

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

Banner Life Insurance Company

NAIC #94250

As Of

December 31, 2004





Ted Strickland, Governor
Mary Jo Hudson, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a Market Regulation desk examination was conducted on the Ohio business of:

Banner Life Insurance Company
NAIC Company Code 94250.

The examination was conducted at the Ohio Department of Insurance office located at:

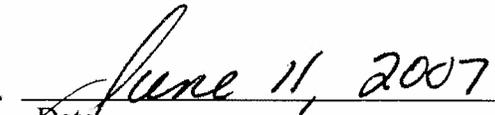
2100 Stella Court
Columbus OH 43215.

A report of the examination is enclosed.

Respectfully submitted,



David R. Beck
Chief, Market Regulation Division



Date

Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIP Hotline: 1-800-686-1578



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FOREWORD

This desk audit examination was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

SCOPE OF EXAMINATION

On September 26, 2005, the Market Conduct Division, Ohio Department of Insurance (“Department”), opened a desk audit examination of Banner Life Insurance Company (“Company”), by sending a call letter and initial request for information. The examination was restricted to Company replacement activities for individual life insurance from the period of January 1, 2003, through December 31, 2004.

This desk audit report is a report by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) and the State of Ohio’s applicable statutes and rules.

Accordingly, the examination included the following areas of the Company’s operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. External Replacement Policies

METHODOLOGY

As part of the examination, the Department’s examiners reviewed the Company’s individual ordinary life insurance policy files and the Company’s corresponding procedures. This information was supplemented, as necessary, with written inquiries to the Company requesting clarification and/or additional information.

Only Ohio policyholders’ files were reviewed. A series of tests were designed and applied to these files to determine the Company’s level of compliance with Ohio’s applicable statutes and rules. These tests are described and the results are noted in this report.

The examiners used the National Association of Insurance Commissioners’ (NAIC) standard of:

10% error ratio on policy files (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test.

The results of each test applied to a sample are reported separately. Each test is expressed as a “yes / no” question. A “yes” response indicates compliance and a “no” response indicates a failure to comply. A “no” response may be referred to in this report as an “exception.”

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

- Concurred with the findings,
- Had additional information for the examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

If applicable, the Company's responses and the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of new policy and replacement policy data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and were selected using a standard business database application that provides a true random sample since it supplies a random starting point from which to select the sample.

COMPANY HISTORY

According to the Company: "Banner Life Insurance Company (the "Company") was incorporated in 1981 as Legal and General Assurance Corporation, a life insurance company, under the laws of the District of Columbia. The Legal and General Assurance Corporation was formed to effect the 1983 acquisition and to be the successor to the business of the Banner Life Insurance Company, originally incorporated in 1949 under the laws of the District of Columbia as the Government Employees Life Insurance Company. Concurrent with the above acquisition in 1983, the Legal and General Assurance Corporation changed its name to Banner Life Insurance Company. In 1986, the Company re-domesticated from the District of Columbia to the State of Maryland.

In November 1995, the Company's immediate parent, Legal and General Life Insurance Company of America, Inc., was dissolved by merging into its parent, Legal and General America, Inc., which became the immediate parent of the Company. Legal and General America, Inc. is owned by Legal and General Netherlands Holdings BV. The ultimate parent is Legal and General Group, plc, a United Kingdom company founded in 1836."

COMPANY OPERATIONS

Rockville, Maryland is the location of the Company's statutory home office as well as the primary location of all books, records, and policyholder relation representatives. The Company's 2003 and 2004 reported direct premiums written and direct incurred losses paid during the examination period are as follows:

Life	Ohio		National	
Year	Direct Written Premiums	Incurred Losses	Direct Written Premiums	Incurred Losses
2003	\$15,507,544	\$4,959,670	\$349,748,887	\$192,215,325
2004	\$17,497,411	\$15,254,049	\$389,581,419	\$195,238,666

As of December 31, 2004, the officers of the Company were:

Chairman, President, & Chief Executive Officer:	David Scott Lenaburg
Senior Vice President, Chief Financial Officer & Treasurer:	Gene Roy Gilbertson
Senior Vice President & Chief Actuary:	David James Orr
Vice President, Secretary, & General Counsel:	Bryan Ross Newcombe

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance R.C. 3929.01, which permits it to transact appropriate business as defined by R.C. 3929.01(A). In the course of the examination, the examiners determined that the Company operations were in compliance with its Certificate of Authority.

EXTERNAL LIFE REPLACEMENTS

Standard: Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes and rules.

Test: Did the Company require their agents to comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-06-05?

Methodology:

- The examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied its replacement register for business replaced in Ohio.
- A file was produced for review containing external replacement policies by policy type.
 1. A sample of 50 term life replacement policies from the population of 1,917 was reviewed.
 2. The entire population of 41 universal life replacement policies from the replacement register was reviewed.
- The examiners considered any file to be an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.

Findings: External Replacement Agent Requirements

Test 1: Did the agent submit a statement signed by the applicant as to whether a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 2: Did the agent submit a statement signed by the agent as to whether he/she knew a replacement was involved? Ohio Adm.Code 3901-6-05(E)(1)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 3: Did the agent present to the applicant a “Notice Regarding Replacement” at the time of the application? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	48	2	90%	96%
Universal Life	41	41	37	4	90%	90%

Test 4: Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company? Ohio Adm.Code 3901-6-05(E)(2)(d)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	49	1	90%	98%
Universal Life	41	41	41	0	90%	100%

Test 5: Was the “Notice Regarding Replacement” signed by both the applicant and the agent? Ohio Adm.Code 3901-6-05(E)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	5	45	90%	10%
Universal Life	41	41	8	33	90%	20%

Examiner’s Recommendation: The Company’s replacement procedures do not address this particular section of Ohio Adm.Code 3901-6-05(E)(2)(a). Therefore, the Company needs to develop procedures to ensure that both the applicant and the agent sign the “Notice Regarding Replacement.”

Test 6: Did the agent submit a completed application? Ohio Adm.Code 3901-6-05(F)(2) and (G)(1)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 7: Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number, or alternative identification, such as an application or receipt number? Ohio Adm.Code 3901-6-05(E)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Findings: External Replacement Company Requirements

Standard: Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes and rules.

Test: Did the Company comply with the replacement requirements for life insurance according to Ohio Adm.Code 3901-06-05?

- The examiners considered a file to be an exception if it did not comply with the portion of the company requirement section of the replacement law tested.

Test 1: Did the Company require a statement signed by the applicant as to whether the proposed insurance would replace existing life insurance? Ohio Adm.Code 3901-6-05(F)(2)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 2: Did the Company require a statement signed by the agent as to whether the agent knew a replacement was involved or could be involved? Ohio Adm.Code 3901-6-05(G)(1)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 3: Did the Company require from the agent, with the application, a list of all of the applicant’s existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number, or alternative identification, such as an application or receipt number? Ohio Adm.Code 3901-6-05(G)(2)(a)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 4: Did the Company require from the agent, with the application, a signed copy of the “Notice Regarding Replacement”? Ohio Adm.Code 3901-6-05(G)(2)(a)(ii)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	49	1	90%	98%
Universal Life	41	41	40	1	90%	98%

Test 5: Did the Company maintain evidence in the file of the “Notice Regarding Replacement,” the policy summary, and contract summary or any ledger statement used? Ohio Adm.Code 3901-6-05(G)(3)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	49	1	90%	98%
Universal Life	41	41	41	0	90%	100%

Test 6: Did the Company provide notification in or with the policy about the 20-day free look period and premium refund? Ohio Adm.Code 3901-6-05(G)(4)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	50	0	90%	100%
Universal Life	41	41	41	0	90%	100%

Test 7: Did the Company send a written communication to the existing insurer advising of the replacement within three working days of receipt of the application? Ohio Adm.Code 3901-6-05(G)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	49	1	90%	98%
Universal Life	41	41	41	0	90%	100%

Test 8: Did the Company include in the written communication a policy summary, contract summary, or ledger statement to each existing insurer? Ohio Adm.Code 3901-6-05(G)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1917	50	0	50	90%	0%
Universal Life	41	41	0	41	90%	0%

Examiner’s Recommendation: The Company’s replacement procedures do not address this particular section of Ohio Adm.Code 3901-6-05(G)(2)(b), and the Company was not providing a policy summary, contract summary, or ledger statement to existing insurers with their written replacement communication letter. Therefore, the Company needs to develop procedures and have controls in place to assure that a policy summary, contract summary, or ledger statement is included within each written communication to the existing insurer.

EXAMINER COMMENTS

The Department would like to acknowledge that the Company implemented revised procedures and the use of a new “Notice Regarding Replacement” form in July of 2004. The new procedures required the agent and the applicant to sign the “Notice Regarding Replacement” form to ensure compliance with Ohio Adm.Code 3901-6-05(E)(2)(a). The replacement files included within this desk audit examination confirm the Company’s procedural revision.

SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review:</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
External Term Life Insurance – Agent Requirements “Notice Regarding Replacement” signed by agent and applicant	90%	10%
External Term Life Insurance – Company Requirements Provide existing insurer with proposed policy information	90%	0%
External Universal Life Insurance – Agent Requirements “Notice Regarding Replacement” signed by agent and applicant	90%	20%
External Universal Life Insurance – Company Requirements Provide existing insurer with proposed policy information	90%	0%

This concludes the report of the Market Regulation Examination of the Banner Life Insurance Company. The examiners, John Pollock and Robert Stroup, would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

John E. Pollock
Examiner in Charge

Date

Company Comments:

BannerLife® Insurance Company

1701 Research Boulevard, Rockville, Maryland 20850 (301) 279-4800

RECEIVED
DEC 14 2006
OHIO DEPT. OF INSURANCE
MARKET CONDUCT DIVISION

December 12, 2006

Rodney Beech
Insurance Compliance Supervisor
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Sent via UPS Next Day Air

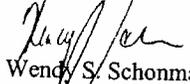
Dear Mr. Beech:

Thank you for the opportunity to review the revised draft report for the Market Conduct Examination of Banner Life Insurance Company.

After careful analysis, we are in accord with your findings with one exception. We respectfully request that the Ohio Department of Insurance include a notation with reference to External Replacement Agent Requirements Test 5—'Notice Regarding Replacement signed by both the applicant and the agent.' We request that this notation acknowledge that in mid-2004, during the period of time covered by the market conduct examination, Banner Life Insurance Company implemented corrective actions requiring the "Notice Regarding Replacement" to be signed by both the applicant and the agent. The record of replacements that was previously sent to your office confirms the usage of this form beginning in mid-2004.

It was a pleasure working with the Ohio Department of Insurance. If you have any questions, please feel free to contact me directly at 301-279-4863 or toll free at 800-638-8428.

Sincerely,


Wendy S. Schonman, Esq.
Compliance Administrator

A member of the worldwide Legal & General Group

STATE OF OHIO
DEPARTMENT OF INSURANCE

In the matter of) CONSENT ORDER
Banner Life Insurance Company)
Market Regulation Desk Audit)

The Superintendent of the Ohio Department of Insurance (Department) is responsible for administering Ohio insurance laws pursuant to Ohio Revised Code, Section 3901.011. Banner Life Insurance Company (Company) is authorized to engage in the business of insurance in the State of Ohio and as such is under the jurisdiction of the Superintendent and the Department. The Department conducted a desk audit of the Company's replacement activities for individual life insurance from the period of January 1, 2003 through December 31, 2004, "A Market Conduct Examination of Banner Life Insurance Company, NAIC 94250 as of December 31, 2004," which is incorporated by reference herein.

SECTION I

As a result of the market conduct examination, the Superintendent alleges that the Company failed to comply with the requirements of 3901-6-05(E)(2)(a) and 3901-6-05(G)(2)(b) of the Ohio Adm. Code, which is an unfair and deceptive trade practice pursuant to Sections 3901.19 through 3901.23 of the Revised Code.

SECTION II

It is hereby agreed by the parties that:

(A) The Superintendent and Company enter into this Consent Order to fully and completely resolve the allegations as set forth in Section I of this Consent Order. Further, Company specifically admits to the allegations set forth in Section I.

(B) Company has been advised that it has a right to a hearing before the Superintendent pursuant to Chapter 119 of the Revised Code on the allegations set forth in Section I; that, at hearing, Company would be entitled to appear representing itself or represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. Company hereby waives all such rights.

(C) Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. Company expressly waives any prerequisites to jurisdiction that may exist.

(D) Company shall review and modify its internal guidelines and procedures in order to assure both its compliance and its agents' compliance with Ohio's Replacement Rule as set forth in 3901-6-05, as amended, for all life insurance products it markets and sells in the State of Ohio.

(E) Company shall pay an administrative fine in the amount of Five Thousand Dollars (\$5,000), by check or money order, within thirty (30) days of receipt of an invoice from the Department. Its remittance shall be made payable to: "Ohio Department of Insurance."

(F) Company waives any and all causes of action, claims, rights, whether known or unknown, which it may have against the Superintendent, the Department, and any employees, agents, consultants or officials of the Department, in their individual or official capacities, as a result of any acts of omissions on the part of such persons or firms arising out of the matter set forth in Section I of this Consent Order.

(G) Company has read and understands this Consent Order. Company fully understands that it has a right to seek counsel of its choice and to have counsel review this Consent Order.

(H) This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this Consent Order shall constitute an actionable violation in and of itself without further proof and may subject Company to any and all remedies available to the Superintendent.

(I) This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to section 149.43 of the Revised Code.

DATE 4-10-07

BANNER LIFE INSURANCE COMPANY

BY: *Ray R. Hancock*

TITLE: *Vice President, Secretary & General Counsel*

DATE April 20, 2007

SUPERINTENDENT OF THE
OHIO DEPARTMENT OF INSURANCE

Mary Jo Hudson
Mary Jo Hudson

