

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

State Farm Life Insurance Company
NAIC #69108
One State Farm Plaza
Bloomington, IL 61710

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

STATE FARM 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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



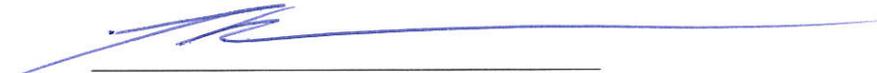
Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
STATE FARM 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

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

State Farm Life Insurance Company

The examination was performed as of December 31, 2010. State Farm Life Insurance Company, hereinafter referred to as the "Company" or as "SFLIC," was incorporated under the laws of Illinois. 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 State Farm Plaza
Bloomington, IL 61710

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

State Farm Life Insurance Company (the "Company") incorporated in Illinois on January 16, 1929 and commenced business there on April 19, 1929.

According to their 2010 annual statement filed with the Department, State Farm Life Insurance Company reported direct premium for ordinary life insurance in the amount of \$3,390,349,392; and direct premium for life insurance in Delaware of \$12,685,686. The Company's main administrative offices are located in Bloomington, IL.

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.

The following exceptions were noted in the areas of operation reviewed:

- 73 Exceptions were noted to 18 Del. Admin. Code 1204 §7.1 Replacement of Life Insurance, for the Company's failure to provide verification of the agent's written statement on replacement as part of the application.
- 2 Exceptions were noted to 18 Del. Admin. Code 1210 §9.0 for failure to provide a revised illustration to the insured when the policy was issued and delivered with revisions.
- 1 Exception was noted to 18 Del. Admin. Code 1210 §9.4 for failure to retain the basic illustration, with applicable insured and producer signatures, utilized in the delivery of a life insurance policy.
- 1 Exception was noted to 18 Del. C. §1715 for failure to file a notice of appointment and submit appointment fees to the Delaware Department of Insurance for an individual listed as the producer on a life insurance application.

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, 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

State Farm Life Insurance Company is a principle subsidiary of State Farm Mutual Automobile Insurance Company, which is owned by its policyholders, and began selling life insurance in April, 1929. The Company offers a variety of Life and Annuity products and uses an exclusive agency system of over 17,000 agents to market its products throughout the United States and Canada.

As of 12/31/10, the Company had over 7.8 million life insurance policies in force, of which over 28,000 were written in Delaware. Servicing of Delaware policies is provided by the Company's agents and licensed staff members, as well as their Life Operations Center in New Albany, Ohio.

According to their 2010 annual statement filed with the Department, State Farm Life Insurance Company reported direct premium for ordinary life insurance in the amount of \$3,390,349,392; and direct premium for life insurance in Delaware of \$12,685,686. The Company's main administrative offices are located in Bloomington, IL.

COMPANY OPERATIONS AND MANAGEMENT

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines, manuals, and policy procedures utilized during the experience period. The Company provided four procedure guidelines. 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 (24) Discriminatory practices against victims of abuse regarding life 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.

**Delaware Market Conduct Examination Report
State Farm Life Insurance Company**

The following procedures guidelines were provided and reviewed:

1. Delaware Life Underwriting Guidelines
2. Delaware Life New Business procedures
3. Rescission, Termination and Declination policies and procedures
4. Delaware Group Life New Business procedures

No exceptions were noted.

B. Internal Audit and Compliance Procedures

The Company was requested to provide copies of their internal audit and compliance procedures. The 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 has 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 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.

GROUP UNDERWRITING

The files were reviewed for compliance with the following Delaware laws and regulations pertaining to: sales and marketing, 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.

Group Life Policies Issued

The Company identified four (4) group policies issued during the experience period. All four (4) files 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.

INDIVIDUAL UNDERWRITING

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

- A. Life Policies Issued
- B. Term Life Policies Issued
- C. Life Policies Declined
- D. Life Policies Not-Taken
- E. Term Life Policy 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. §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.

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- 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. Life Policies Issued

The Company identified a universe of 3,249 Delaware life policies issued during the experience period. A random sample of 50 life policy files was requested, received and reviewed.

Of the 50 policies reviewed, 8 policies were conversions from existing policies. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following exceptions were noted:

32 Exceptions - 18 Del. Admin. Code 1204 §7.1 Replacement of Life Insurance

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

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 agent's signed statement on replacement required with or as a part of each application was not evident in the noted files.

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Recommendation: It is recommended that the Company review and revise internal control procedures to ensure it maintains agent's signed statements on replacement in compliance with 18 Del. Admin. Code 1204 §7.1.

1 Exception - 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.

A copy of the basic illustration, signed as applicable, was not retained by the Company in the file noted.

Recommendation: It is recommended that the Company review internal control procedures to ensure compliance with Delivery of Illustration and Record Retention requirements of 18 Del. Admin. Code. 1210 §9.4.

2 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 policy in 2 files was issued other than as applied for, however, a revised illustration was not provided to the insured.

Recommendation: It is recommended that the Company review internal control procedures to ensure compliance with 18 Del. Admin. Code 1210 §9.1.2 related to the delivery and certification requirements for a revised illustration.

B. Term Life Issued

The Company identified a universe of 4,252 Delaware term life policies issued during the experience period. A random sample of 50 term life policies was requested and received.

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Of the 50 files received, 1 file was a term life conversion policy and not reviewed in this section. The remaining 49 term life policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following exceptions were noted:

41 Exceptions - 18 Del. Admin. Code 1204 §7.1 Replacement of Life Insurance

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

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 agent's signed statement on replacement required with or as a part of each application was not evident in the noted files.

Recommendation: It is recommended that the Company review and revise internal control procedures to ensure it maintains agent's signed statements on replacement in compliance with 18 Del. Admin. Code 1204 §7.1.

C. Life Policies Declined

The Company identified 47 individual life policies declined during the experience period. A random sample of 25 files was 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.

D. Life Policies Not-Taken

The Company identified 416 individual life policies not-taken during the experience period. A random sample of 50 files was 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.

No exceptions were noted.

E. Term Life Conversions

The Company identified a universe of 602 term life policies converted to life policies during the experience period. A random sample of 25 term life conversion policies were requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations.

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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. For initial exam purposes, forms exceptions found in the other sections of the examination have been addressed in their respective initial summaries.

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 logs for 2008, 2009, and 2010. The Company identified 7 consumer complaints received during the experience period. Of the 7 complaints identified, 4 were forwarded from the Department. All 7 complaint files were requested, received, and reviewed. The Company was also requested to provide the following:

- A copy of the Company's complaint handling guidelines and/or procedures, including the Company's definition of what constitutes a "complaint.
- A description of the complaint reports and summaries that are prepared, and who receives them.
- An example of each complaint report and/or summary document.

The complaint files and the 3 years of complaint logs 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 were also reviewed for compliance with 18 Del. Admin. Code 902 §1.2.1.2.

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 1,091 pieces of advertising utilized in Delaware. The advertising consisted of: Letters, Direct Mailers, Brochures, Presentations, Radio and Television Scripts, Cards, Illustrations, and Product

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Guides. A sample of 65 pieces of advertising was requested, received and reviewed. The 65 advertising materials were reviewed to ascertain compliance with 18 Del. C. §2303, Unfair Methods of Competition and Unfair or Deceptive Acts or Practices.

The following table summarizes the type of advertising material, universe and sample of advertising material selected for review.

Advertising Type	Universe	Sample
Agent Zone	169	10
Direct Mail	161	15
National Company	9	5
Training Materials	665	25
State Farm.com Marketing Pieces	87	10

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 209 active producers and 27 producers terminated during the experience period. A random sample of 50 active producers and all 27 terminated producers were compared to departmental records of producers to verify appointment, terminations and licensing. In addition, a comparison was made on the 125 producers identified on applications reviewed in the policy issued and term conversion 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.

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(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 as a producer on an application reviewed in the term conversion section of the exam. Delaware Department of Insurance records do not identify the individual as being appointed by the company.

Recommendation: It is recommended that the Company review internal control procedures to ensure compliance with the appointment requirements of 18 Del. C. §1703 and 18 Del. C. §1715.

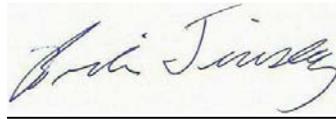
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CONCLUSION

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 review and revise internal control procedures to ensure it maintains agent's signed statements on replacement in compliance with 18 Del. Admin. Code 1204 §7.1. (A. Life Policies Issued, B. Term Life Issued)
2. It is recommended that the Company review internal control procedures to ensure compliance with Delivery of Illustration and Record Retention requirements of 18 Del. Admin. Code. 1210 §9.4. (A. Life Policies Issued)
3. It is recommended that the Company review internal control procedures to ensure compliance with 18 Del. Admin. Code 1210 §9.1.2 related to the delivery and certification requirements for a revised illustration (A. Life Policies Issued)
4. It is recommended that the Company review internal control procedures to ensure compliance with the 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