

# **OHIO DEPARTMENT OF INSURANCE**

**A**

**MARKET CONDUCT EXAMINATION**

**OF**

**JEFFERSON-PILOT LIFE INSURANCE COMPANY**

**NAIC #67865**

**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:

Jefferson-Pilot Life Insurance Company  
NAIC Company Code 67865.

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

OSHIIP Hotline: 1-800-686-1578

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## **FOREWORD**

This 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 (“the Department”), opened an examination of Jefferson-Pilot Life Insurance Company (the “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 examination 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
- E. Internal Replacement Policies
- F. Complaint Handling

## **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’ 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**

Jefferson-Pilot Corporation, a holding company (NYSE:JP), is one of the nation's largest shareholder-owned life insurance companies. Jefferson-Pilot Corporation's life insurance companies, principally Jefferson-Pilot Life Insurance Company, Jefferson Pilot Financial Insurance Company, and Jefferson Pilot LifeAmerica Insurance Company, together known as Jefferson Pilot Financial, offer full lines of individual and group life insurance products as well as annuity products.

The Company started with two North Carolina insurance companies – Jefferson Standard, founded in 1907, and Pilot Life, founded in 1903. The two companies joined together under a new holding company, Jefferson-Pilot Corporation, in 1968. On January 1, 1987, the two companies merged to form Jefferson-Pilot Life Insurance Company.

Since 1994, Jefferson-Pilot Corporation completed four major acquisitions including Chubb Life Insurance Company of America (since renamed Jefferson Pilot Financial Insurance Company), Alexander Hamilton Life, Guarantee Life Insurance Company and a block of in-force life insurance from Kentucky Central Life. In 2000, Alexander Hamilton Life and Guarantee Life Insurance Company were merged into Jefferson Pilot Financial Insurance Company.

The Company is licensed to operate in the District of Columbia, Puerto Rico, the Virgin Islands, and all states except New York. Jefferson Pilot products are primarily marketed through a nationwide network of independent financial professionals. The holding company's stock is traded on the New York, Midwest and Pacific Stock Exchanges and the Company routinely receives an A++ rating by A.M. Best.

## COMPANY OPERATIONS

The Company's statutory home office is in Greensboro, North Carolina. 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	\$44,285,738	\$2,352,458	\$1,037,995,665	\$217,248,665
2004	\$41,157,724	\$3,070,498	\$980,996,935	\$242,031,931

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

President:	Dennis Robert Glass
Secretary:	Robert Alan Reed
Treasurer:	Russell Craig Simpson
Actuary:	Randal Jay Freitag

## 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. The entire population of four external whole life policies listed on the replacement register was reviewed.

2. A sample of 50 universal life replacement policies from the population of 805 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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	48	2	90%	96%

**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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	0	90%	100%

**Test 6:** Did the agent submit a completed application to the replacing company? Ohio Adm.Code 3901-6-05(E)(2)(b)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	49	1	90%	98%

**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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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 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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	48	2	90%	96%

**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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	0	90%	100%

**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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	50	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:
Whole Life	4	4	0	4	90%	0%
Universal Life	805	50	50	0	90%	100%

**Examiner’s Recommendation (Whole Life):** The Company needs to develop procedures to ensure that notification of the 20-day free look period and premium refund information is provided to the applicant with the replacement policy.

**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:
Whole Life	4	4	4	0	90%	100%
Universal Life	805	50	39	11	90%	78%

**Examiner’s Recommendation (Universal Life):** The Company needs to develop procedures and have controls in place to assure the company being replaced is notified of the replacement within three working days from the receipt of the application.

**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:
Whole Life	4	4	3	1	90%	75%
Universal Life	805	50	25	25	90%	50%

**Examiner’s Recommendation:** The Company needs to develop procedures and have controls in place to assure that the company being replaced is provided a copy of the proposed policy, contract summary, or ledger statement with the required written replacement notification.

### INTERNAL 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 3901-6-05?

**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 internal replacement policies by policy type.
  1. The entire population of seven internal whole life policies listed on the replacement register was reviewed.
  2. A sample of 50 universal life replacement policies from the population of 134 was reviewed.
- The examiners considered a file to be an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.

### Findings: Internal 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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	6	1	90%	86%
Universal Life	134	50	45	5	90%	90%

**Examiner’s Recommendation:** The Company needs to develop procedures to ensure that the selling agent presents the “Notice Regarding Replacement” to the applicant at the time of application.

**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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	0	90%	100%

**Test 6:** Did the agent submit a completed application to the replacing company? Ohio Adm.Code 3901-6-05(E)(2)(d)

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	6	1	90%	86%
Universal Life	134	50	50	0	90%	100%

**Examiner’s Recommendation:** The Company needs to develop procedures to ensure that the selling agent obtains a complete list of all of the applicant’s existing life insurance to be replaced with the life insurance application. Each insurance policy must be identified by name of the insurer, insured, and contract number, or alternative identification such as an application or receipt number.

**Findings: Internal 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 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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	0	90%	100%

**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:
Whole Life	7	7	7	0	90%	100%
Universal Life	134	50	50	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:
Whole Life	7	6	0	6	90%	0%
Universal Life	134	50	50	0	90%	100%

For this particular test of the Internal Whole Life replacement files, the sample size was reduced to six policies. One policy was removed due to the replacement application being withdrawn prior to the policy being issued.

**Examiner’s Recommendation (Whole Life):**The Company needs to develop procedures to ensure that notification of the 20-day free look period and premium refund information is provided to the applicant with the replacement policy.

### ADDITIONAL EXAMINATION FINDINGS

The examiners conducted a review of the Company’s complaints and complaint handling procedures. The review was conducted to identify any problem areas or negative trends in service. The company received a total of 27 complaints from Ohio policyholders during the examination period. Twenty-two (22) complaints were related to individual life insurance products, three complaints involved annuities, and two complaints involved group life insurance.

Even though the numbers of complaints does not raise a concern, the complaints do provide some indications that could be addressed by the Company to better serve Ohio consumers:

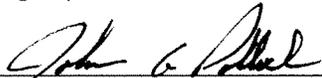
The majority of the individual life insurance complaints involved unsatisfactory settlement offers associated with the Company's universal life insurance business. The leading cause for many of these complaints involved the policyholder's lack of understanding of the variables associated with the settlement components such as surrender charges. The examiners recommend that the Company provide consumers with a clear and concise breakdown of policy settlements to alleviate questions and misunderstandings.

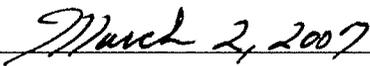
## SUMMARY

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>
<b>External Whole Life Insurance – Company Requirements</b>		
Provide notification of 20-day free look and premium refund in or with insurance policy	90%	0 %
Provide existing insurer with proposed policy information	90%	75%
<b>External Universal Life Insurance – Company Requirements</b>		
Written communication sent to existing insurer in 3 days	90%	78%
Provide existing insurer with proposed policy information	90%	50%
<b>Internal Whole Life Insurance - Agent Requirements</b>		
“Notice Regarding Replacement” presented at time of application	90%	86%
Obtain a complete list of all existing life insurance to be replaced	90%	86%
<b>Internal Whole Life Insurance – Company Requirements</b>		
Provide notification of 20-day free look and premium refund in or with insurance policy	90%	0 %

This concludes the report of the Market Regulation Examination of the Jefferson-Pilot 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

## **APPENDIX A - Company Response**



JEFFERSON PILOT  
FINANCIAL

February 28, 2007

**Kenneth J. Elder,**  
CPA, CIA, FLMI  
Market Conduct  
Compliance Manager

Jefferson Pilot Financial  
PO Box 21008  
Greensboro NC 27420

bus 336 691 3116  
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em ken.elder  
@jpfincial.com

Mr. Rodney Beetch  
Insurance Compliance Supervisor  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, OH 43215-1067

RECEIVED  
MAR 01 2007  
OHIO DEPT. OF INSURANCE  
MARKET CONDUCT DIVISION

Re: **Market Conduct Examination for**  
**Jefferson-Pilot Life Insurance Company (NAIC #67865)**

Dear Mr. Beetch:

Pursuant to our discussion on February 1, 2007 and my receipt of the most recent version of the examination report on February 28, 2007, enclosed is the final response to the findings and recommendations cited in the Department's report for the Market Conduct Examination of Jefferson-Pilot Life Insurance Company (the "Company"). The Company requests that these responses be included with the final report.

If you have any questions about any of this information, please do not hesitate to call me at the number indicated above.

Sincerely,

Kenneth J. Elder  
Assistant Vice President –  
Market Conduct Compliance

Enclosure

**RESPONSE TO THE OHIO MARKET CONDUCT EXAMINATION REPORT**  
**Jefferson-Pilot Life Insurance Company (NAIC #67865)**

**General Comments**

The Company's new business and underwriting processes are the same for whole life and universal life insurance products. The Company also notes that Ohio Adm. Code 3901-6-05 does not distinguish between whole life and universal life insurance products. The examination report splits the examination results between the policy types of whole life insurance and universal life insurance. The Company notes that if these results were combined, the Company would have met the National Association of Insurance Commissioners' standard of a 90% compliance rate for External Replacement Company Requirements, Test 6 and Internal Replacement Agent Requirements, Test 7.

The Company notes that the sample of external replacement policies tested by the examiners included three universal life policies, and the sample of internal replacement policies tested by the examiners included one whole life policy and nine universal life policies, that were not issued because the Company declined to issue the policy or the policy was closed due to a lack of receipt of outstanding underwriting requirements. The Company does not consider itself in violation of Ohio Adm. Code 3901-6-05 for policies that were not issued under these circumstances.

**1. External Replacement Company Requirements, Test 6**

*Violation:* The Company did not provide notification in or with four whole life policies about the 20-day free look period and premium refund. Violation of Ohio Adm. Code 3901-6-05(G)(4).

*Examiner's Recommendation (Whole Life):* The Company needs to develop procedures to ensure that notification of the 20-day free look period and premium refund information is provided to the applicant with the replacement policy.

*Company Response:* Effective December 14, 2005, the Company's issue system was updated to automatically attach an additional notice to the front of a replaced policy that indicates the policy contains a 20-day free look period.

**2. External Replacement Company Requirements, Test 7**

*Violation:* The Company did not send a written communication to the existing insurer advising of the replacement within three working days of receipt of the application for eleven universal life policies. Violation of Ohio Adm. Code 3901-6-05(G)(2)(b).

*Examiner's Recommendation:* The Company needs to develop procedures and have controls in place to assure the company being replaced is notified of the replacement within three working days from the receipt of the application.

*Company Response:* During the period under review, the Company was transitioning from a paper file storage system to an automated imaging system. Letters to existing insurers were mailed within the time period required but were not consistently scanned and indexed within the Company's new imaging system. Currently, replacement notification letters are automatically scanned and indexed in the Company's imaging system.

### **3. External Replacement Company Requirements, Test 8**

*Violation:* The Company did not include in the written communication a policy summary, contract summary, or ledger statement to each existing insurer for one whole life policy and 25 universal life policies. Violation of Ohio Adm. Code 3901-6-05(G)(2)(b)

*Examiner's Recommendation:* The Company needs to develop procedures and have controls in place to assure that the company being replaced is provided a copy of the proposed policy, contract summary, or ledger statement with the required written replacement notification.

*Company Response:* During the period under review, the Company was transitioning from a paper file storage system to an automated imaging system. Letters to existing insurers were mailed within the time period required but were not consistently scanned and indexed within the Company's new imaging system. Currently, replacement notification letters are automatically scanned and indexed in the Company's imaging system. The Company's New Business processing staff will be reminded that a policy summary must be provided with the replacement notification letter to existing insurers and that the replacement notification letter must indicate that such policy summaries are enclosed. In addition, the Company's New Business Department will conduct periodic audits to detect and correct these issues.

### **4. Internal Replacement Agent Requirements, Test 3**

*Violation:* The agent did not present to the applicant a "Notice Regarding Replacement" at the time of application for one whole life policy and five universal life policies. Violation of Ohio Adm. Code 3901-6-05(E)(2)(a).

*Examiner's Recommendation:* The Company needs to develop procedures to ensure that the selling agent presents the "Notice Regarding Replacement" to the applicant at the time of application.

*Company Response:* The Company notes that circumstances regarding replacement can change from the time an applicant signs an application until the policy is issued. As stated in Ohio Adm. Code 3901-06-05 (A)(2)(a), the purpose of the replacement rule is to assure that purchasers receive information with which a decision can be made in his or her own best interest. Thus, the timing of the signature of the replacement notice is not as critical as the requirement that the replacement notice be presented and reviewed by the applicant during the application process before the policy is issued. To ensure sufficient disclosures regarding potential replacements are provided at the time of application, the Company encourages the Department to pursue adoption of the current version of the NAIC Life Insurance and Annuities Replacement Model Regulation (the "Model Regulation"). The Model Regulation requires producers to submit to an insurer with the application an "Important Notice: Replacement of Life Insurance or Annuities" if the applicant has any existing policies or contracts, regardless of whether or not replacement is intended.

#### **5. Internal Replacement Agent Requirements, Test 7**

*Violation:* The agent did not obtain a list of all existing life insurance to be replaced for one whole life policy. Violation of Ohio Adm. Code 3901-6-05(E)(2)(b).

*Examiner's Recommendation:* The Company needs to develop procedures to ensure that the selling agent obtains a complete list of all of the applicant's existing life insurance to be replaced with the life insurance application. Each insurance policy must be identified by name of the insurer, insured, and contract number, or alternative identification such as an application or receipt number.

*Company Response:* The Company notes that the whole life policy in question was not issued by the Company due to lack of receipt of outstanding underwriting requirements. One of these outstanding requirements was the page of the application that requires all existing life insurance to be listed. Therefore, the Company did not violate Ohio Adm. Code 3901-6-05(E)(2)(b).

#### **6. Internal Replacement Company Requirements, Test 6**

*Violation:* The Company did not provide notification in or with six whole life policies about the 20-day free look period and premium refund. Violation of Ohio Adm. Code 3901-6-05(G)(4).

*Examiner's Recommendation (Whole Life):* The Company needs to develop procedures to ensure that notification of the 20-day free look period and premium refund information is provided to the applicant with the replacement policy.

*Company Response:* Effective December 14, 2005, the Company's issue system was updated to automatically attach an additional notice to the front of a replaced policy that indicates the policy contains a 20-day free look period.

**7. Additional Examination Findings:**

*Examiner's Recommendation:* The Company provide consumers with a clear and concise breakdown of policy settlements to alleviate questions and misunderstandings.

*Company Response:* Of the 22 individual life insurance product complaints, 19 pertained to the Company's universal life insurance products. Of these 19 complaints, 13 complaints pertained to products sold by Kentucky Central Life Insurance Company, an insolvent insurance company from which the Company assumed approximately 300,000 individual life insurance policies on June 1, 1995. Per the Company's review of these complaints, the majority of the complaints pertained to policy accounting and billing questions where a satisfactory explanation was provided. The Company is not able to determine which complaints involved "unsatisfactory settlement offers" as noted by the examiners.

STATE OF OHIO  
DEPARTMENT OF INSURANCE

In the matter of )  
Jefferson-Pilot Life Insurance Company )            CONSENT ORDER  
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. Jefferson-Pilot 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.

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 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. The Company neither admits nor denies the allegations contained in Section I of this Consent Order.

(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 undertake a review of its practices and procedures to enhance compliance with Ohio's Replacement Rule, as set forth in 3901-6-05, as amended, in the areas of concern as described in those sections of the Examination Report entitled "External Whole Life Insurance – Company Requirements," "External Universal Life Insurance – Company Requirements," "Internal Whole Life Insurance – Agent Requirements," and "Internal Whole Life Insurance – Company Requirements."

(E) Company shall pay an administrative fine in the amount of Twenty Thousand Dollars (\$ 20,000), 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.

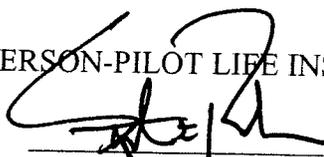
(H) This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this Consent Order may constitute an actionable violation and may subject Company to any and all remedies available to the Superintendent.

(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 3/1/07

JEFFERSON-PILOT LIFE INSURANCE COMPANY

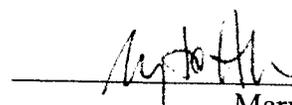
BY:

  
Stephen E. Rahn

TITLE: Vice President

DATE 3/2/07

SUPERINTENDENT OF THE  
OHIO DEPARTMENT OF INSURANCE

  
Mary Jo Hudson