

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

The Lincoln National Life Insurance Company
NAIC #65676

1300 South Clinton Street
Fort Wayne, IN 46802

As of

June 30, 2020

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
The Lincoln National Life Insurance Company
AS OF
June 30, 2020

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 25 day of May, 2021.


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 Examination Authority Number 65676-20-528, and pursuant to statutory provisions including 18 *Del. C.* §318-322, a market conduct examination has been conducted of the affairs and practices of:

The Lincoln National Life Insurance Company
NAIC #65676

The examination was performed as of June 30, 2020.

The examination consisted of an off-site phase which 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

The main administrative offices of The Lincoln National Insurance Company (Lincoln, Lincoln National or the Company) are located in Fort Wayne, Indiana. The Company's 2019 annual statement filed with the Department reported total premiums written for all states of \$27,542,916,164 of which Delaware has a market share of 1.7% or approximately \$455,242,062.

This examination focused on Lincoln'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. The following exceptions were noted and the details for the cited code references are included:

The following exceptions were noted:

- **66 Exceptions**

- **18 Del. C. § 1716(d) Notification to Insurance Commissioner of termination.**

- *(b) Termination without cause. — An insurer or authorized representative of the insurer that terminates the appointment, employment or contract with a producer for any reason not set forth in § 1712 of this title shall notify the Insurance Commissioner within 30 days following the effective date of the termination, using a format prescribed by the Insurance Commissioner. Upon written request of the Insurance Commissioner, the insurer shall provide additional information, documents, records or other data pertaining to the termination.*

- *(c) Ongoing notification requirement. — The insurer or the authorized representative of the insurer shall promptly notify the Insurance Commissioner in a format acceptable to the Insurance Commissioner if, upon further review or investigation, the insurer discovers additional information that would have been reportable to the Insurance Commissioner in accordance with subsection (a) of this section had the insurer then known of its existence.*

- *(d) Copy of notification to be provided to producer. — (1) Within 15 days after making the notification required by subsections (a), (b) and (c) of this section, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in § 1712 of this title, the insurer shall provide a copy of the notification to the producer at that producer's last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.*

The Company failed to provide a copy of notification to producers whose appointment was terminated.

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- **8 Exceptions**

18 Del. C. § 1715(a) 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.

The insurance producers acted as an agent of the insurer and were not appointed.

- **3 Exceptions**

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

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 contract is issued, whichever is sooner.

The written communication advising of the replacement or proposed replacement of the policy was not made within 7 working days of the date the application is received.

- **2 Exceptions**

18 Del. C. § 1703 License required.

A person shall not transact insurance in this State for any class or classes of insurance unless the person is licensed as an insurance producer, adjuster or appraiser for that line of authority in accordance with this chapter.

The insurance producers transacted insurance and were not licensed.

- **1 Exception**

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

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 contract is issued, whichever is sooner.

The written communication advising of the replacement or proposed replacement of the policy, sent to the existing insurer, did not contain the information obtained pursuant to section 7.1.2.1.

- **5 Exceptions**

18 Del. Admin. C. § 1204-7.1.1 Duties of Insurers That Use Agents or Brokers.

7.1.1 Require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.

The Company did not require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.

- **3 Exceptions**

18 Del. Admin. C. § 1204-6.1.2 Duties of Insurers That Use Agents or Brokers.

6.1.2 Require with or as a part of each completed application for life insurance or annuity a statement signed by the applicant as to whether such proposed insurance or annuity will replace existing life insurance or annuity.

The Company did not require with or as a part of each completed application for annuity, a statement signed by the applicant as to whether he or she knows replacement is or may be involved in the transaction.

- **1 Exception**

18 Del. C. § 2708 Consent of insured; life, health insurance.

No life or health insurance contract upon an individual, except a contract of group life insurance or of group or blanket health insurance, shall be made or effectuated unless at the time of the making of the contract the individual insured, being of competent legal capacity to contract, applies therefor or has consented thereto in writing, except in the following cases:

(1) A spouse may effectuate such insurance upon the other spouse;

(2) Any person having an insurable interest in the life of a minor, or any person upon whom a minor is dependent for support and maintenance may effectuate insurance upon the life of or pertaining to such minor;

(3) Family policies may be issued insuring any 2 or more members of a family on an application signed by either parent, a stepparent or by a husband or wife;

(4) An employer, or the trustee of a trust described in § 2704(c)(3) of this title, may effectuate insurance under an employer-owned life insurance policy, as defined in § 2704(e) of this title, upon any employee in whom it has an insurable interest, and the employer or trustee, as the case may be, shall not be required to notify employees of the effectuation of such insurance or obtain their consent. The insurer and any investment sub-advisors shall use best efforts to direct securities transactions relating to such employer-owned variable life insurance policies utilizing separate

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accounts, through a securities agent licensed and located in this State, as opposed to a securities agent licensed and located in another state, unless a better price for the identical security (securities) is available through the securities agent located in that other state.

The Company issued an annuity on an individual who did not apply therefore or consented to in writing. A replacement form signed by both the applicant and the producer was included in the file. However, there was not a signed application.

- **1 Exception**
18 Del. Admin. C. § 902 – 1.2.1.2 Authority for Regulation; Basis for Regulation.
1.2.1.2 Failing to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies.

The Company failed to acknowledge the claim within 15 working days.

- **1 Exception**
18 Del. Admin. C. § 902 – 1.2.1.5 Authority for Regulation; Basis for Regulation.
1.2.1.5 Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.

The Company failed to affirm or deny the claim within 30 days after proof of loss was received.

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, 2017 through June 30, 2020 unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to the individual life and annuity lines of business.

The examination was a targeted market conduct examination of the individual life and annuity lines for the period of January 1, 2017 through June 30, 2020.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While

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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 on the exceptions found.

COMPANY HISTORY AND PROFILE

The Lincoln National Life Insurance Company was founded in Fort Wayne, Indiana, on June 12, 1905. Through a series of acquisitions beginning in 1914 through the end of the Great Depression, the Company expanded by adding more than \$250 million of insurance in force to its ledger. From 1905 to 1955, Lincoln grew to become the ninth largest life insurance company in the United States. Within the past 20 years Lincoln National's holding company, Lincoln National Corporation, realigned its business operations, divested its property casualty and reinsurance operations, acquired Delaware Investments and purchased a block of life and annuity business from Cigna for \$1.4 billion in 1997 and from Aetna for \$1 billion in 1998. In 2006, Lincoln merged with Jefferson Pilot Financial.

Through its Individual Markets Operations, the Annuities segment offers individual fixed annuities, indexed annuities, and variable annuities. The Life Insurance segment offers individual and survivorship versions of universal life, variable universal life, term insurance, and a linked-benefit product which is a universal life insurance policy linked with riders that provide for long-term care costs.

Through the Retirement Plan Services Operations, the Company offers Defined Contribution, Executive Benefits and Group Protection businesses. The Defined Contribution business provides employer-sponsored fixed and variable annuities; the Executive Benefits business offers corporate-owned universal and variable universal life

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insurance and bank-owned universal and variable universal life insurance. The Group Protection business focuses on offering group term life, disability income and dental insurance primarily in the small to mid-sized employer marketplace for their eligible employees.

Lincoln's products are distributed through its affiliated wholesaler, Lincoln Financial Distributors, and its affiliated retail organization, Lincoln Financial Network – the marketing name for Lincoln Financial Advisors and Jefferson Pilot Securities Corporation. Through these distributors, the Company's products are marketed through a large number of financial intermediaries including wire/regional firms, independent financial planners, financial institutions and managing general agents/independent marketing organizations.

Lincoln National is licensed in the Virgin Islands, District of Columbia, Commonwealth of the Northern Mariana Islands, Puerto Rico, Guam and in 49 states except New York. In 2019, Lincoln reported \$27,542,916,164 premium of which \$455,242,062 was written in Delaware. In 2018, Lincoln reported \$24,398,920,620 premium of which \$339,494,225 was written in Delaware.

COMPANY OPERATIONS AND MANAGEMENT

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

- The Company History and Profile
- The Company Organizational Charts
- A list of internal audits conducted in the last three (3) years and a statement that the audits identified were closed/complete and up to date as of the examination period under review
- A copy of the Company's anti-fraud procedures
- Third Party Administrator (TPA) documentation
- A statement indicating that the Company's records were adequate, accessible, consistent, and orderly and complied with Delaware record retention requirements.
- A list of fines, penalties, and recommendations from any state for the last five (5) years.
- Copies of the Annual Reports for 2017, 2018, and 2019.

The documents were reviewed to ensure compliance with the State of Delaware Laws and Regulations. No exceptions were noted.

COMPLAINT HANDLING

Lincoln National was requested to provide a list of all Complaints received during the examination period of January 1, 2017 through June 30, 2020. The Company provided a list of 24 complaints. All 24 complaints were reviewed.

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Additionally, the Delaware Department of Insurance provided a list of complaints that were received during the examination period. The listing was reconciled with the Company's complaint listing for any discrepancies.

The complaints were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

MARKETING AND SALES

A. Advertising and Sales Policies and Procedures

Lincoln National was requested to provide documentation of the Company's policies and procedures related to advertising and sales. The Company provided their producer training material, replacement procedures, suitability requirements, replacement procedures, product specific training materials, disclosure requirements, approval process for marketing and sales material, incentives and motivational awards policies, notification procedures for changes in insurance regulations, and procedures to monitor compliance with education and training requirements.

The advertising and sales policies and procedures were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

B. Advertising

Lincoln National was requested to provide a list of all advertising materials, whether printed or audio/visual, approved for use by the field personnel for the examination period January 1, 2017 to June 30, 2020. The material was segregated into a section for Company Generated Advertising and a section for Producer Generated Advertising. The Company was also requested to provide a log showing which policy form was associated with the identified piece of advertising material.

a. Company Generated Advertising

The Company provided a list of 8,856 Company generated advertising materials for the period under examination. A random sample of 115 was selected for review. The Company generated advertising materials were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions.

b. Producer Generated Advertising

The Company provided a list of 56 producer generated advertising materials for the period under examination. The Step Sampling technique was applied and the first 25 producer

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generated advertising materials sampled were reviewed. The producer generated advertising materials were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

C. Marketing and Sales Agreements

Lincoln National was requested to provide a list of all affiliates, selective partnerships and marketing agreements in place during the examination period. The Company was also requested to provide a copy of contracts and agreements for each affiliated relationship.

a. Marketing Agreements

The Company provided a list of 183 marketing and sales agreements for the period under review. A random sample of 79 was selected for review. The Step Sampling technique was utilized and the first 25 marketing and sales agreements sampled were reviewed. Under Step Sampling, if there are no exceptions noted in the review of the sample of 25, no further sampling is deemed necessary.

The agreements were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

b. Broker/Dealer Agreements

The Company provided a list of 118 broker/dealer agreements for the period under review. A random sample of 79 was selected for review. The Step Sampling technique was utilized and the first 25 broker/dealer agreements sampled were reviewed.

The agreements were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

PRODUCER LICENSING

A. Appointed Producers

Lincoln National was requested to provide a list of all producers appointed with the Company at any time during the examination period, January 1, 2017 to June 30, 2020. The Company was also requested to provide documentation that producers are properly licensed and appointed, that termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the state, a copy of the Company's Producer Appointment procedures and Producer Termination procedures that adequately document reasons, that producer account balances are in

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accordance with the producer's contract with the insurer, type of agency system utilized by the Company, a description of the commission structure, and a description of any incentives or motivational awards.

The policies and procedures were received and reviewed. The Company provided a list of 4,033 appointed producers. A random sample of 113 providers was selected for review of licensing and appointment.

There were no exceptions noted.

B. Terminated Producers

Lincoln National was requested to provide a list of all producers terminated with the Company at any time during the examination period, January 1, 2017 to June 30, 2020. The Company was also requested to provide documentation that the termination of producers complies with applicable standards, rules and regulations regarding notification to the producer and notification to the Delaware Department of Insurance. Further, the Company was to ensure that producer termination procedures adequately document the reason for termination.

The Company provided a list of 1,920 terminated producers. A random sample of 113 producers was selected for a review of the termination files.

The following exceptions were noted:

66 Exceptions – 18 Del. C. § 1716(d) Notification to Insurance Commissioner of termination.

The Company failed to provide a copy of notification to producers whose appointment was terminated.

Recommendation: It is recommended that the Company provide a copy of notification to producers whose appointment was terminated as required by 18 Del. C. § 1716(d).

POLICYHOLDER SERVICES

A. Policyholder Services Policies and Procedures

Lincoln National was requested to provide documentation of the Company's policies and procedures related to policyholder and or beneficiary services. This was to include the documentation of procedures for locating missing policyholder or beneficiary information. The Coordinator's Handbook requests included documentation for non-forfeiture options and how that is communicated to policy and contract holders. It was also requested that the Company provide documentation that each policy owner is provided with an annual report of policy values. Further, documentation of the procedures for handling unearned premium calculation and refund was requested. The Company was also requested to

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provide documentation that policy/contract surrender requests are processed timely and accurately.

The Company provided the requested documentation which was reviewed to ensure compliance with Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

B. Individual Cash Value Life Policies Surrendered

Lincoln National was requested to provide a list of all policies surrendered during the examination period January 1, 2017 to June 30, 2020. The Company initially identified a universe of 269 individual cash value life insurance policies surrendered. A random sample of 79 policy files was requested, received and reviewed.

The files were reviewed to ensure compliance with contract provisions, the proper processing of any cash value and applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

C. Individual Fixed Annuities Surrendered

Lincoln National was requested to provide a list of all policies surrendered during the examination period January 1, 2017 to June 30, 2020. The Company identified a universe of 487 individual fixed annuity policies surrendered. A random sample of 84 policy files was selected for review.

The files were reviewed to ensure compliance with contract provisions, the proper processing of any cash value and applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

D. Individual Variable Annuities Surrendered

Lincoln National was requested to provide a list of variable annuities that were surrendered during the examination period of January 1, 2017 to June 30, 2020. The list contained a universe of 310 surrenders. A random sample of 79 surrenders was selected for review.

The files were reviewed to ensure compliance with contract provisions, the proper processing of any cash value and applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

UNDERWRITING AND RATING

A. Policyholder Services Policies and Procedures

Lincoln National was requested to provide copies of the Company's Underwriting Guidelines that were in use during the examination period of January 1, 2017 to June 30, 2020. The Company provided various documents related to their underwriting policies, procedures, guidelines and guidance.

The documentation provided was reviewed to ensure compliance with Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

B. Forms

Lincoln National identified a universe of 319 forms utilized during the experience period of January 1, 2017 through June 30, 2020. A random sample of 79 forms was requested. The forms were reviewed to determine compliance with the State of Delaware Laws and Regulations.

There were no exceptions noted within the selected sample. However, in the review of other sections there were exceptions noted with forms. Those will be reported in the sections they were found.

C. Cash Value Life New Issues

Lincoln National identified a universe of 965 cash value life insurance policies issued as new during the experience period of January 1, 2017 through June 30, 2020. A random sample of 86 policy files was requested. The files were reviewed to determine compliance with the State of Delaware Laws and Regulations.

The following exceptions were noted:

1 Exception - 18 Del. C. § 1715(a) Appointments.

The insurance producer acted as an agent of the insurer and was not appointed.

Recommendation: It is recommended that insurance producers not act as an agent unless the insurance producer becomes an appointed agent of that insurer as required by 18 Del. C. § 1715(a).

D. Cash Value Life Replacements

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Lincoln National identified a universe of 103 cash value life insurance policies issued as replacements during the experience period of January 1, 2017 through June 30, 2020. A random sample of 79 policy files was requested. The files were reviewed to determine compliance with the State of 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.

The written communication advising of the replacement or proposed replacement of the policy was not made within 7 working days of the date the application is received.

Recommendation: It is recommended that the Company send written communication advising of the replacement or proposed replacement within 7 working days of the date the application is received in the replacing insurer's home office as required by 18 Del. Admin. C. § 1204-7.1.2.2.

4 Exceptions - 18 Del. C. § 1715(a) Appointments.

The insurance producers acted as an agent of the insurer and was not appointed.

Recommendation: It is recommended that insurance producers not act as an agent unless the insurance producer becomes an appointed agent of that insurer as required by 18 Del. C. § 1715(a).

2 Exceptions - 18 Del. C. § 1703 License required.

The insurance producers transacted insurance and were not licensed.

Recommendation: It is recommended that insurance producers not transact insurance unless the person is licensed as an insurance producer as required by 18 Del. C. § 1703.

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

The written communication advising of the replacement or proposed replacement of the policy, sent to the existing insurer, did not contain the information obtained pursuant to section 7.1.2.1.

Recommendation: It is recommended that the Company send written communication advising of the replacement or proposed replacement. 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 as required by 18 Del. Admin. C. § 1204-7.1.2.2.

E. Individual Fixed Annuities New Issues

Lincoln National identified a universe of 498 fixed annuities issued as new during the experience period of January 1, 2017 through June 30, 2020. A random sample of 84 policy files was requested. The files were reviewed to determine compliance with the State of Delaware Laws and Regulations.

The following exceptions were noted:

1 Exception - 18 Del. Admin. C. § 1204-7.1.1 Duties of Insurers That Use Agents or Brokers.

The Company did not require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.

Recommendation: It is recommended that the Company require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction as required by 18 Del. Admin. C. § 1204-7.1.1.

2 Exceptions - 18 Del. C. § 1715(a) Appointments.

The insurance producers acted as an agent of the insurer and was not appointed.

Recommendation: It is recommended that insurance producers not act as an agent unless the insurance producer becomes an appointed agent of that insurer as required by 18 Del. C. § 1715(a).

F. Individual Fixed Annuities Replacements

Lincoln National identified a universe of 127 fixed annuities issued as replacements during the experience period of January 1, 2017 through June 30, 2020. A random sample of 79 policy files was requested. The files were reviewed to determine compliance with the State of Delaware Laws and Regulations.

The following exception was noted:

1 Exception - 18 Del. C. § 1715(a) Appointments.

The insurance producer acted as an agent of the insurer and was not appointed.

Recommendation: It is recommended that insurance producers not act as an agent unless the insurance producer becomes an appointed agent of that insurer as required by 18 Del. C. § 1715(a).

G. Individual Variable Annuities New Issues

4 Exceptions - 18 Del. Admin. C. § 1204-7.1.1 Duties of Insurers That Use Agents or Brokers.

The Company did not require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction.

Recommendation: It is recommended that the Company require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction as required by 18 Del. Admin. C. § 1204-7.1.1.

3 Exceptions - 18 Del. Admin. C. § 1204-6.1.2 Duties of Insurers That Use Agents or Brokers.

The Company did not require with or as a part of each completed application for annuity, a statement signed by the applicant as to whether he or she knows replacement is or may be involved in the transaction.

Recommendation: It is recommended that the Company require with or as a part of each completed application for annuity, a statement signed by the applicant as to whether he or she knows replacement is or may be involved in the transaction as required by 18 Del. Admin. C. § 1204-6.1.2.

H. Individual Variable Annuities Replacements

Lincoln National identified a universe of 287 variable annuities issued as replacements during the experience period of January 1, 2017 through June 30, 2020. A random sample of 79 policy files was requested. The files were reviewed to determine compliance with the State of Delaware Laws and Regulations.

The following exceptions were noted:

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

The written communication advising of the replacement or proposed replacement of the policy was not made within 7 working days of the date the application is received.

Recommendation: It is recommended that the Company send written communication advising of the replacement or proposed replacement within 7 working days of the date the application is received in the replacing insurer's home office as required by 18 Del. Admin. C. § 1204-7.1.2.2.

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1 Exception - 18 Del. C. § 2708 Consent of insured; life, health insurance.

The Company issued an annuity on an individual who did not apply or consent to it in writing. A replacement form signed by both the applicant and the producer was included in the file. However, there was not a signed application. An electronic ticket was sent by the producer to the Company. The electronic ticket is not an approved form and is not signed by the applicant.

Recommendation: It is recommended that the Company not effectuate a contract upon an individual unless at the time of the making of the contract the individual insured, being of competent legal capacity to contract, applies therefor or has consented thereto in writing as required by 18 Del. C. § 2708.

CLAIMS

A. Claims Policies and Procedures

Lincoln National was requested to provide documentation related to claim policies and procedures. This included claim procedure and processing manuals, calculation of claim interest documentation and claim monitoring reports that were in use during the examination period of January 1, 2017 to June 30, 2020.

The policies, procedures and documentation were reviewed for compliance with applicable Delaware Department of Insurance statutes and regulations.

There were no exceptions noted.

B. Life Paid Claims

The Lincoln National Life Insurance Company was requested to provide a listing of all claims received during the examination period of January 1, 2017 to June 30, 2020. The Company identified 382 claims paid. A random sample of 76 claim files was selected for review. The files were reviewed for compliance with the State of Delaware Insurance statutes and regulations.

The following exception was noted:

1 Exception - 18 Del. Admin. C. § 902 – 1.2.1.2 Authority for Regulation; Basis for Regulation.

The Company failed to acknowledge the claim within 15 working days.

Recommendation: It is recommended that the Company acknowledge and respond within 15 working days to communications with respect to claims as required by 18 Del. Admin. C. § 902 – 1.2.1.2.

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C. Annuities Paid Claims

Lincoln National was requested to provide a listing of all annuity paid claims received during the examination period of January 1, 2017 to June 30, 2020. The Company identified 513 claims paid. A random sample of 83 claim files was selected for review. The files were reviewed for compliance with the State of Delaware Insurance statutes and regulations.

The following exception was noted:

1 Exception - 18 Del. Admin C. § 902 – 1.2.1.5 Authority for Regulation; Basis for Regulation.

The Company failed to affirm or deny the claim within 30 days after proof of loss was received.

Recommendation: It is recommended that the Company affirm or deny coverage or a claim or advise the person presenting the claim, in writing within 30 days after proof of loss was received as required by 18 Del. Admin C. § 902 – 1.2.1.5.

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 that the Company provide a copy of notification to producers whose appointment was terminated as required by 18 *Del. C.* § 1716(d). (Producer Licensing).
2. It is recommended that insurance producers not act as an agent unless the insurance producer becomes an appointed agent of that insurer as required by 18 *Del. C.* § 1715(a). (Underwriting and Rating- Cash Value Life New Issues) (Underwriting and Rating- Individual Fixed Annuities New Issues) (Underwriting and Rating- Individual Fixed Annuities Replacements).
3. It is recommended that the Company send written communication advising of the replacement or proposed replacement within 7 working days of the date the application is received in the replacing insurer's home office as required by 18 *Del. Admin. C.* § 1204-7.1.2.2. (Underwriting and Rating- Cash Value Life Replacements) (Underwriting and Rating- Individual Variable Annuities Replacements).
4. It is recommended that insurance producers not transact insurance unless the person is licensed as an insurance producer as required by 18 *Del. C.* § 1703. (Underwriting and Rating- Cash Value Life Replacements).
5. It is recommended that the Company send written communication advising of the replacement or proposed replacement. 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 as required by 18 *Del. Admin. C.* § 1204-7.1.2.2. (Underwriting and Rating- Cash Value Life Replacements).
6. It is recommended that the Company require with or as a part of each completed application for life insurance or annuity, a statement signed by the agent or broker as to whether he or she knows replacement is or may be involved in the transaction as required by 18 *Del. Admin. C.* § 1204-7.1.1. (Underwriting and Rating- Individual Fixed Annuities New Issues) (Underwriting and Rating- Individual Variable Annuities New Issues).
7. It is recommended that the Company require with or as a part of each completed application for annuity, a statement signed by the applicant as to whether he or she knows replacement is or may be involved in the transaction as required by 18 *Del. Admin. C.* § 1204-6.1.2. (Underwriting and Rating- Individual Variable Annuities New Issues).
8. It is recommended that the Company not effectuate a contract upon an individual unless at the time of the making of the contract the individual insured, being of competent


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legal capacity to contract, applies or has consented thereto in writing as required by 18 *Del. C. § 2708*. (Underwriting and Rating- Individual Variable Annuities Replacements).

9. It is recommended that the Company acknowledge and respond within 15 working days to communications with respect to claims as required by 18 *Del. Admin. C. § 902 – 1.2.1.2*. (Claims).
10. It is recommended that the Company affirm or deny coverage or a claim or advise the person presenting the claim, in writing within 30 days after proof of loss was received as required by 18 *Del. Admin C. § 902 – 1.2.1.5*. (Claims).

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The Lincoln National Life Insurance Company**

The examination conducted by Joseph Krug, Jason Nemes, Jack Rucidlo. and Gwen Douglas is respectfully submitted.



Jason Nemes, CIE, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance

I, Jason Nemes, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 65676-20-528.



Jason Nemes, CIE, MCM