

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

Penn Mutual Life Insurance Company

NAIC #67644
600 Dresher Road
Horsham, PA, USA 19044

As of

December 31, 2016

Trinidad Navarro
Commissioner



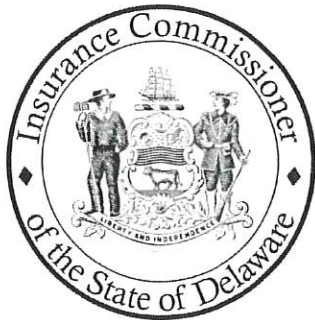
Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 on

Penn Mutual Life Insurance Company

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

Attest By: _____



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 13 day of June, 2018.

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Penn Mutual Life Insurance Company
AS OF
December 31, 2016

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.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 13 day of June, 2018.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

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The Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in the Exam Authority Number 67644-ANN-16-589, and pursuant to statutory provisions including 18 Del. C. §§ 318-322, a market conduct examination has been conducted of the affairs and practices of:

Penn Mutual Life Insurance Company NAIC #67644

The examination was performed as of December 31, 2016.

The examination was performed off-site 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

According to the 2016 Annual Statement for the State of Delaware, Penn Mutual Life Insurance Company reported direct business life insurance premiums in the amount of \$16,683,558 and reported annuity considerations in the amount of \$1,011,536. As of the 2016 Annual Statement, Penn Mutual Life Insurance Company reported direct business life insurance premiums in the amount of \$1,211,110,177 and annuity considerations in the amount of \$114,412,103 for all States, Territories, and Canada.

The examination was announced as part of a series of examinations on companies in the annuity marketplace in Delaware. The examination focused on the Company's annuity and life insurance business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; and Underwriting and Rating. This effort was conducted to gauge the Company's practices in the suitability, replacement, and surrender transactions.

All the exceptions noted were in the category of Underwriting and Rating and are summarized as follows:

- 4 Exceptions: Individual Variable Annuity Contracts Issued as New
18 Del. Admin. Code 1204 § 5.1.2
Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:
 - *5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.*

Acceptance of an application that omitted the producer's answer to the replacement question.

- 2 Exceptions: Individual Cash Value Life Policies Issued as Replacements
18 Del. Admin. Code 1204 § 5.2.1
Where replacement is involved, the agent or broker shall:
 - *5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.*

Failure to provide proof that the replacement notice was presented to the applicant no later than the time of taking the application.

- 3 Exceptions:
 - Individual Cash Value Life Policies Issued as Replacements
 - Individual Cash Value Life Policies Issued as New

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18 Del. Admin. Code 1204 § 7.1.2.2

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

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

Failure to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within seven working days.

- 1 Exception: Individual Cash Value Life Policies Issued as Replacements

18 Del. Admin. Code 1204 § 7.4

7.4 The replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid, which right may be exercised within a period of twenty days commencing from the date of delivery of the policy.

Failure to provide a statement or notice of a 20-day unconditional premium refund in policies and contracts that involved a replacement.

- 2 Exceptions: Individual Cash Value Life Policies Issued as Replacements

18 Del. Admin. Code 1210 § 9.1.1

9.0 Delivery of Illustration and Record Retention

9.1.2 If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy. The revised illustration shall conform to the requirements of this regulation, shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.

Failure to maintain evidence that a signed illustration was submitted to the insurer at the time of application.

- 4 Exceptions: Individual Cash Value Life Policies Issued as Replacements

18 Del. Admin. Code 1210 § 9.1.2

9.0 Delivery of Illustration and Record Retention

9.1.2 If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy.

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The revised illustration shall conform to the requirements of this regulation, shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.

Failure to properly label the illustration as “Revised Illustration.”

- 1 Exception: Individual Cash Value Life Policies Issued as Replacements

18 Del. C. § 320

(c) Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination.

Failure to provide evidence of a replacement form.

DETAILS OF CODES IN VIOLATION:

For ease of reference, the legal citations corresponding to the exceptions noted within this report are shown below:

18 Del. Admin. Code 1204 § 5.1.2 - Duties of Agents and Brokers.

Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:

5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.

18 Del. Admin. Code 1204 § 5.2.1 - Duties of Agents and Brokers.

Where replacement is involved, the agent or broker shall:

5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

18 Del. Admin. Code 1204 § 7.1.2.2 - Duties of Insurers That Use Agents or Brokers.

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

7.1.2 Where a replacement is involved:

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7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

18 Del. Admin. Code 1204 § 7.4 - Duties of Insurers That Use Agents or Brokers.

7.4 The replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid, which right may be exercised within a period of twenty days commencing from the date of delivery of the policy.

18 Del. Admin. Code 1210 § 9.1.1 Delivery of Illustration and Record Retention.

9.0 Delivery of Illustration and Record Retention

9.1.1 If a basic illustration is used by an insurance producer or other authorized representative of the insurer in the sale of a life insurance policy and the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this regulation, shall be submitted to the insurer at the time of policy application. A copy also shall be provided to the applicant.

18 Del. Admin Code 1210 § 9.1.2 Delivery of Illustration and Record Retention.

9.0 Delivery of Illustration and Record Retention

9.1.2 If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy. The revised illustration shall conform to the requirements of this regulation, shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.

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

(c) Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. Code §§ 318-322 and covered the experience period of January 1, 2014, through December 31, 2016, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware annuity, suitability, replacement, and surrender laws and regulations related to the sales and marketing of individual cash value life insurance, individual fixed annuities, and individual variable annuities.

The examination was a targeted market conduct examination of the Company's life insurance and annuity business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; and Underwriting and Rating.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on the errors found in individual files, the examiners also focus 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 to review written summaries provided in regard to the exceptions noted.

COMPANY HISTORY AND PROFILE

Penn Mutual Life Insurance Company was incorporated in Pennsylvania on February 24, 1847, and commenced business on May 25, 1847. The Company is licensed in all states and the District of Columbia.

The Company maintains a broad product line of variable, indexed and fixed-rate life insurance and annuity products. The Company works closely with six affiliates described below. Penn Insurance and Annuity Company, a subsidiary company, was formed in 1980, and is licensed to do business in 48 states and the District of Columbia. Janney Montgomery Scott LLC is a full service regional securities broker/dealer. Hornor, Townsend & Kent, Inc. is a wholly owned broker/dealer subsidiary of Penn Mutual. Independence Capital Management, Inc. is a wholly owned investment advisory subsidiary of Penn Mutual. Leap is a leading provider of innovative financial systems for financial professionals. Vantis Life Insurance Company is a wholly owned Life Insurance Company.

According to the 2016 Annual Statement for the State of Delaware, Penn Mutual Life Insurance Company reported direct business life insurance premiums in the amount of \$16,683,558 and reported annuity considerations in the amount of \$1,011,536. As of the 2016 Annual Statement, Penn Mutual Life Insurance Company reported direct business life insurance premiums in the amount of \$1,211,110,177 and annuity considerations in the amount of \$114,412,103 for all States, Territories, and Canada.

COMPANY OPERATIONS AND MANAGEMENT

The examiners reviewed items provided by the Company pertaining to Company Operations and Management for each of the following categories:

- Company History and Profile
- Company Organization
- Internal Audit & Compliance
- Antifraud Program Compliance
- Managing General Agents (MGAs), General Agents (GAs), and Third-Party Administrators (TPAs)
- Company Records and Records Retention Policies and Procedures
- A statement that the Company's records are adequate, accessible, consistent and orderly, and comply with Delaware record retention requirements.
- Copies of Annual Reports for 2014, 2015, and 2016

The documents were reviewed to determine compliance with Delaware Laws and Regulations and NAIC Standards.

No exceptions were noted.

COMPLAINTS HANDLING

The Company provided a list of complaints for the years of 2014 thru 2016. The Company identified a total of three (3) complaints for the period, which included two (2) complaints lodged with the Delaware Department of Insurance and one (1) consumer complaint. The three (3) complaint files were requested, received, and reviewed. The files were reviewed to determine compliance with applicable Delaware laws and regulations.

No exceptions were noted.

MARKETING AND SALES

The Company provided a list of 5,946 pieces of advertising materials utilized in Delaware during the examination period. The advertising materials may have included: Letters, Direct Mailers, Brochures, Presentations, Radio and Television Scripts, Cards, Illustrations, Product Guides, Product Manuals, and the Company's Web Page. A sample of 79 pieces of advertising materials was requested, received and reviewed. The advertising materials were reviewed to determine compliance with 18 Del. C. § 2303 - Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and 18 Del. C. § 2304 - Unfair methods of competition and unfair or deceptive acts or practices defined.

No exceptions were noted.

PRODUCER LICENSING

The Company provided a list of 377 producers appointed or authorized to conduct business in Delaware at any time during the examination period of January 1, 2014 through December 31, 2016. A random sample of 79 was selected and compared to producers on record with the Delaware Department of Insurance to verify compliance with Delaware licensing and appointment statues and regulations. For examination purposes, producer licensing exceptions found in other sections of the examination are addressed in those respective sections.

No exceptions were noted.

POLICYHOLDER SERVICES

A) Individual Cash Value Life Policies Surrendered

The Company provided a list of policies surrendered during the experience period. The Company identified a universe of 411 life insurance policy surrendered. A random sample of 84 life surrender policies was requested and received. The files were reviewed

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to determine compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

B) Individual Variable Annuity Contracts Surrendered

The Company provided a list of variable annuity policies surrendered during the experience period. The Company identified a universe of 245 variable annuity policies surrendered. A random sample of 79 variable annuity policies was requested and received. The policy files were reviewed to determine compliance with contract provisions, Delaware surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

UNDERWRITING AND RATING

A) Individual Cash Value Life Contracts – New Issue

The Company identified a universe of 411 individual cash value life contracts issued as new during the experience period. A random sample of 84 cash value life contract files was requested, received, and reviewed. The files were reviewed to determine compliance with Delaware issuance statutes and regulations.

The following exceptions were noted:

2 Exceptions - 18 Del. Admin. Code 1204 § 7.1.2.2 – Duties of Insurers That Use Agents or Brokers.

Evidence of a written communication to the existing insurer regarding the replacement could not be established.

Recommendation: It is recommended the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in accordance with 18 Del. Admin. Code 1204 § 7.1.2.2.

B) Individual Cash Value Life Contracts- Replacements

The Company identified a universe of 38 individual cash value life contracts issued as replacements during the examination period. All 38 of the cash value life replacement contract files were requested and received. The files were reviewed to determine

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compliance with Delaware issuance and replacement statutes and regulations.

The following exceptions were noted:

1 Exception – 18 Del. C. § 320 – Conduct of examination; access to records; correction.

For failure to provide evidence of a replacement form.

Recommendation: It is recommended the Company review its procedures to ensure that records are maintained and are readily accessible in accordance with 18 Del. C. § 320.

2 Exceptions – 18 Del. Admin. Code 1204 § 5.2.1 – Duties of Agents and Brokers.

The “Notice Regarding Replacement” form was dated after the application date.

Recommendation: It is recommended the Company review its procedures to ensure the replacement notice is presented to the applicant no later than the time of taking the application in accordance with 18 Del. Admin. Code 1204 §5.2.1.

1 Exception – 18 Del. Admin. Code 1204 § 7.1.2.2 – Duties of Insurers That Use Agents or Brokers.

Evidence of a written communication to the existing insurer regarding the replacement could not be established.

Recommendation: It is recommended the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer’s home office in accordance with 18 Del. Admin. Code 1204 § 7.1.2.2

1 Exception – 18 Del. Admin. Code 1204 § 7.4 – Duties of Insurers That Use Agents or Brokers.

For failure to provide a statement or notice of a 20-day unconditional premium refund in policies and contracts that involve a replacement.

Recommendation: It is recommended the Company review its procedures to ensure that a statement or notice of a 20-day unconditional premium refund is provided in policies and contracts that involve a replacement in accordance with 18 Del. Admin. Code 1204 § 7.4.

2 Exceptions – 18 Del. Admin Code 1210 § 9.1.1 – Delivery of Illustration and Record Retention.

For failure to maintain evidence that a signed illustration was submitted to the insurer at the time of application.

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Recommendation: It is recommended the Company review its procedures to ensure that evidence of the signed illustration submitted at the time of application is maintained in accordance with 18 Del. Admin Code 1210 § 9.1.1.

4 Exceptions – 18 Del. Admin Code 1210 § 9.1.2 – Delivery of Illustration and Record Retention.

For failure to properly label the illustration as “Revised Illustration.”

Recommendation: It is recommended the Company review its procedures to ensure that “Revised Illustrations” are properly labeled in accordance with 18 Del. Admin Code 1210 § 9.1.2.

C) Individual Variable Annuity Contracts – New Issue

The Company identified a universe of 411 individual variable annuity contracts issued as new during the examination period. A random sample of 84 variable annuity new issue contract files was requested and received. The files were reviewed to determine compliance with Delaware issuance statutes and regulations.

The following exceptions were noted:

4 Exceptions – 18 Del. Admin. Code 1204 § 5.1.2 – Duties of Agents and Brokers.

For acceptance of an application that omitted the producer’s answer to the replacement question.

Recommendation: It is recommended the Company review its procedures to ensure acceptance of only those applications in which the producer has responded to the replacement question.

CONCLUSION

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

- (1) It is recommended the Company review its procedures to ensure acceptance of only those applications in which the producer has responded to the replacement question in compliance with 18 Del. Admin. Code 1204 § 5.1.2. (Individual Variable Annuity Contracts Issued as New)
- (2) It is recommended the Company review its procedures to ensure the replacement notice is presented to the applicant no later than the time of taking the application in accordance with 18 Del. Admin. Code 1204 §5.2.1. (Individual Cash Value Life Policies Issued as Replacements)
- (3) It is recommended the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in accordance with 18 Del. Admin. Code 1204 § 7.1.2.2. (Individual Cash Value Life Policies Issued as Replacements and Individual Cash Value Life Policies Issued as New)
- (4) It is recommended the Company review its procedures to ensure that a statement or notice of a 20-day unconditional premium refund is provided in policies and contracts that involve a replacement in accordance with 18 Del. Admin. Code 1204 § 7.4. (Individual Cash Value Life Policies Issued as Replacements)
- (5) It is recommended the Company review its procedures to ensure that evidence of the signed illustration submitted at the time of application is maintained in accordance with 18 Del. Admin Code 1210 § 9.1.1. (Individual Cash Value Life Policies Issued as Replacements)
- (6) It is recommended the Company review its procedures to ensure that "Revised Illustrations" are properly labeled in accordance with 18 Del. Admin Code 1210 § 9.1.2. (Individual Cash Value Life Policies Issued as Replacements)
- (7) It is recommended the Company review its procedures to ensure that records are maintained and are readily accessible in accordance with 18 Del. C. § 320. (Individual Cash Value Life Policies Issued as Replacements)

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The examination was conducted by Joseph Krug, Peter Salvatore, Jim Myers, Steve Misenheimer, and Linda Armstrong. This report is respectfully submitted.

A handwritten signature in cursive script that reads "Linda Armstrong".

Linda Armstrong, JD, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance