

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

**Principal Life Insurance Company
Principal National Life Insurance Company**

NAIC #61271

NAIC #71161

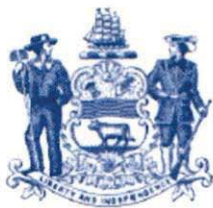
711 High Street

Des Moines, IA 50392-0220

As of

June 30, 2020

Trinidad Navarro
Commissioner



Delaware Department of Insurance

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

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

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

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



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 15th day of April, 2021.


Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of June 30, 2020 on

**Principal Life Insurance Company
Principal National Life Insurance Company**

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

Attest By:

A handwritten signature in blue ink, appearing to read "Trinidad Navarro".



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 April, 2021.

A handwritten signature in blue ink, appearing to read "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Delaware Market Conduct Examination Report
Principal Life Insurance Company
Principal National Life Insurance Company

Table of Contents

EXECUTIVE SUMMARY	2
SCOPE OF EXAMINATION.....	3
METHODOLOGY	3
COMPANY HISTORY AND PROFILE	4
COMPANY OPERATIONS AND MANAGEMENT	5
COMPLAINTS HANDLING.....	5
MARKETING AND SALES.....	6
PRODUCER LICENSING	6
POLICYHOLDER SERVICES	7
UNDERWRITING AND RATING.....	7
CONCLUSION.....	9

The Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in the Exam Authority Number 61271-20-546, 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 (PLIC) NAIC # 61271
Principal National Life Insurance Company (PNLIC) NAIC # 71161

The examination was performed as of June 30, 2020.

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

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination was announced as part of a series of examinations on companies in the annuity marketplace in Delaware. The examination focused on the annuity and life insurance business for Principal Life Insurance Company (PLIC) and Principal National Life Insurance Company (PNLIC), collectively referred to as the Companies 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. This examination also reviewed PLIC's compliance with previous recommendations from a 12/31/16 Delaware Market Conduct Examination Report.

All the exceptions were noted in the areas of Producer Licensing and Underwriting.

The following exceptions were noted:

- **435 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.

PLIC accepted 435 applications for insurance from producers not duly appointed by the Company within 15 days of the receipt of the application. This is a repeat exception previously noted in the prior examination.

- **1 Exception**
18 Del. Admin. C. 1214 § 5.1 Duties of Agents and Brokers

5.1 An insurance producer shall not solicit the sale of an annuity product unless the insurance producer has adequate knowledge of the product to recommend the annuity and the insurance producer is in compliance with the insurer's standards

Delaware Market Conduct Examination Report
Principal Life Insurance Company
Principal National Life Insurance Company

for product training. An insurance producer may rely on insurer-provided product specific training standards and materials to comply with this subsection.

PLIC accepted an application without proof of the producer having the required training.

- **4 Exceptions**

- **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:

7.1.2.2 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.

PLIC failed to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within 7 working days. This is a repeat exception previously noted in the prior examination.

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, 2018 through June 30, 2020, unless otherwise noted. The purpose of the examination was to determine compliance by the Companies 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 Companies 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 Companies.

The Companies were 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

Delaware Market Conduct Examination Report
Principal Life Insurance Company
Principal National Life Insurance 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 representing the companies to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

COMPANY HISTORY AND PROFILE

Principal Life Insurance 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 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.

Delaware Market Conduct Examination Report
Principal Life Insurance Company
Principal National Life Insurance Company

Principal National Life Insurance Company was incorporated in the State of Ohio on November 6, 1967 and commenced business on March 1, 1968 as Progressive National Life Insurance Company. The Company changed its name in 1971 to Progressive American Life Insurance Company. During 1991, ownership of the company was transferred from Progressive Casualty Insurance Company of Beachwood, Ohio, to The Progressive Corporation, a Cleveland based holding company. In October 2003, Principal Financial Services, Inc. (“PFS”) purchased Progressive American Life Insurance Company, an Ohio domiciled shell insurance company. Subsequent to the acquisition, Progressive American was renamed Principal Health Insurance Company and redomiciled to the State of Iowa. Effective October 16, 2007, Principal Health Insurance Company was renamed Principal National Life Insurance Company.

As of their 2019 annual statement for the State of Delaware, Principal Life Insurance Company reported direct business life insurance premiums in the amount of \$7,155,034 and annuity considerations in the amount of \$11,093,993. As of their 2019 annual statement for the State of Delaware, Principal National Life Insurance Company, reported direct business life insurance premiums in the amount of \$6,597,889. Principal National Life Insurance Company does not sell annuities, therefore, there is no annuity considerations.

COMPANY OPERATIONS AND MANAGEMENT

The Companies provided the requested information documenting its management and operational procedures in areas for which they conduct business for the State of Delaware.

- The Companies History and Profile
- The Companies Organizational Charts
- Internal Audit & Compliance Procedures and Reports
- Antifraud Program Compliance Manual
- Documentation indicating that the Companies do not use managing general agents (MGAs), general agents (GAs), third-party administrators (TPAs)
- A statement that all the Companies business functions are conducted internally, and therefore, no monitoring is required or takes place.
- A statement that the records of the Companies 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.
- Copies of the Annual Reports for 2017, 2018, and 2019.

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

No exceptions were noted.

COMPLAINTS HANDLING

The Companies received no Delaware consumer complaints during the experience period.

MARKETING AND SALES

The Companies provided a list of 2,935 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, seminars, and tweets. A sample of 114 pieces of advertising materials was requested, received and reviewed. The advertising materials and the Companies' 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

PLIC provided a list of 2,470 producers appointed with the PLIC in Delaware or authorized to conduct business in Delaware at any time during the examination period. For this examination's purposes, producer licensing exceptions found in the other sections of the examination were addressed in this section.

PNLIC a list of 732 producers appointed with the PNLIC in Delaware or authorized to conduct business in Delaware at any time during the examination period. For this examination's purposes, producer licensing exceptions found in the other sections of the examination were addressed in this section.

The Examiners reviewed all the policies sold and narrowed the list to only producers who actively sold policies during the exam period.

The following exceptions were noted in this section:

435 Exceptions - 18 *Del. C.* § 1715 Appointments.

PLIC accepted 435 applications for insurance from producers not duly appointed by the Company within 15 days of the receipt of the application.

There were similar exceptions noted in the previous examination report from December 31, 2016. All PNLIC producers who actively sold policies were appointed.

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

POLICYHOLDER SERVICES

A) Contracts Surrendered

PLIC provided a list of 612 individual cash value life contracts surrendered during the experience period. A random sample of 105 contract files was requested, received, and reviewed.

PLIC provided a list of 122 individual fixed annuity contracts surrendered during the experience period. A random sample of 76 contract files was requested, received, and reviewed.

PLIC provided a list of 54 individual variable annuity contracts surrendered during the experience period. All 54 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.

No exceptions were noted.

UNDERWRITING AND RATING

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

PLIC provided a list of 1,043 cash value life insurance policies issued during the examination period. A random sample of 107 policy files was requested, received, and reviewed to determine compliance with the Delaware underwriting and issuance statutes and regulations.

PNLIC provided a list of 303 cash value life insurance policies issued during the examination period. A random sample of 82 policy files was requested, received, and reviewed to determine compliance with the Delaware underwriting and issuance statutes and regulations.

No exceptions were noted.

B) Individual Cash Value Life Policies Issued – Replacements

PLIC provided a list of 78 cash value life policies issued as replacements during the examination period. All 78 policy files were requested, received, and reviewed to determine compliance with the Delaware issuance, underwriting, and replacement statutes and regulations.

PNLIC provided a list of 9 cash value life policies issued as replacements during the examination period. All 9 policy files were requested, received, and reviewed to determine compliance with the Delaware issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

C) Individual Fixed Annuities - New

PLIC provided a list of 246 individual fixed annuity contracts issued, not including replacements, during the examination period. A random sample of 82 annuity contract files was requested, received, and reviewed to determine compliance with the Delaware issuance and replacement statutes and regulations.

No exceptions were noted.

D) Individual Fixed Annuities - Replacements

PLIC identified a universe of 140 fixed annuity contracts issued as replacements during the examination period. A random sample of 72 annuity contract files was requested, received, and reviewed to determine compliance with the Delaware issuance and replacement statutes and regulations.

The following exceptions were noted:

1 Exception - 18 Del. Admin. C. 1214 § 5.1 Duties of Agents and Brokers.

PLIC accepted an application without proof of the producer having the required training.

Recommendation: It is recommended that PLIC review its procedures to ensure that all producers have adequate knowledge of the product to recommend the annuity prior to the solicitation of the sale in accordance with 18 Del. Admin. C. 1214 § 5.1.

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

PLIC's written communication advising the existing insurer of the replacement was not made within seven working days of the date the application. There were similar exceptions noted in the previous examination report from December 31, 2016.

PNLIC did not have any individual fixed annuity sales.

Recommendation: It is recommended that PLIC 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.

E) Individual Variable Annuities - New

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

No exceptions were noted.

F) Individual Variable Annuities - Replacements

PLIC provided a list of six annuity contracts issued as replacements during the examination period. All six annuity contract files were requested, received and reviewed to determine compliance with the Delaware underwriting, issuance and replacement statutes and regulations.

No exceptions were noted.

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 PLIC ensure that producers are properly appointed in accordance with 18 *Del. C.* § 1715. (Producer Licensing)
2. It is recommended that PLIC review its procedures to ensure that all producers have adequate knowledge of the product to recommend the annuity prior to the solicitation of the sale in accordance with 18 *Del. Admin. C.* 1214 § 5.1. (Underwriting and Rating – Individual Fixed Annuities – Replacements)
3. It is recommended that PLIC 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. (Underwriting and Rating – Individual Fixed Annuities – Replacements)

Delaware Market Conduct Examination Report

Principal Life Insurance Company and Principal National Life Insurance Company

The examination conducted by Joseph Krug, Brian Tinsley and Pete Salvatore is respectfully submitted.



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

I, Brian Tinsley, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 61271-20-546.



Brian Tinsley, AIE, MCM