

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

Nationwide Life Insurance Company

NAIC #66869

One Nationwide Plaza, 1-35-206

Columbus, OH 43215-2220

As of

September 30, 2017

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 September 30, 2017 on

Nationwide 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 15th day of October, 2018.

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Nationwide Life Insurance Company

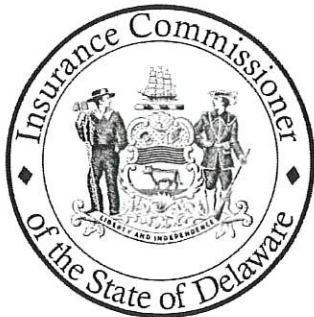
AS OF

September 30, 2017

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 15th day of October, 2018.



Trinidad Navarro
Insurance Commissioner

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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 Exam Authority Number ANN-66869-17-591, and pursuant to statutory provisions including 18 *Del. C.* §§ 318-322, a market conduct examination has been conducted of the affairs and practices of:

Nationwide Life Insurance Company NAIC #66869

The examination was performed as of September 30, 2017.

The examination was performed on-site at the Nationwide offices in Columbus, OH and 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, Nationwide Life Insurance Company, hereinafter referred to as Nationwide or the Company, reported direct business life insurance premiums in the amount of \$173,389,411 and annuity considerations in the amount of \$2,807,158. As of the 2016 Annual Statement, Nationwide Life Insurance Company reported direct business life insurance premiums in the amount of \$1,233,654,001 and annuity considerations in the amount of \$513,888,775 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 suitability, replacement, and surrender transactions.

All exceptions were noted in the area of Underwriting and Rating.

The following exceptions were noted:

- 4 Exceptions
18 *Del. Admin. C. § 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.

The Company's representative signed the replacement form after the application in two instances and for not having the replacement form in the file in two 2 instances.
- 13 Exceptions
18 *Del. Admin. C. § 1204 -7.1.2.2 Duties of Insurers That Use Agents or Brokers*
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 seven 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.

The Company failed to send a Notice Regarding Replacement to the existing company in five instances and for failing to send a Notice Regarding Replacement within seven working days in eight instances.

- 1 Exception

18 *Del. C.* § 1715(b) Appointments.

(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.

The Company accepted applications for insurance from a producer not duly appointed by the Company within 15 days of receipt of the application.

- 5 Exceptions

18 *Del. C.* § 2712 Filing, approval of forms

(a) No basic insurance policy or annuity contract, form, or application form where written application is required and is to be made a part of the policy or contract or printed rider or endorsement form or form of renewal certificate shall be delivered or issued for delivery in this State, unless the form has been filed with the Commissioner.

The Company utilized application forms in underwriting files not filed with the Department.

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 January 1, 2015, through September 30, 2017, 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 referenced 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 in regard to the exceptions noted.

COMPANY HISTORY AND PROFILE

Nationwide is a stock life insurance company organized under the laws of the State of Ohio, in March 1929, with its Home Office at One West Nationwide Boulevard, Columbus, Ohio 43215. Nationwide provides life insurance, annuities and retirement products. Nationwide is admitted to conduct business in all states, the District of Columbia, Guam, the U.S. Virgin Islands, and Puerto Rico. Nationwide is a member of the Nationwide group of companies and all of its common stock is owned by Nationwide Financial Services, Inc. (NFS), a holding company. Nationwide Corporation owns all of NFS's common stock and is a holding company, as well. All of Nationwide Corporation's common stock is held by Nationwide Mutual Insurance Company (95.2%) and Nationwide Mutual Fire Insurance Company (4.8%), the ultimate controlling persons of the Nationwide group of companies. The Nationwide group of companies is one of America's largest insurance and financial services family of companies.

According to the 2016 Annual Statement for the State of Delaware, Nationwide reported

direct business life insurance premiums in the amount of \$173,389,411 and annuity considerations in the amount of \$2,807,158. As of the 2016 Annual Statement, Nationwide reported direct business life insurance premiums in the amount of \$2,122,858,211 and annuity considerations in the amount of \$689,152,816 for all states, territories and Canada.

COMPANY OPERATIONS AND MANAGEMENT

The Company provided the requested information documenting its management and operational procedures in areas for which they conduct business for the State of Delaware, including:

- 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 the Annual Report for 2016 and specific state pages for 2014, 2015 and 2016.

The documents were reviewed to ensure compliance with the State of Delaware Laws and Regulations and NAIC Standards.

No exceptions were noted.

COMPLAINTS HANDLING

The Company was requested to provide a list of all complaints for the years of January 1, 2015 thru September 30, 2017. The Company identified a total of seven Delaware Complaints which included 1 DDOI complaint for the period. The entire universe of seven complaint files was requested, received, and reviewed. The files were reviewed to ensure compliance with all Delaware laws and regulations.

No exceptions were noted.

MARKETING AND SALES

The Company was requested to provide a list of all advertising materials, including both printed and audio/visual materials, which were approved for use by field personnel for the examination period. The Company identified a total of 11,943 advertisements. That universe was then filtered to reflect only Annuity and Life materials, which resulted in a total of 6,107. From the filtered universe of 6,107, a random sample of 115 advertisements was requested, received and reviewed. The materials were reviewed to determine compliance with Delaware laws and regulations.

The examiners also reviewed documentation for replacements, illustrations, suitability, annuity solicitation training, and fixed index annuity disclosure.

No exceptions were noted.

PRODUCER LICENSING

The Company was requested to provide a list of all producers appointed with the Company in Delaware or authorized to conduct business in Delaware at any time during the examination period. The Company was also requested to:

- Provide documentation that the company's records of licensed and appointed (if applicable) producers and in jurisdictions, where applicable, licensed company or contracted independent adjusters agree with Delaware Department of Insurance's records.
- Provide documentation that producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application(s) were taken.
- Provide documentation that termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, if applicable.
- Provide a copy of the Company's Producer Appointment procedures and Producer Termination procedures that adequately document reasons for terminations.
- Provide documentation that producer account balances are in accordance with the producer's contract with the insurer.
- Describe the type of agency system utilized by the Company, e.g., independent, direct or exclusive.
- Describe how the Company verifies that all business which it accepts from producers is written by individuals who are duly licensed and appointed to represent the Company.

- Provide a description of the commission structure. Does the Company use multi-level commission schedules and, if so, describe the conditions under which variances are used and how they are applied.
- Provide a description of any incentives or motivational awards/recognitions that was given or available to the Company's producers during the examination period.

The policies and procedures were received and reviewed. The Company provided a list of 3,845 active producers. The examiners reviewed a sample of 115 producers during the exam period. In addition, the examiners reviewed a random sample of 25 producers terminated during the exam period. The requested lists were compared to departmental records of producers to verify appointments, terminations and licensing. The examiners requested that the company provide proof of either appointment or termination. The company provided the documents needed.

No exceptions were noted.

POLICYHOLDER SERVICES

A) Individual Cash Value Life Insurance Contracts Surrendered

The Company was requested to provide a list of all policies surrendered during the experience period. The Company identified a universe of 653 universal life insurance policies surrendered. A random sample of 86 policy files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

B) Individual Fixed Annuity Contracts Surrendered

The Company was requested to provide a list of all Individual Fixed Annuities Surrendered during the experience period. The Company identified a universe of 42 Individual Fixed Annuities Surrendered. All 42 contracts files were requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

C) Individual Variable Annuity Contracts Surrendered

The Company was requested to provide a list of all annuities surrendered during the experience period. The Company identified a universe of 339 individual variable annuity contracts surrendered. A random sample of 79 contract files was requested, received, and

reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

UNDERWRITING AND RATING

A) Individual Fixed Annuities - New

The Company was requested to provide a list of all Individual Fixed Annuities-New Issue Contracts during the experience period. The Company identified a universe of 53 Individual Fixed Annuities-New Issue Contracts. The entire universe of 53 contract files was requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions and all Delaware laws and regulations.

The following exceptions were noted.

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

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.

The Company failed to send a Notice Regarding Replacement to the existing company.

Recommendation: It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within 7 working days of the date the application is received in the replacing insurer's home office in accordance with 18 Del. Admin. C. §1204 - 7.1.2.2.

1 Exception – 18 Del. C. § 2712 Filing, approval of forms.

(a) No basic insurance policy or annuity contract, form, or application form where written application is required and is to be made a part of the policy or contract or printed rider or endorsement form or form of renewal certificate shall be delivered or issued for delivery in this State, unless the form has been filed with the Commissioner.

The Company utilized an annuity application that was not approved in the State of Delaware.

Recommendation: It is recommended the Company review its procedures to ensure that only forms approved by the Delaware Department of Insurance are accepted and/or issued in accordance with 18 *Del. C.* § 2712.

B) Individual Fixed Annuities - Replacements

The Company identified a universe of 39 fixed annuity contracts issued as replacements during the experience period. All 39 annuity contract files were requested. The files were reviewed to determine compliance with Delaware issuance and replacement statutes and regulations.

The following exceptions were noted:

4 Exceptions – 18 *Del. Admin. C.* 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers.

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.

The Company failed to send a Notice Regarding Replacement to the existing company in three instances and for failing to send a Notice Regarding Replacement within seven working days in one instance.

Recommendation: It is recommended the Company revise 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. C.* §1204 § 7.1.2.2.

1 Exception – 18 *Del. C.* § 1715(b) Appointments

(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.

The Company failed to appoint a producer within 15 days of receiving an application.

Recommendation: It is recommended that the Company ensure the producers are properly

appointed in accordance with 18 *Del. C.* § 1715.

C) Individual Variable Annuities - New

The Company identified a universe of 188 variable annuity contracts issued during the experience period. A random sampling of 79 annuity contract files was requested, received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations.

The following exceptions were noted:

4 Exceptions – 18 *Del. C.* § 2712 Filing, approval of forms

(a) No basic insurance policy or annuity contract, form, or application form where written application is required and is to be made a part of the policy or contract or printed rider or endorsement form or form of renewal certificate shall be delivered or issued for delivery in this State, unless the form has been filed with the Commissioner.

The Company utilized forms not approved in the state of Delaware.

Recommendation: It is recommended the Company review its procedures to ensure that only forms approved by the Delaware Department of Insurance are accepted and/or issued in accordance with 18 *Del. C.* § 2712.

D) Individual Variable Annuities - Replacements

The Company identified a universe of 134 variable annuity contracts issued as replacements during the experience period. A random sampling of 79 annuity contract files was requested, received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations.

The following exceptions were noted:

4 Exceptions – 18 *Del. Admin. C.* 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.

The Company's representative signed the replacement form after the application in two instances and for not having the replacement form in the file in two instances.

Recommendation: It is recommended the Company revise 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. C.* §1204 -5.2.1.

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

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.

The Company failed to send a Notice Regarding Replacement to the existing company in three instances and for failing to send a Notice Regarding Replacement within seven working days in five instances.

Recommendation: It is recommended the Company revise 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. C. §1204 - 7.1.2.2.

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 the required response to the replacement question is signed by the applicant in accordance with 18 *Del. Admin. C.* §1204 - 5.2.1. (Underwriting and Rating – Variable Annuities – Replacements)
2. It is recommended the Company revise 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. C.* §1204 -7.1.2.2. (Underwriting and Rating – Individual Fixed Annuities – New Issue; Individual Fixed Annuities – Replacements; and Individual Variable Annuities – Replacements)
3. It is recommended that the Company ensure the producers are properly appointed in accordance with 18 *Del. C.* § 1715. (Underwriting and Rating – Individual Fixed Annuities – Replacements)
4. It is recommended the Company review its procedures to ensure that only forms approved by the Delaware Department of Insurance are accepted and/or issued in accordance with 18 *Del. C.* § 2712. (Underwriting and Rating – Individual Fixed Annuities – New Issue; and Individual Variable Annuities – New Issue)

The examination conducted by Joseph Krug, Linda Armstrong, Stephen Misenheimer and Peter J Salvatore is respectfully submitted.



Peter J Salvatore, AIE, MCM, PAHM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance