DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

Principal Life Insurance Company

NAIC #61271
711 High Street
Des Moines, IA 50392-0220

As of

December 31, 2016
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 on

Principal Life Insurance Company

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

Attest By:

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of June, 2018.

Trinidad Navarro
Insurance Commissioner
REPORT ON EXAMINATION

OF THE

Principal Life Insurance Company

AS OF

December 31, 2016

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 1st day of June, 2018.

Trinidad Navarro
Insurance Commissioner
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Dear Commissioner Navarro:

In compliance with the instructions contained in the Exam Authority Number ANN-61271-16-600, and pursuant to statutory provisions including 18 Del. C. §§318-322, a market conduct examination has been conducted of the affairs and practices of:

Principal Life Insurance Company NAIC # 61271

The examination was performed as of December 31, 2016. 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:

711 High Street
Des Moines, IA 50392-0220

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

The examination was announced as part of a series of examinations on companies in the annuity marketplace in Delaware. The examination focused on the Company’s annuity and life insurance business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services and Underwriting and Rating. This effort was conducted to gauge the Company’s practices in the suitability, replacement and surrender transactions.

All the exceptions were noted in the areas of Complaint Handling, Producer Licensing, Policyholder Services and Underwriting and Rating.

The following exceptions were noted:

- 1 Exception
  9.1 No agent shall be eligible to sell or offer for sale in this State any variable contract unless prior to making any solicitation or sale of such a contract, he also be licensed by this Department as a variable contract agent per the authority and subject to the provisions of 18 Del.C. §1714(d) and these regulations.

  Failure to ensure that the producer held a Delaware variable contract license on the date the application was signed.

- 1 Exception: Replacement
  18 Del. Admin. C. §1204 - 5.1.1 Duties of Agents and Brokers.
  Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:
  5.1.1 statement signed by the applicant as to whether the replacement of existing life insurance or annuities are involved in the transaction;

  Accepting an application without the applicant signing the replacement question answer.

- 1 Exception: Replacement
  18 Del. Admin. C. §1204 - 5.1.2 Duties of Agents and Brokers.
  Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:
  5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.
Accepting an application without the producer signing the replacement question answer.

- 2 Exceptions: 1 Replacement and 1 Non-Replacement
  18 Del. Admin. C. §1204 - 5.2.1 Duties of Agents and Brokers. Where replacement is involved, the agent or broker shall:
  5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

Failure to provide proof that the replacement notice was presented to the applicant no later than at the time of taking the application.

- 47 Exceptions: Replacements
  18 Del. Admin. C. §1204 - 6.1.2 Duties of All Insurers. Each Agent shall:
  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.

Failure to require that the agents submit with the completed application a statement signed by the applicant as to whether the proposed annuity would replace an existing life insurance product or annuity.

- 51 Exceptions: 50 Replacements and 1 Non-Replacement
  18 Del. Admin. C. §1204 - 7.1.1 Duties of Insurers That Use Agents or Brokers Each insurer that uses an agent of broker in a life insurance or annuity sale shall:
  7.1.1 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.

Failure to require that the agents submit with the completed application a statement signed by the agent as to whether the proposed annuity would replace an existing life insurance product or annuity.

- 14 Exceptions: 14 Replacements
  18 Del. Admin. C. §120 - 7.1.2.2 Duties of Insurers That Use Agents or Brokers. Each insurer that uses an agent of broker in a life insurance or annuity sale shall:
  7.1.2 Where a replacement is involved:
  7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is
received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

Failure to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within 7 working days.

- 7 Exceptions: Replacements

18 Del. Admin. C. §1204 - 7.3 Duties of Insurers That Use Agents or Brokers. The replacing insurer shall maintain evidence of the "Notice Regarding Replacement," the Policy Summary, and any Ledger Statements used, and a replacement register, cross indexed, by replacing agent and existing insurer to be replaced. The existing insurer shall maintain evidence of Policy Summaries or Ledger Statements used in any conservation. Evidence that all requirements were met shall be maintained for at least three years or until the conclusion of the next succeeding regular examination by the Insurance Department of its state of domicile, whichever is earlier.

Failure to maintain evidence of the Policy Summary or Ledger Statement used.

- 11 Exceptions: Replacements

18 Del. Admin. C. §1204 - 7.4 Duties of Insurers That Use Agents or Brokers The replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid, which right may be exercised within a period of twenty days commencing from the date of delivery of the policy.

Failure to provide a statement or notice of a 20-day unconditional premium refund in policies and contracts that involved a replacement.

- 4 Exceptions

18 Del. Admin. C. §1205 - 11.0 Qualification of Agents for the Sale of Variable Life Insurance

11.1 Qualification to Sell Variable Life Insurance

11.1.1 No person may sell or offer for sale in this state any variable life insurance policy unless such person holds a Delaware insurance license (either resident or nonresident), valid for the line of variable annuity (18 Del.C. §1707), and a valid agent's appointment to represent an admitted insurer (18 Del.C. §1715).

Accepting an application from a producer that was not licensed to sell variable life insurance on the date the application was signed.

- 54 Exceptions

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.

Failure to maintain accurate records of producer licensing.

- 103 Exceptions
  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.

Accepting applications for insurance from a producer not duly appointed by the Company within 15 days of the receipt of the application in 7 applications. For failure to maintain accurate records of 96 producer appointments.

- 3 Exceptions
  18 Del. C. §2709 Alteration of application, life and health insurance.

No alteration of any written application for any life or health insurance policy shall be made by any person other than the applicant without his/her written consent, except that insertions may be made by the insurer, for administrative purposes only, in such manner as to indicate clearly that such insertions are not to be ascribed to the applicant.

Failure to ensure that the alteration on the application was initialed by the applicant.
DETAILS OF CODES IN VIOLATION:

As several of the violations are repeated in multiple sections of the Report, they are summarized here for ease of reference:


9.1 No agent shall be eligible to sell or offer for sale in this State any variable contract unless prior to making any solicitation or sale of such a contract, he also be licensed by this Department as a variable contract agent per the authority and subject to the provisions of 18 Del.C. §1714(d) and these regulations.

18 Del. Admin. C. §1204 - 5.1 Duties of Agents and Brokers.

Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:
5.1.1 statement signed by the applicant as to whether the replacement of existing life insurance or annuities are involved in the transaction;

Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:
5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.

18 Del. Admin. C. §1204 - 5.2 Duties of Agents or Brokers.

Where replacement is involved, the agent or broker shall:
5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

18 Del. Admin. C. §1204 - 6.1 Duties of All Insurers.

Each Agent shall:
6.1.1 Inform its field representatives or other personnel responsible for compliance with this regulation of the requirements of this regulation.
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.

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

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:
7.1.1 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.

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

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:
7.1.2 Where a replacement is involved:
7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

18 Del. Admin. C. §1204 - 7.3 Duties of Insurers That Use Agents or Brokers.

The replacing insurer shall maintain evidence of the "Notice Regarding Replacement," the Policy Summary, and any Ledger Statements used, and a replacement register, cross indexed, by replacing agent and existing insurer to be replaced. The existing insurer shall maintain evidence of Policy Summaries or Ledger Statements used in any conservation. Evidence that all requirements were met shall be maintained for at least three years or until the conclusion of the next succeeding regular examination by the Insurance Department of its state of domicile, whichever is earlier.

18 Del. Admin. C. §1204 -7.4 Duties of Insurers That Use Agents or Brokers.

The replacing insurer shall provide in its policy or in a separate written notice which is delivered with the policy that the applicant has a right to an unconditional refund of all premiums paid, which right may be exercised within a period of twenty days commencing from the date of delivery of the policy.

11.1 Qualification to Sell Variable Life Insurance

11.1.1 No person may sell or offer for sale in this state any variable life insurance policy unless such person holds a Delaware insurance license (either resident or nonresident), valid for the line of variable annuity (18 Del.C. §1707), and a valid agent's appointment to represent an admitted insurer (18 Del.C. §1715).

11.1.2 The Commissioner shall issue the variable annuity authority to agents who have successfully completed the life agent's license examination, or who have otherwise qualified for an agent's license for the lines of life insurance, and who present evidence of a valid NASD license (Series 6 or 7).

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.

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.

18 Del. C. §2304(17) Failure to maintain complaint handling procedures.

Failure of any person to maintain a complete record of all the complaints which it has received since the date of its last examination as otherwise required in this title. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint. For purposes of this subsection, "complaint" shall mean any written communication primarily expressing a grievance.

18 Del. C. §2709 Alteration of application, life and health insurance.
No alteration of any written application for any life or health insurance policy shall be made by any person other than the applicant without his/her written consent, except that insertions may be made by the insurer, for administrative purposes only, in such manner as to indicate clearly that such insertions are not to be ascribed to the applicant.

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, 2014, through December 31, 2016, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware annuity suitability, replacement and surrender laws and regulations related to the sales and marketing of individual cash value life insurance, individual fixed annuities and individual variable annuities.

The examination was a targeted market conduct examination of the Company’s life insurance and annuity business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing Policyholder Services; and Underwriting and Rating.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on the errors found in individual files, the examiners also focus on general business practices of the Company.

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

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be 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

The Company was incorporated in June 1879, as an assessment life insurance company under the name of Bankers Life Association and commenced business on September 2 of that year. On October 27, 1911, the Company was transformed into a mutual legal reserve life insurance company and the name was changed to Bankers Life Company. The life of the Company was extended for a period of 50 years in 1929 and its existence was made perpetual in 1969. The name of the Company was changed from Bankers Life Company to Principal Mutual Life Insurance Company in 1986.

Effective July 1, 1998, Principal Mutual Life Insurance Company formed a mutual holding company (Principal Mutual Holding Company) and converted to a stock life insurance company (Principal Life Insurance Company). All of the shares of Principal Life Insurance Company were issued to Principal Mutual Holding Company and are owned through two newly formed intermediate holding companies, Principal Financial Group, Inc. and Principal Financial Services, Inc. The reorganization itself did not have a material financial impact on Principal Life Insurance Company (the Company).

Effective October 26, 2001, under the terms of the Principal Mutual Holding Company's plan of conversion, Principal Life Insurance Company's ultimate parent, Principal Mutual Holding Company, converted from a mutual insurance holding company to a stock company (subsidiary of Principal Financial Group, Inc., a Delaware business corporation). After giving effect to the reorganization resulting from the demutualization, Principal Life Insurance Company now is a direct wholly-owned subsidiary of Principal Financial Services, Inc., which, in turn, is a direct wholly-owned subsidiary of Principal Financial Group, Inc.

The Company has diverse product lines that include individual life insurance, group life insurance, individual and group disability insurance, group dental insurance, group vision insurance, annuities and mutual funds distributed by wholesalers, career agents and independent agents. The Company is licensed to do business in all fifty states, the District of Columbia and Puerto Rico. As of their 2016 annual statement for the State of Delaware, Principal Life Insurance Company reported direct business life insurance premiums in the amount of $13,486,393, annuity considerations in the amount of $10,486,783, and accident and health insurance premiums, including policy, membership and other fees in the amount of $5,524,252. As of their 2016 annual statement for all States, Principal Life Insurance Company reported direct business life insurance premiums in the amount of $1,283,175,809, annuity considerations in the amount of $5,000,573,229, and accident and health insurance premiums, including policy, membership and other fees in the amount of $1,602,461,433.
Life insurance premiums reported for the State of Delaware grew from $9,146,763 in 2014 to $13,486,393 in 2016. Annuity considerations reported for the State of Delaware increased from $8,396,626 in 2014 to $10,486,783 in 2016.

COMPANY OPERATIONS AND MANAGEMENT

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

- The Company’s History and Profile
- The Company’s Organizational Charts
- Internal Audit & Compliance Procedures and Reports
- Antifraud Program Compliance Manual
- Documentation indicating that the Company does not use managing general agents (MGAs), general agents (GAs), third-party administrators (TPAs)
- A statement that all Company business functions are conducted internally, and therefore, no monitoring is required or takes place
- A statement that the records of Principal Life Insurance Company are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements
- A list of two (2) States that imposed fines and five (5) Market Conduct Examination reports conducted by other States during the last five (5) years.

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

No exceptions were noted.

COMPLAINTS HANDLING

The Company provided a list of six consumer complaints received during the experience period. Of the six complaints, three were forwarded from the Delaware Department of Insurance. All six complaint files were requested, received and reviewed. The Company also provided the complaint logs as requested. The Department’s list of written consumer complaints that were forwarded to the Company was compared to the Company’s complaint log.

The complaint files and complaint logs were reviewed for compliance with the Delaware statutes and regulations including, but not limited to, 18 Del. C. §2304(17) and 18 Del. C. §2304(26).

The following exception was noted:
1 Exception - 18 Del. C. §2304(17) Failure to maintain complaint handling procedures.

The Company’s complaint log did not indicate the nature of the complaint in one file.

Recommendation: It is recommended that the Company review its procedures to ensure that all complaints are recorded as required by 18 Del. C. §2304(17).

MARKETING AND SALES

The Company provided a list of 988 pieces of advertising materials utilized in Delaware during the examination period. The advertising materials consisted of: letters, brochures, presentations, product guides, fliers, blogs, websites, emails, statements, ads, print ads, handouts, articles, mailers, multimedia, scripts, web content, print ads, spreadsheets, notices, newsletters, press releases, videos, business cards, banner ads, post cards, proposals, prospectus covers, Q & A, seminars, and tweets. A sample of 147 pieces of advertising materials was requested, received and reviewed. The advertising materials and the Company’s website, https://www.principal.com, were reviewed to ascertain compliance with 18 Del. C. §2303 Unfair Methods of Competition, and Unfair or Deceptive Acts or Practices and 18 Del. C. §2304 Unfair methods of competition and unfair or deceptive acts or practices defined.

No exceptions were noted.

PRODUCER LICENSING

The Company provided a list of 3,082 producers appointed with the Company in Delaware or authorized to conduct business in Delaware at any time during the examination period. A sample of 113 producers was compared to departmental records of producers to verify compliance with the Delaware licensing and appointment statutes and regulations. For this examination’s purposes, producer licensing exceptions found in the other sections of the examination were addressed in their respective sections. The following exceptions were noted in this section:

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

There were 54 producers identified by the Company as holding an active license during the examination period but did not have an active license based on Department records.

Recommendation: It is recommended that the Company ensure that producers are properly licensed in accordance with 18 Del. C. §1703.

96 Exceptions - 18 Del. C. §1715 Appointments.
There were 96 producers identified by the Company as holding an active appointment during the examination period but did not have an active appointment based on Department records.

**Recommendation:** It is recommended that the Company ensure that producers are properly appointed in accordance with 18 Del. C. §1715.

**POLICYHOLDER SERVICES**

A) **Individual Fixed Annuity Contracts Surrendered**

The Company provided a list of 82 individual fixed annuity contracts surrendered during the experience period. All 82 contract files were requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions, Delaware surrender laws and regulations, and the proper processing of any cash surrender value payment.

The Company was made aware of an error in one file where the company charged a transaction fee of $20.00 twice. The company was instructed to reimburse the policyholder and to notify the Department when the correction was made and the Department has received that notification.

**UNDERWRITING AND RATING**

A) **Individual Cash Value Life Policies Issued – Non-Replacement**

The Company provided a list of 853 cash value life insurance policies issued during the examination period. A random sample of 113 policy files was requested, received, and reviewed. The files were reviewed to determine compliance with the Delaware underwriting and issuance statutes and regulations.

The following exceptions were noted:

**3 Exceptions - 18 Del. Admin. C. §1204 - 7.1.1 - Duties of Insurers that Use Agents or Brokers.**

The agent’s statement on replacement was not evident on the application in two files, and the replacement question was not answered in one file.

**Recommendation:** It is recommended the Company ensure the replacement statement is part of each completed application and is answered and signed in accordance with 18 Del. Admin. C. § 1204 - 7.1 1.

The agents listed on four applications were not licensed to sell variable life insurance products on the date the application was signed.

Recommendation: It is recommended that the Company ensure that producers are licensed to sell variable life insurance products in accordance with 18 Del. Admin. C. §1205 - 11.0.

2 Exceptions - 18 Del. C. §1715 Appointments.

Two agents were not appointed by the Company within 15 days from the date the application form was submitted.

Recommendation: It is recommended that the Company ensure that agents are appointed before selling the company’s products in accordance with 18 Del. C. §1715.

1 Exception - 18 Del. C. §2709 Alteration of application, life and health insurance.

The owner’s social security number was altered without the applicant’s consent/initials in one file.

Recommendation: It is recommended that the Company ensure all application alterations are initialed by the applicant in accordance with 18 Del. C. §2709.

B) Individual Cash Value Life Policies Issued – Replacements

The Company provided a list of 85 cash value life policies issued as replacements during the examination period. All 85 policy files were requested, received and reviewed. Of the 85 policies, eight were determined to be duplicates. The remaining 77 files were reviewed to determine compliance with the Delaware issuance, underwriting, and replacement statutes 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 agent’s statement on replacement was not answered in one file.

Recommendation: It is recommended that the Company ensure the agent’s replacement statement is answered and signed in compliance with 18 Del. Admin. C. §1204 - 7.1.1.

The agent listed on four policy applications was not appointed by the Company within 15 days from the date the agency policy was executed or the first insurance application was submitted.

Recommendation: It is recommended that the Company ensure that agents are properly appointed in accordance with 18 Del. C. §1715.

C) Individual Fixed Annuities - New

The Company provided a list of 162 individual fixed annuity contracts issued, not including replacements, during the examination period. A random sample of 79 annuity contract files was requested, received, and reviewed. The files were reviewed to determine compliance with the Delaware issuance and replacement statutes and regulations.

The following exceptions were noted:

2 Exceptions - 18 Del. Admin. C. §1204 - 5.2.1 - Duties of Insurers that Use Agents or Brokers.

The replacement notice in two files was dated after the application date.

Recommendation: It is recommended that the Company review its procedures to ensure the notice regarding replacement is presented to the applicant no later than at the time of taking the application in accordance with 18 Del. Admin. C. §1204 5.2.1.

47 Exceptions - 18 Del. Admin. C. §1204 - 6.1.2 - Duties of Agents and Brokers.

Duties of all Insurers.

The applicant’s replacement question was answered on the electronic application but not signed by the applicant in 47 files.

Recommendation: It is recommended that the Company ensure the replacement statement is answered and signed by the applicant in accordance with 18 Del. Admin. C. §1204 - 6.1.


The agent’s statement on replacement was completed on the electronic application but not signed by the agent in 47 files.

Recommendation: It is recommended that the Company ensure the replacement statement
is answered and signed by the agent in accordance with 18 Del. Admin. C. §1204 - 7.1.1

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

The evidence of the written communication to the existing insurer of the replacement could not be established in two files.

*Recommendation:* It is recommended that the Company ensure the written communication advising of the replacement or proposed replacement of the policy be made within seven working days in accordance with 18 Del. Admin. C. § 1204 - 7.1.2.2.

D) Individual Fixed Annuities - Replacements

The Company identified a universe of 27 fixed annuity contracts issued as replacements during the examination period. All 27 annuity contract files were requested, received, and reviewed. The files were reviewed to determine compliance with the Delaware issuance and replacement statutes and regulations.

The following exceptions were noted:

1 Exception - 18 Del. Admin. C. §1204 - 5.1.1 Duties of Agents and Brokers.

The applicant’s replacement question answer was not signed by the applicant in one file.

*Recommendation:* It is recommended that the Company review its procedures to ensure that the required response to the replacement question is signed by the applicant in accordance with 18 Del. Admin. C. §1204 -5.1.1.

1 Exception - 18 Del. Admin. C. §1204 - 5.1.2 Duties of Agents and Brokers.

The agent’s replacement question answer was not signed by the agent in one file.

*Recommendation:* It is recommended that the Company review its procedures to ensure that the required response to the replacement question is signed by the agent in accordance with 18 Del. Admin. C. §1204 - 5.1.2.

1 Exception - 18 Del. Admin. C. §1204 - 5.2.1 Duties of Agents and Brokers.

The “Notice Regarding Replacement” form was not evident in one file.

*Recommendation:* It is recommended the Company ensure the replacement notice is presented to the applicant no later than at the time of taking the application in accordance with 18 Del. Admin. C. §1204 - 5.2.1.
12 Exceptions - 18 Del. Admin. C. §1204 -7.1.2.2 - Duties of Insurers That Use Agents or Brokers.

The written communication advising the existing insurer of the replacement was missing in six files and the communication was not made within seven working days of the date the application was received in the replacing insurer’s home office in the remaining six files.

Recommendation: It is recommended that the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer’s home office in compliance with 18 Del. Admin. Code 1204 §7.1.2.2.

7 Exceptions - 18 Del. Admin. C. §1204 -7.3 Duties of Insurers that Use Agents or Brokers.

The required Policy Summary or Ledger Statement was not used in seven files.

Recommendation: It is recommended that the Company review its procedures to ensure the Policy Summary or Ledger Statement is used and maintained in compliance with 18 Del. Admin. C. 1204 §7.3.

1 Exception – 18 Del. C. §2709 Alteration of application, life and health insurance.

The application in one file was altered without evidence of the applicant’s written consent.

Recommendation: It is recommended that the Company ensure all application alterations are initialed by the applicant in accordance with 18 Del. C. §2709.

E) Individual Variable Annuities - New

The Company identified a universe of 37 individual fixed annuity contracts issued, not including replacements, during the experience period. All 37 annuity contract files were requested, received, and reviewed. The files were reviewed to determine compliance with the Delaware issuance and replacement statutes and regulations.

The following exception was noted:

1 Exception - 18 Del. C. §2709 Alteration of application, life and health insurance.

The application in one file was altered without evidence of the applicant’s written consent.

Recommendation: It is recommended that the Company ensure all application alterations
are initialed by the applicant in accordance with 18 Del. C. §2709.

F) **Individual Variable Annuities - Replacements**

The Company provided a list of 12 annuity contracts issued as replacements during the examination period. All 12 annuity contract files were requested, received and reviewed. Of the 12 contracts, 1 was determined to be a duplicate. The remaining 11 contract files were reviewed to determine compliance with the Delaware underwriting, issuance and replacement statutes and regulations.

The following exceptions were noted:

**11 Exceptions - 18 Del. Admin. C. §1204 - 7.4 Duties of Insurers that Use Agents or Brokers.**

The notice or statement providing twenty days (20) for an unconditional refund of all premiums paid was not evident in the noted files. The policy states that, “(1) ten days after you receive the policy or (2) such later date as specified by applicable state law.”

*Recommendation:* It is recommended the Company ensure the notice or statement providing twenty days (20) for an unconditional refund of all premiums paid be provided to the applicants in compliance with 18 Del. Admin. C. 1204 §7.4.

**1 Exception – 18 Del. Admin. C. §1201 - 9.1 Examination of Agents and Other Persons.**

The second agent who signed the application did not hold a Delaware variable contract license on the date the application was signed.

*Recommendation:* It is recommended the Company ensure the producer is licensed by the Department as a variable contract agent in order to sell variable life insurance products in accordance with 18 Del. Admin. C. 1201 §9.1.

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

The second agent who signed the application was not appointed by the Company.

*Recommendation:* It is recommended that the Company ensure that producers are appointed in accordance with 18 Del. C. §1715.
CONCLUSION

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

1. It is recommended the Company ensure that producers are licensed by the Department as a variable contract agent in order to sell variable life insurance products pursuant to 18 Del. Admin. C. §1201 - 9.1. (Underwriting and Rating – Individual Variable Annuities – Replacements)

2. It is recommended that the Company review its procedures to ensure that the required response to the replacement question and signed by the applicant is obtained as required pursuant to 18 Del. Admin. C. §1204 - 5.1.1. (Underwriting and Rating – Individual Fixed Annuities – Replacements)

3. It is recommended that the Company ensure all replacement related questions are answered and forms signed in accordance with 18 Del. Admin. C. §1204 - 5.1.2. (Underwriting and Rating – Individual Fixed Annuities – Replacements)

4. It is recommended the Company ensure the replacement notice is presented to the applicant not later than at the time of taking the application in accordance with 18 Del. Admin. C. §1204 - 5.2.1. (Underwriting and Rating – Individual Fixed Annuities – Replacements)

5. It is recommended that the Company review its procedures to ensure that the agents submit with the completed application a statement signed by the applicant as to whether the proposed annuity would replace an existing life insurance product or annuity pursuant to 18 Del. Admin. C. §1204 - 6.1.2. (Underwriting and Rating – Individual Fixed Annuities – New Issue and Individual Fixed Annuities – Replacements)

6. It is recommended the Company ensure the replacement statement is part of each completed application and is answered and signed accordance with 18 Del. Admin. C. §1204 -7.1 (Underwriting and Rating – Issued Life Policies – New, Issued Life Policies – Replacements, and Individual Fixed Annuities – Replacements)

7. It is recommended that the Company review its procedures to ensure that written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer’s home office in compliance with 18 Del. Admin. C. §1204 - 7.1.2.2. (Underwriting and Rating – Individual Fixed Annuities – New and Individual Fixed Annuities – Replacements)
8. It is recommended that the Company review its procedures to ensure the evidence of the Policy Summary and any Ledger Statements used are maintained in compliance with 18 Del. Admin. C. §1204 - 7.3. (Underwriting and Rating – Individual Fixed Annuities – Replacements)

9. It is recommended the Company ensure the notice or statement providing twenty days for an unconditional refund of all premiums paid be provided to the applicants in compliance with 18 Del. Admin. C. §1204 - 7.4. (Underwriting and Rating – Issued Life Policies – Replacements)

10. It is recommended that the Company ensure the producers are licensed to sell variable life insurance in accordance with 18 Del. Admin. C. §1205 - 11.0. (Underwriting and Rating – Issued Life Policies – New)

11. It is recommended that the Company ensure that producers are licensed in accordance with 18 Del. C. §1703. (Producer Licensing)

12. It is recommended that the Company ensure the producers are appointed in accordance with 18 Del. C. §1715. (Producer Licensing) (Underwriting and Rating – Individual Variable Annuities – Replacements)

13. It is recommended that the Company review its procedures to ensure that all complaints are recorded in accordance with by 18 Del. C. §2304(17). (Complaint Handling)

14. It is recommended that the Company ensure all application alterations are initialed by the applicant in accordance with 18 Del. C. §2709. (Underwriting and Rating – Issued Life Policies – New, Individual Fixed Annuities – Replacements, and Individual Variable Annuities – New)

The examination was conducted by Shelly Schuman, Joseph Krug, Linda Armstrong, Gwendolyn Douglas, Christina Hughart, and Frank Kyazze is respectfully submitted.

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