DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

PHL Variable Insurance Company

NAIC #93548

One American Row

Hartford, CT 06115

As of

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

PHL VARIABLE INSURANCE COMPANY

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

Attest By: [Signature]

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner
REPORT ON EXAMINATION

OF THE

PHL VARIABLE INSURANCE COMPANY

AS OF

June 30, 2010

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

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

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner
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July 28, 2011

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

Dear Commissioner Stewart:

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

**PHL Variable Insurance Company**

The examination was performed as of June 30, 2010. PHL Variable Insurance Company, hereinafter referred to as the "Company" or "PHL," was incorporated under the laws of Connecticut. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

One American Row
Hartford, CT 06115

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

The report of examination herein is respectfully submitted.
EXECUTIVE SUMMARY

PHL Variable Insurance Company was incorporated under the laws of Connecticut and commenced business on July 15, 1981. The Company’s main administrative offices are located in Hartford, Connecticut.

On their 2009 annual statement filed with the Department, PHL Variable Insurance Company reported direct premium for ordinary life insurance in the amount of $23,974,905 and annuity considerations in the amount of $1,369,661.

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

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

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

In the issuance of 36 Universal Life Policies, a number of exceptions (24) were noted to 18 Del. Admin. Code 1210 §9.0 and 18 Del. Admin. Code 1210 §9.4 for failure to obtain required producer certifications and applicant acknowledgements related to the marketing of policies with illustrations.

A total of 22 exceptions were noted to 18 Del. C. §320 for failure to maintain proper file documentation. Specifically, the Company was unable to locate information to provide evidence that the premium refund was correctly processed in 6 not-taken policy files and evidence of the policy form utilized in the issuance of 16 term life policies.

One exception was noted to 18 Del. C. §1703 and 18 Del. C. §1715 for the Company’s acceptance of business from a producer who was not licensed or appointed to sell life insurance in Delaware.

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

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

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

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners reported on the errors found in individual files, the examiners also focused 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. 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 Concerns, or 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

PHL Variable Insurance Company was incorporated under the laws of Connecticut and commenced business on July 15, 1981. The Company’s main administrative offices are located in Hartford, Connecticut.

PHL Variable Insurance Company is a direct, wholly-owned subsidiary of PM Holdings, Inc., which, in turn, is wholly-owned by Phoenix Life Insurance Company which is wholly-owned by the ultimate parent, The Phoenix Companies, Inc.

The Company offers life insurance products, including universal life, variable universal life, and other insurance products comprising single life, first-to-die, and second-to-die products. The company also provides annuity products comprising deferred and immediate, as well as fixed variable annuities with various death benefit and guaranteed living benefit options. In addition, it offers alternative retirement solutions to help meet the retirement income needs of consumers. PHL Variable Insurance Company provides its products through third-party distributors, as well as through its wholesalers and financial planning specialists to high-net-worth, affluent, and middle markets. The company was incorporated in 1981 and is headquartered in Hartford, Connecticut. PHL Variable Insurance Company is a subsidiary of PM Holdings, Inc.

PHL was chartered by Special Act 81-3 of the 1981 session of the Connecticut General Assembly under the name, Trumbull Insurance Company and commenced business on July 24, 1981. The name was changed to Hartford Life and Annuity Insurance Company on July 24, 1981. In 1984, the Dreyfus Corporation purchased the Company and changed its name to Dreyfus National Life Insurance Company. On February 17, 1984, the name was changed to Dreyfus Consumer Life Insurance Company. Effective May 31, 1994, PM Holdings, Inc. (PM Holdings) purchased all of the outstanding stock of the Company. The Company is a wholly owned subsidiary of the Phoenix Life Insurance Companies, Inc. (PLIC). PLIC is a wholly-owned subsidiary of the Phoenix Companies, Inc. (Phoenix Companies). The Company’s name was changed to its current name on June 1, 1994.

The Company began writing a limited amount of ordinary life business in 1985. On January 1, 1987, all policies previously in force were sold to the Hartford Life and Accident Insurance Company. The Company currently offers annuity and non-participating life insurance products through both the separate and general accounts.

On March 3, 2009, State Farm informed the Company it was suspending the sale of Phoenix products pending a re-evaluation of the relationship between the two companies. During 2008, State Farm was the Company's largest distributor of annuities and life insurance products accounting for approximately 25% of total life insurance premiums and approximately 72% of annuity deposits.

On March 4, 2009, National Life Group informed the Company that it was suspending
the sale of Phoenix products. In 2008, National Life Group was the Company's second largest distributor of annuity products accounting for approximately 13% of annuity deposits.

COMPANY OPERATIONS AND MANAGEMENT

A. Underwriting Guidelines

The Company provided a copy of all underwriting guidelines and manuals utilized during the experience period. The Company also provided the Company’s rescission, termination and declination policies and procedures. The materials were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by the following statutes or regulations:

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

The following guidelines and procedures were provided and reviewed:

2. Cancelled Policy Procedures
3. Not-Taken Policy Procedures
4. Rescinded Policy Procedures
5. Surrendered Policy Procedures
6. Declination Procedures

The underwriting guidelines and procedures were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation.

No exceptions were noted.

B. Internal Audit and Compliance Procedures
The Company provided copies of their internal audit and compliance procedures. The past audits and procedures were reviewed to ensure the Company provided for the evaluation of compliance with all statutes and regulations dealing with sales methods, advertising, and filing and approval requirements for life insurance and annuities.

In addition, the procedures were reviewed to ensure the Company was providing for the following:
(1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
(2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
(3) The Company confirmed that there had been no regulatory or legal actions taken against the Company that involves any Delaware policies within the examination period.

The examiners also reviewed past market conduct exams and consent orders.

No exceptions were noted.

GROUP UNDERWRITING

A. Group Life Policies Issued

The Company indicated no group policies were issued during the experience period.

B. Group Term Life Conversions

The Company indicated no group term life was converted during the experience period.

INDIVIDUAL UNDERWRITING

The Underwriting file review was sorted and conducted in seven general segments.

A. Universal Life Policies Issued
B. Term Life Policies Issued
C. Variable Life Policies Issued
D. Life Policies Declined
E. Life Policies Not-Taken
F. Life Policies Rescinded
G. Term Life Conversions
Each segment was reviewed for compliance with the following Delaware laws and regulations pertaining to: sales and marketing, disclosures, illustrations, underwriting practices, forms approval and producer licensing and oversight. Issues relating to forms or producer licensing and oversight appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

- 18 Del. C. §320. Conduct of examination; access to records; correction.
- 18 Del. C. §1715. Producer Appointment Requirements
- 18 Del. C. §2709. Alteration of application, life and health insurance.
- 18 Del. C. §2712, Filing, approval of forms.
- 18 Del. Admin. Code 1203 Life Insurance Solicitation
- 18 Del. Admin. Code 1203 §5.0 Disclosure Requirements
- 18 Del. Admin. Code 1204 §§5.1-5.3 Replacement of Life Insurance-Duties of Producers
- 18 Del. Admin. Code 1204 §6.1 Replacement of Life Insurance- Duties of all Insurers
- 18 Del. Admin. Code 1204 §8.0 Insurer Duties with Respect to Direct Response Sales
- 18 Del. Admin. Code 1210 §5.0 Policies to be Illustrated
- 18 Del. Admin. Code 1210 §§7.0-7.5 Standards for Basic Illustrations
- 18 Del. Admin. Code 1210 §8.0 Standards for Supplemental Illustrations
- 18 Del. Admin. Code 1210 §9.0 Delivery of Illustration and Record Retention
- 18 Del. Admin. Code 1210 §10.0 Annual Report; Notice to Policy Owners
- 18 Del. Admin. Code 1210 §11.0 Annual Illustration Certifications

A. Universal Life Policies Issued

The Company provided a list of all individual life coverage issued during the experience period. The Company identified a universe of 38 Universal Life (UL) policies issued. All 38 policy files were requested, received and reviewed. Of the 38 UL policies issued, 2 policies were Not-Taken policies and were reviewed in the Not-Taken Policies section of the review. The remaining 36 UL issued files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.
The following exceptions were noted:

**11 Exceptions - 18 Del. Admin. Code 1210 §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.

The 11 files noted did not contain the signed certification and acknowledgement of the delivery of an illustration.

**Recommendation:** It is recommended that the Company review its procedures to ensure compliance with the delivery of illustration and record retention requirements of 18 Del. Admin. Code 1210 §9.0.

**1 Exception - 18 Del. Admin. Code 1210 §9.0 Delivery of Illustration and Record Retention**

9.2.1 If no illustration is used by an insurance producer or other authorized representative in the sale of a life insurance policy or if the policy is applied for other than as illustrated, the producer or representative shall certify to that effect in writing on a form provided by the insurer. On the same form the applicant shall acknowledge that no illustration conforming to the policy applied for was provided and shall further acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer at the time of policy application.

The file noted did not contain the signed certification and acknowledgement that no illustration was used in the sale of the life insurance policy.

**Recommendation:** It is recommended that the Company review its procedures to ensure compliance with the delivery of illustration and record retention requirements of 18 Del. Admin. Code 1210 §9.0.

**1 Exception - 18 Del. Admin. Code 1210 §9.0 Delivery of Illustration and Record Retention**

9.2.2 If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.

The file noted did not contain a signed acknowledgement of the delivery of the illustration at the time of policy delivery.
**Recommendation:** It is recommended that the Company review its procedures to ensure compliance with the delivery of illustration and record retention requirements of 18 Del. Admin. Code 1210 §9.0.

11 Exceptions - 18 Del. Admin. Code 1210 §9.4 Delivery of Illustration and Record Retention

**9.4** A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. A copy need not be retained if no policy is issued.

The 11 files noted were missing the agent certification and the applicants acknowledgment in regards to the illustration used.

**Recommendation:** It is recommended that the Company review its procedures to ensure compliance with the delivery of illustration and record retention requirements of 18 Del. Admin. Code 1210 §9.4.

**B. Term Life Policies Issued.**

The Company identified a universe of 64 term life policies issued during the experience period. All 64 variable life policy files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following exceptions were noted:

16 Exceptions - 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.

The Company was unable to locate a policy summary in the 16 files noted.

**Recommendation:** It is recommended that the Company review and revise its procedures to ensure compliance with the file maintenance requirements of 18 Del. C. §320.
C. Variable Life Policies Issued

The Company identified a universe of 7 variable life policies issued during the experience period. All 7 variable life policy files were requested, received and reviewed. Of the 7 files reviewed, 1 file was not within the jurisdiction of Delaware Law. The remaining 6 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No exceptions were noted.

D. Life Policies Declined

The Company provided a list of all policies declined during the experience period. The Company identified 17 individual life policies declined. Of the 17 files provided, 3 policy files were outside Delaware jurisdiction. The remaining 14 files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. No exceptions were noted.

E. Life Policies Not-Taken

The Company provided a list of all policies not-taken during the experience period. The Company identified 14 individual life policies not-taken. All 14 files were requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the 10-day premium refund provisions of the contract. The following exceptions were noted:

6 Exceptions - 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.

The Company was unable to provide evidence that the cancellation was correctly processed and a premium refund provided in six (6) files.

Recommendation: It is recommended that the Company review and revise its procedures to ensure compliance with the file maintenance requirements of 18 Del. C.
§320.

**F. Life Policies Rescinded**

The Company provided a list of all policies rescinded during the experience period. A rescinded policy is a policy that was issued and the company terminates the contract and returns all premium paid from the policy effective date to the insured. The Company identified a universe of 7 life insurance policies rescinded. Of the 7 rescinded files reviewed, 4 policies were issued outside the State of Delaware’s jurisdiction. The remaining 3 rescinded policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, proper return of premium and a valid reason for rescission.

Subsequent to the issuance of the policy and within the 2-year contestable period, a routine audit flagged these 3 policies for additional review by the Company’s internal audit department. As part of this review, the Company obtained an investigative financial and consumer credit report, reviewed other publicly available information, and verified medical records that resulted in findings of medical and financial misrepresentation/fraud.

The Company took legal action as a result of the misrepresentation/fraudulent activity which included the rescission action. The Company has not concluded that the producer and/or agency were complicit in the misrepresentation/fraud. It is the Company’s standard practice to charge back commission regardless of the basis for the rescission.

The specific details of the legal settlements were not disclosed to the examiners, however; since the Company reported the fraud to the Delaware Department through Special Investigation Unit referrals, no further review was necessary.

No exceptions were noted.

**G. Term Life Conversions**

The Company identified a universe of 2 term life conversions issued during the experience period. Both term conversion policy files were requested, received and reviewed. Of the 2 files received, 1 policy file was outside the authorization of Delaware law. The remaining file was reviewed to determine compliance to issuance and underwriting, statutes and regulations.

No exceptions were noted.

**FORMS**

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

No exceptions were noted.

CONSUMER COMPLAINTS

The Company identified all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2007, 2008, and 2009. The Company reported no consumer complaints were received during the experience period or for calendar years 2007, 2008 and 2009.

The complaint handling procedures were reviewed for compliance with 18 Del. C. §2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims are subject to compliance with 18 Del. Admin. Code 902 §1.2.1.2.

No exceptions were noted.

ADVERTISING

The Company provided a list of all Advertising and Marketing Material utilized during the experience period. The Company provided a list of 789 pieces of advertising utilized in the Delaware.

The advertising consisted of the following:

1. Letters.
2. Direct Mailers
3. Brochures
4. Producer Presentations
5. Underwriting Product Guides
6. Product Manuals
7. Company’s web page

A sample of 50 pieces of advertising was requested, received and reviewed. The 50 advertising materials and the Company’s web site were reviewed to ascertain compliance with 18 Del. C. §2303, Unfair Methods of Competition and Unfair or Deceptive Acts or Practices.
No exceptions were noted.

PRODUCER LICENSING & OVERSIGHT

The Company provided a list of all producers active and terminated during the experience period. In addition, the Company was requested to provide oversight policies and procedures regarding the following activities:

- Appointment Procedures
- Product Training & Compliance
- Allegations of Misconduct Reports
- Producer Terminations
- Monitoring Producer Replacement Activity

The oversight policies and procedures were received and reviewed. The Company provided a list of 425 active and 23 terminated producers. A sample of 50 active producers and all 23 terminated producers were compared to Delaware departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made for all producers identified on applications reviewed in the policy issued sections of the exam.

The following exceptions were noted:

**1 Exception- 18 Del. C. §1703. License required.**

_A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter._

One individual was listed on an application as the producer in the Term Life Issued section of the exam. Department records did not list the individual as holding a valid insurance license.

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

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

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

**(c)** Upon receipt of the notice of appointment, the Insurance Commissioner shall verify
within a reasonable time not to exceed 30 days that the insurance producer is eligible for appointment. If the insurance producer is determined to be ineligible for appointment, the Insurance Commissioner shall notify the insurer within 5 days of its determination.

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

One individual was listed on an application as the producer in the Term Life Issued section of the exam. Department records did not list the individual as appointment for the Company.

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

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

1. It is recommended that the Company review and revise internal control procedures to ensure compliance with Delivery of Illustration and Record Retention requirements of 18 Del. Admin. Code 1210 §9.0 and 18 Del. Admin Code 1210 §9.4. The Company must ensure that both a signed acknowledgment of the delivery of the illustration at the time of policy delivery and the agent certification/applicants acknowledgement in regards to the illustration used are received and maintained in accordance with Delaware Code. (A. Universal Life Policies Issued)

2. It is recommended that the Company review and revise its procedures to ensure compliance with the file maintenance requirements of 18 Del. C. §320. (B. Term Life Policies Issued and E. Life Policies Not-Taken)

3. It is recommended that the Company review and revise its procedures to ensure compliance with licensing and appointment requirements of 18 Del. C. §1703 and 18 Del. C. §1715. (Producer Licensing & Oversight)

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

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