past regulatory or litigation settlements related to the sales and marketing of life insurance, while additionally determining compliance with Delaware insurance laws and regulations.

In general, the examination focused on the Company's life insurance business in the following areas of operation: Company Operations/Management; Complaint Handling, Marketing/Sales, Producer Licensing, Producer Oversight and Policyholder Service.

One exception was noted to 18 Del. C. §1715 for the Company's acceptance of business from a producer who was not appointed to sell life insurance in Delaware.

No exceptions were noted in the other areas of operations reviewed.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. C. §§318-322 and covered the experience period of July 1, 2009, through June 30, 2010, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to the sales and marketing of life insurance.

The examination was a target market conduct examination of the Company's life insurance business in the following areas of operation: Company Operations/Management; Complaint Handling, Marketing/Sales, Producer Licensing, Producer Oversight and Policyholder Service.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners' report on the errors found in individual files, the examination also focuses on general business practices of the Company.

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.

Delaware Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions 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 exceptions identified during the examination and review written summaries provided on the exceptions found.

COMPANY HISTORY AND PROFILE

Sun Life Assurance Company of Canada (the "Company") incorporated in Canada in 1865 and commenced business there in 1871. In 1895, the Company commenced business in the United States, using the State of Michigan as its port of entry. On March 22, 2000, the Company converted from a mutual life insurance company to a stock life insurance company following approval of its demutualization plan by policyholders and the Minister of Finance (Canada). The Company completed its initial public offering on March 23, 2000. As a result of the demutualization, a new holding company, Sun Life Financial Inc. ("SLF") (formerly known as Sun Life Financial Services of Canada Inc.), became the direct and ultimate parent of the Company. SLF was incorporated on August 5, 1999 under the Insurance Companies Act of Canada and is a reporting company under the Securities Exchange Act of 1934, as amended, with common shares listed on the Toronto, New York, and Philippines stock exchanges.

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Effective December 31, 2002 at 11:59 p.m., the Company and its holding company affiliate, Clarica Life Insurance Company, amalgamated under Canadian Law into one Canadian stock life insurance company that continues to operate under the name Sun Life Assurance Company of Canada.

On January 4, 2005, a reorganization was completed under which most of the Company's asset management businesses in Canada and the United States were transferred to Sun Life Global Investments Inc. (formerly, Sun Life Financial Corp.), a newly incorporated wholly-owned subsidiary of SLF. After this reorganization, the operations remaining in the Company consist primarily of SLF's life, health, and annuities businesses in Canada, most of SLF's life and health businesses in the United States, and all of its operations in the United Kingdom and Asia. The Company continues to be a wholly-owned direct subsidiary of SLF.

On their 2009 annual statement filed with the Department, the United States Branch of the Sun Life Assurance Company of Canada reported direct premium for ordinary life insurance in the amount of \$25,233,259; and direct premium for accident and health in the amount of \$1,147,900.

COMPANY OPERATIONS AND MANAGEMENT

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines, manuals, and policy procedures utilized during the experience period. The Company provided one manual and four procedure guidelines. The materials were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by the following statutes or regulations:

- 18 Del. C. §2304(13) Unfair discrimination; life insurance, annuities, and health insurance.
- 18 Del. C. §2304 (24) Discriminatory practices against victims of abuse regarding life and health insurance.
- 18 Del. C. §2304 (28) Volunteer firefighters and ambulance personnel.
- 18 Del. C. §2316 Refusal to issue policy to blind or deaf persons prohibited.
- 18 Del. Admin. Code 1209 §3.0 Life and Health Submissions Regarding Acquired Immunodeficiency Syndrome (AIDS).
- 18 Del. Admin. Code 1217 §3.1 Unfair Discrimination in Life Insurance, Annuities and Health Insurance on the Basis of Physical or Mental Impairment.

The following manuals and guides were provided and reviewed:

1. Life Guide Underwriting Manual (CD)

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2. Declination Procedures
3. Rescission Procedures
4. Not-Taken Procedures

No exceptions were noted.

B. 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 the Company provided 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. In addition, the procedures were reviewed to ensure the Company has providing 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 exceptions were noted.

GROUP UNDERWRITING

The group underwriting file review was conducted in two (2) segments.

- A. Group Life Policies Issued
- B. Group Term Life Conversions

Each segment was reviewed for compliance with the following Delaware laws and regulations pertaining to: sales and marketing, underwriting practices, forms approval and producer licensing and oversight. Issues relating to forms or producer licensing and oversight appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

- 18 Del. C. §320. Conduct of examination; access to records; correction.

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- 18 Del. C. §1703. Producer License Requirements.
- 18 Del. C. §1715. Producer Appointment Requirements
- 18 Del. C. §2300. Unfair Insurance Practices.
- 18 Del. C. §2708. Consent of insured; life, health insurance.
- 18 Del. C. §2709. Alteration of application, life and health insurance.
- 18 Del. C. §2712, Filing, approval of forms.

A. Group Life Policies Issued

The Company identified six (6) group policies issued during the experience period. All six (6) files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

B. Group Term Life Conversions

The Company identified three (3) group term life conversions during the experience period. A group term life conversion occurs when a certificate holder under a group term life policy decides to convert or change the coverage to an individual life insurance policy. All three (3) conversion files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance and underwriting statutes and regulations.

No exceptions were noted.

INDIVIDUAL UNDERWRITING

The Underwriting file review was sorted and conducted in five (5) general segments.

- A. Life Policies Issued
- B. Variable Life Policies Issued
- C. Life Policies Declined
- D. Life Policies Not-Taken
- E. Life Policies Rescinded

Each segment was reviewed for compliance with the following Delaware laws and regulations pertaining to: sales and marketing, disclosures, illustrations, underwriting practices, forms approval and producer licensing and oversight. Issues relating to forms or producer licensing and oversight appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

- 18 Del. C. §320. Conduct of examination; access to records; correction.
- 18 Del. C. §1703. Producer License Requirements.

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- 18 Del. C. §1715. Producer Appointment Requirements
- 18 Del. C. §2300. Unfair Insurance Practices.
- 18 Del. C. §2708. Consent of insured; life, health insurance.
- 18 Del. C. §2709. Alteration of application, life and health insurance.
- 18 Del. C. §2712, Filing, approval of forms.
- 18 Del. Admin. Code 202 §2.0 Company Producer Licensing Responsibility
- 18 Del. Admin. Code 1203 Life Insurance Solicitation
- 18 Del. Admin. Code 1203 §4.0 Definitions-Policy Summary, Buyers Guide
- 18 Del. Admin. Code 1203 §5.0 Disclosure Requirements
- 18 Del. Admin. Code 1203 §6.0 General Rules of Disclosure
- 18 Del. Admin. Code 1204 §§5.1-5.3 Replacement of Life Insurance-Duties of Producers
- 18 Del. Admin. Code 1204 §6.1 Replacement of Life Insurance- Duties of all Insurers
- 18 Del. Admin. Code 1204 §§7.1-7.4 Replacement of Life Insurance-Duties of Replacing Insurer
- 18 Del. Admin. Code 1204 §8.0 Insurer Duties with Respect to Direct Response Sales
- 18 Del. Admin. Code 1210 §5.0 Policies to be Illustrated
- 18 Del. Admin. Code 1210 §6.0 Life Insurance Illustrations *Rules and Prohibitions*
- 18 Del. Admin. Code 1210 §§7.0-7.5 Standards for Basic Illustrations
- 18 Del. Admin. Code 1210 §8.0 Standards for Supplemental Illustrations
- 18 Del. Admin. Code 1210 §9.0 Delivery of Illustration and Record Retention
- 18 Del. Admin. Code 1210 §10.0 Annual Report; Notice to Policy Owners
- 18 Del. Admin. Code 1210 §11.0 Annual Illustration Certifications

A. Life Policies Issued

The Company identified a universe of 22 life policies issued during the experience period. All 22 life policy files were requested, received and reviewed. The 22 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

B. Variable Life Policies Issued

The Company identified a universe of one (1) Variable Life Insurance Policy issued during the experience period. The file was requested, received and reviewed. The policy file was reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

C. Life Policies Declined

The Company identified a universe of two (2) life policies that were declined during the experience period. Both files were requested, received and reviewed. A life policy declination occurs when an application for coverage is submitted to the Company, but the coverage or risk is not accepted by the Company. The declined policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. Additionally, 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 exceptions were noted.

D. Life Policies Not-Taken

The Company identified two (2) individual term life policies not-taken during the experience period. Both files were requested, received and reviewed. A Not-Taken Policy is a policy that was issued by the Company and the applicant decides not to accept the policy or coverage. The policy files were reviewed to determine compliance to issuance, underwriting, replacement statutes and regulations and to ensure the Company is complying with the 10-day premium refund provisions of the contract.

No exceptions were noted.

E. Life Policies Rescinded

The Company identified two (2) individual life policies that were rescinded during the experience period. Both files were requested, received and reviewed. A rescinded policy is a policy that was issued and the company terminates the contract and returns all premium paid from the policy effective date to the insured. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, proper return of premium and a valid reason for rescission.

No exceptions were noted.

FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with 18 Del. C. §2712, Filing, approval of forms. Additionally, any Variable Life Insurance forms were

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reviewed to ensure compliance with 18 Del. Admin. Code §4.1, Approval of Variable Life Insurance Forms.

No exceptions were noted.

CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2007, 2008, and 2009. The Company identified one (1) consumer complaint received during the experience period. The complaint identified was forwarded from the Department. The complaint file was requested, received, and reviewed. The company also provided the complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint logs.

The complaint file and the three (3) years of complaint logs were reviewed for compliance with 18 Del. C. §2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. 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 18 Del. Admin. Code 902 §1.2.1.2.

No exceptions were noted.

ADVERTISING

The Company was requested to provide a list of all Advertising and Marketing Material utilized during the experience period. In addition, the Company was requested to provide a copy of the advertising certificate of compliance submitted to the Department during the experience period. The Company provided a list of 919 pieces of advertising utilized in the State. The advertising consisted of: Letters, Direct Mailers, Brochures, Presentations, Radio and Television Scripts, Cards, Illustrations, Product Guides, Product Manuals and the Company's web page. A sample of 170 pieces of public advertising was requested, received and reviewed. The 170 advertising materials and the Company's web site were reviewed to ascertain compliance with 18 Del. C. §2303, Unfair Methods of Competition and Unfair or Deceptive Acts or Practices.

No exceptions were noted.

PRODUCER LICENSING & OVERSIGHT

The Company was requested to provide a list of all producers active and terminated during the experience period in addition to the Company's oversight policies and procedures regarding the following activities:

- Producer Appointment Procedures & Reference Background Checks
- Product Training & Compliance
- Producer Complaint Monitoring
- Allegations of Misconduct Reports
- Producer Terminations
- Producer Termination for Cause Procedures & Lists
- Producer Commission Structure
- Monitoring Producer Replacement Activity

The policies and procedures were received and reviewed. The Company provided a list of 327 active producers, and 8 terminated producers. The entire list was compared to departmental records of producers to verify appointments, terminations and licensing. Verification of appointments, terminations and licensing was performed to ensure compliance with the following statutes and regulation:

- 18 Del. C. §1703. License required.
- 18 Del. C. §1715. Appointments.
- 18 Del. C. §1716. Notification to Insurance Commissioner of termination.
- 18 Del. Admin. Code §11.0 Agent Qualification for Variable Life Insurance Sales

The following exception to 18 Del. C. §1715 was noted:

1 Exception- 18 Del. C. §1715. Appointments.

(a) An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.

(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.

(c) Upon receipt of the notice of appointment, the Insurance Commissioner shall verify within a reasonable time not to exceed 30 days that the insurance producer is

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eligible for appointment. If the insurance producer is determined to be ineligible for appointment, the Insurance Commissioner shall notify the insurer within 5 days of its determination.

(d) An insurer shall pay an appointment fee, in the amount and method of payment set forth in Chapter 7 of this title, for each insurance producer appointed by the insurer.

One individual listed as a producer on a group life application reviewed in the group policy issued section of the exam was not appointed by the Company. Records do not identify this individual as being appointed by the company. The Company confirmed that the individual was not appointed by the Company.

Recommendation: The Company should review its producer licensing and appointment verification procedures to ensure business is not accepted from individuals not appointed by the Company.

SUMMARY OF RECOMMENDATIONS


The recommendations made below identify corrective measures the Department finds necessary as a result of the Exceptions and Concerns noted in the Report. Location in the Report is referenced in parenthesis.

1. The Company must review and revise internal control procedures to ensure compliance with the appointment requirements of 18 Del. C. §1715. (Producer Licensing & Oversight)

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CONCLUSION

The examination conducted by Daniel Stemcosky, Brian Tinsley, Stephen Misenheimer and Heather Harley is respectfully submitted.

A handwritten signature in cursive script, reading "Brian Tinsley", is positioned above a solid horizontal line.

Brian Tinsley, AIE, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance