

DELAWARE DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION REPORT

Pacific Life Insurance Company  
**NAIC #67466**  
700 Newport Center Drive  
Newport Beach, CA 92660

As of

December 31, 2010

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

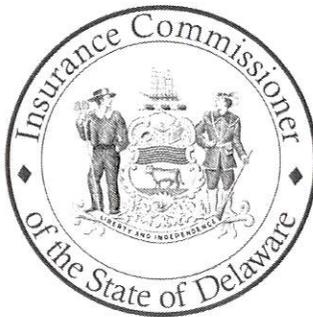
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 on

**PACIFIC LIFE INSURANCE COMPANY**

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

Attest By:

*Larissa J. Harris*

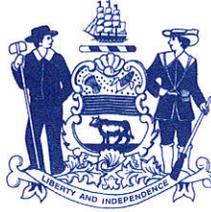


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

*[Signature]*  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

*4/4/12*

Karen Weldin Stewart, CIR-ML  
Commissioner



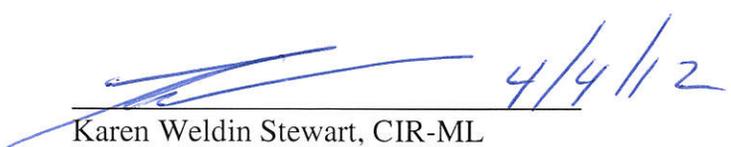
Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
**PACIFIC LIFE INSURANCE COMPANY**  
AS OF  
December 31, 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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## SALUTATION

January 5, 2012

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 11.001, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

### **Pacific Life Insurance Company**

The examination was performed as of December 31, 2010. Pacific Life Insurance Company, hereinafter referred to as the "Company", was incorporated under the laws of Nebraska.

The examination 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**

Pacific Life Insurance Company was established in 1868 and is organized under the laws of the State of Nebraska as a stock life insurance company. According to their 2010 annual statement filed with the Department, Pacific Life Insurance Company reported direct premium for ordinary life insurance in the amount of \$2,237,383,375; and direct premium in Delaware of \$29,898,918 in ordinary life insurance.

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

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

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

One exception was noted to 18 Del. C. §1715 for the Company's failure to appoint a producer 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, 2008, through December 31, 2010, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to the sales and marketing of life insurance.

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

## **METHODOLOGY**

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

While the examiners' report on the errors found in individual files, the general business practices of the Company were also a subject of the review.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department after review takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

## **COMPANY HISTORY AND PROFILE**

Pacific Life Insurance Company was established in 1868 and is organized under the laws of the State of Nebraska as a stock life insurance company. The Company is authorized to conduct business in the District of Columbia and all states with the exception of New York. The Company is an indirect subsidiary of Pacific Mutual Holding Company, a mutual insurance holding company, and a wholly-owned subsidiary of Pacific Life Corp, an intermediate stock holding company. Pacific Life Insurance Company transferred its legal domicile from the State of California to the State of Nebraska effective September 1, 2005.

According to their 2010 annual statement filed with the Department, Pacific Life Insurance Company reported direct premium for ordinary life insurance in the amount of \$2,237,383,375; and direct premium in Delaware of \$29,898,918 in ordinary life insurance.

## **COMPANY OPERATIONS AND MANAGEMENT**

### **A. Underwriting Guidelines**

The Company was requested to provide all underwriting guidelines and manuals utilized during the experience period. The manuals 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.

The following Guidelines were reviewed:

1. Life Underwritings Guidelines labeled as “OCEAN”
2. Termination and Declination Procedures
3. Rescission Procedures.

No exceptions were noted.

## **B. Internal Audit and Compliance Procedures**

The Company was requested to provide a narrative of their internal audit and compliance procedures and a listing of all internal audits conducted within the last five years. The narrative and list of internal audits were reviewed to ensure the Company established procedures 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 including the following:

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No exceptions were noted.

## **INDIVIDUAL UNDERWRITING**

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

- A. Universal Life Policies Issued
- B. Variable Life Policies Issued

- C. Term Life Policies Issued
- D. Life Policies Declined
- E. Life Policies Not-Taken

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

- 18 Del. C. §320. Conduct of examination; access to records; correction.
- 18 Del. C. §1703. Producer License Requirements.
- 18 Del. C. §1715. Producer Appointment Requirements
- 18 Del. C. §2300. Unfair Insurance Practices.
- 18 Del. C. §2708. Consent of insured; life, health insurance.
- 18 Del. C. §2709. Alteration of application, life and health insurance.
- 18 Del. C. §2712, Filing, approval of forms.
- 18 Del. Admin. Code 202 §2.0 Company Producer Licensing Responsibility
- 18 Del. Admin. Code 1203 Life Insurance Solicitation
- 18 Del. Admin. Code 1203 §4.0 Definitions-Policy Summary, Buyers Guide
- 18 Del. Admin. Code 1203 §5.0 Disclosure Requirements
- 18 Del. Admin. Code 1203 §6.0 General Rules of Disclosure
- 18 Del. Admin. Code 1204 §§5.1-5.3 Replacement of Life Insurance-Duties of Producers
- 18 Del. Admin. Code 1204 §6.1 Replacement of Life Insurance- Duties of all Insurers
- 18 Del. Admin. Code 1204 §§7.1-7.4 Replacement of Life Insurance-Duties of Replacing Insurer
- 18 Del. Admin. Code 1204 §8.0 Insurer Duties with Respect to Direct Response Sales
- 18 Del. Admin. Code 1210 §5.0 Policies to be Illustrated
- 18 Del. Admin. Code 1210 §6.0 Life Insurance Illustrations *Rules and Prohibitions*
- 18 Del. Admin. Code 1210 §§7.0-7.5 Standards for Basic Illustrations
- 18 Del. Admin. Code 1210 §8.0 Standards for Supplemental Illustrations
- 18 Del. Admin. Code 1210 §9.0 Delivery of Illustration and Record Retention
- 18 Del. Admin. Code 1210 §10.0 Annual Report; Notice to Policy Owners
- 18 Del. Admin. Code 1210 §11.0 Annual Illustration Certifications

#### **A. Universal Life Policies Issued**

The Company identified a universe of 50 life policies issued during the experience period. A random sample of 25 life policy files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

### **B. Variable Life Policies Issued**

The Company identified a universe of 477 variable life policies issued during the experience period. A random sample of 50 files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

### **C. Term Life Policies Issued**

The Company identified a universe of 3 Term Life policies issued during the experience period. All 3 term life policies were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

### **D. Life Policies Declined**

The Company identified a universe of 5 life policies declined during the experience period. All 5 declined policy files were requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium.

No exceptions were noted.

### **E. Life Policies Not-Taken**

The Company identified a universe of 5 life policies not-taken during the experience period. All 5 not-taken files were requested, received and reviewed. The files were reviewed to ensure compliance with the 10-day premium refund provisions of the contract.

No exceptions were noted.

## **FORMS**

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with 18 Del. C. §2712, Filing, approval of forms. Additionally, any Variable Life Insurance forms were reviewed to ensure compliance with 18 Del. Admin. Code 1205 §4.1, Filing of Variable Life Insurance Policies.

No exceptions were noted.

## **CONSUMER COMPLAINTS**

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint handling guidelines, reports and summaries. The Company reported no consumer complaints were received during the experience period. The consumer complaint handling guideline procedures, management reports and summaries were reviewed for compliance with 18 Del. C. §2304(17), Failure for maintenance of complaint handling procedures.

No exceptions were noted.

## **ADVERTISING**

The Company was requested to provide a list of all Advertising and Marketing Material utilized during the experience period. The Company provided a list of 4,509 pieces of advertising utilized in the state of Delaware. The advertising consisted of: Direct Mailers, Brochures, Presentations, Flyers, Booklets, Bulletins, Seminar Invitations, Product Guides, and screenshots of documentation associated with the Company's web page and internal Company intranet portal. A sample of 75 pieces of advertising was requested, received and reviewed. The 75 advertising materials and the Company's web site were reviewed to ascertain compliance with 18 Del. C. §2303, Unfair Methods of Competition and Unfair or Deceptive Acts or Practices.

No exceptions were noted.

## **PRODUCER LICENSING & OVERSIGHT**

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

- Appointment Procedures
- Product Training & Compliance

- Allegations of Misconduct Reports
- Producer Terminations
- Monitoring Producer Replacement Activity

The policies and procedures were received and reviewed. The Company provided a list of 903 active producers and 308 producers terminated during the experience period. A random sample of 50 active producers and 25 terminated producers were compared to departmental records of producers to verify appointment, terminations and licensing. In addition, a comparison was made on the producers identified on applications reviewed in the policy issued sections of the exam. The following exception was noted:

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

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

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

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

A producer listed on an application for a life insurance policy reviewed in the Universal Life Policies Issued section of the exam was not appointed as a producer in Delaware.

**Recommendation:** It is recommended that the Company review its producer appointment procedures to ensure compliance with the requirements of 18 Del. C. §1715. Appointments.

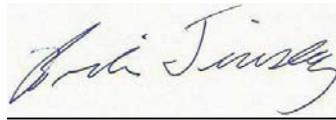
## CONCLUSION

The recommendation made below identifies 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 its producer appointment procedures to ensure compliance with the requirements of 18 Del. C. §1715. Appointments. (Producer Licensing & Oversight)

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

A handwritten signature in cursive script, reading "Brian Tinsley", is written on a light-colored rectangular background. A horizontal line is drawn below the signature.

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