

# **OHIO DEPARTMENT OF INSURANCE**

**A**

**MARKET CONDUCT EXAMINATION**

**OF**

**The Lincoln National Life Insurance Company**

**NAIC #65676**

**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:

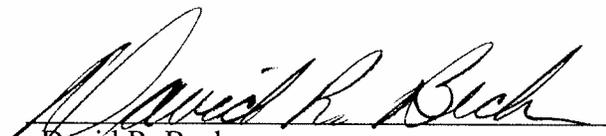
The Lincoln National Life Insurance Company  
NAIC Company Code 65676.

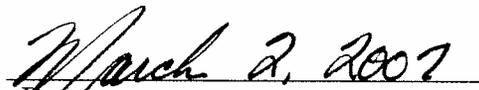
The examination was conducted at the Ohio Department of Insurance office located at:

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 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 The Lincoln National 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. Unreported Replacement Policies
- G. 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’ (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**

Lincoln Financial Group is a diversified financial services organization, headquartered in Philadelphia, PA. Lincoln companies offer financial, retirement and estate planning services and a variety of financial and investment products in four distinctive business areas – insurance and annuities, individual and group retirement plans, mutual funds and investment management.

In 1905, Robert Todd Lincoln, the only surviving son of the 16<sup>th</sup> President, Abraham Lincoln, gave permission to use the Lincoln name at the founding of the flagship company, The Lincoln National Life Insurance Company.

The Lincoln National Life Insurance Company opened for business with a good name and four employees – three agents and a stenographer – in September 1905 in Fort Wayne, Indiana. Thirty-three Fort Wayne businessmen signed the company's articles of incorporation the previous May and the State of Indiana chartered the new insurance enterprise on June 12.

Perry Randall, a Fort Wayne attorney and entrepreneur, suggested the name “Lincoln,” insisting that the integrity of a life insurance company was its most important asset. Randall believed that the name of Abraham Lincoln would powerfully convey the spirit of integrity that the founders envisioned for the new company. The Board of Directors agreed and Arthur Hall, the company's Secretary and General Manager, wrote to the 16<sup>th</sup> President's son, Robert Todd Lincoln, in late July to ask for a photograph of his father to be used on the company's stationary. President Lincoln's silhouette remains on the Company's stationary to this day.

Although the first claim wasn't submitted until 1907, Lincoln struggled for survival during the first several years. Within six years, however, Lincoln was on its way to success and the

company had already begun to assume a respected position of expertise among fellow insurers and regulators.

Many events have helped shape Lincoln Financial Group into the thriving organization that it is today. It's a rich history, an enduring legacy of people and events that have strengthened the Lincoln organization, nurtured its character, and prepared Lincoln Financial Group for the next 100 years of service to customers and the financial services industry.

### COMPANY OPERATIONS

The Company's statutory home office and its primary location of books and records are located at 1300 South Clinton Street, Fort Wayne, Indiana. 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	\$85,272,897	\$14,765,195	\$1,604,231,991	\$211,608,098
2004	\$80,920,423	\$19,889,551	\$1,519,929,378	\$254,139,707

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

President:	John Hale Gotta
Secretary:	Clara Suzanne Womack
Treasurer:	Eldon James Summers
Chief Actuary:	Todd Howard Erkis

### 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 1,677 was reviewed.
  2. A sample of 50 universal life replacement policies from the population of 590 was reviewed.
  3. A sample of 50 variable universal life replacement policies from the population of 189 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)

<b>Policy Type:</b>	<b>Population:</b>	<b>Sample:</b>	<b>Yes:</b>	<b>No:</b>	<b>Standard:</b>	<b>Findings:</b>
<b>Term Life</b>	1,677	50	50	0	90%	100%
<b>Universal Life</b>	590	50	48	2	90%	96%
<b>Variable Universal Life</b>	189	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)

<b>Policy Type:</b>	<b>Population:</b>	<b>Sample:</b>	<b>Yes:</b>	<b>No:</b>	<b>Standard:</b>	<b>Findings:</b>
<b>Term Life</b>	1,677	50	50	0	90%	100%
<b>Universal Life</b>	590	50	48	2	90%	96%
<b>Variable Universal Life</b>	189	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:
Term Life	1,677	50	45	5	90%	90%
Universal Life	590	50	38	12	90%	76%
Variable Universal Life	189	50	44	6	90%	88%

**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:
Term Life	1,677	50	48	2	90%	96%
Universal Life	590	50	46	4	90%	92%
Variable Universal Life	189	50	48	2	90%	96%

**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	1,677	50	47	3	90%	94%
Universal Life	590	50	45	5	90%	90%
Variable Universal Life	189	50	46	4	90%	92%

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

Policy Type:	Population:	Sample:	Yes:	No:	Standard:	Findings:
Term Life	1,677	50	50	0	90%	100%
Universal Life	590	50	47	3	90%	94%
Variable Universal Life	189	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:
Term Life	1,677	50	50	0	90%	100%
Universal Life	590	50	47	3	90%	94%
Variable Universal Life	189	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:
Term Life	1,677	50	50	0	90%	100%
Universal Life	590	50	48	2	90%	96%
Variable Universal Life	189	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:
Term Life	1,677	50	50	0	90%	100%
Universal Life	590	50	48	2	90%	96%
Variable Universal Life	189	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:
Term Life	1,677	50	50	0	90%	100%
Universal Life	590	50	47	3	90%	94%
Variable Universal Life	189	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:
Term Life	1,677	50	47	3	90%	94%
Universal Life	590	50	45	5	90%	90%
Variable Universal Life	189	50	46	4	90%	92%

**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	1,677	50	48	2	90%	96%
Universal Life	590	50	45	5	90%	90%
Variable Universal Life	189	50	48	2	90%	96%

**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	1,677	50	50	0	90%	100%
Universal Life	590	50	50	0	90%	100%
Variable Universal Life	189	50	50	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	1,677	50	42	8	90%	84%
Universal Life	590	50	27	23	90%	54%
Variable Universal Life	189	50	35	15	90%	70%

**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.

**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	1,677	50	50	0	90%	100%
Universal Life	590	50	40	10	90%	80%
Variable Universal Life	189	50	44	6	90%	88%

**Examiner's Recommendation (Universal Life and Variable Universal Life):** 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. A sample of 50 term life replacement policies from the population of 147 was reviewed.

2. A sample of 50 universal life replacement policies from the population of 313 was reviewed.
  3. A sample of 50 variable universal life replacement policies from the population of 284 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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	44	8	90%	88%
Universal Life	313	50	41	9	90%	82%
Variable Universal Life	284	50	43	7	90%	86%

**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:
Term Life	147	50	47	3	90%	94%
Universal Life	313	50	45	5	90%	90%
Variable Universal Life	284	50	47	3	90%	94%

**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	147	50	46	4	90%	92%
Universal Life	313	50	24	26	90%	48%
Variable Universal Life	284	50	10	40	90%	20%

**Examiner Recommendation (Universal Life and Variable Universal Life):** The Company needs to develop procedures to ensure that the agent and the applicant sign the “Notice Regarding Replacement.”

**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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	50	50	0	90%	100%

### 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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	50	0	90%	100%
Universal Life	313	50	50	0	90%	100%
Variable Universal Life	284	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:
Term Life	147	50	45	5	90%	90%
Universal Life	313	50	24	26	90%	48%
Variable Universal Life	284	50	10	40	90%	20%

**Examiner’s Recommendation:** The Company needs to develop procedures to ensure that the agent submits a signed copy of the “Notice Regarding Replacement” with the application to the replacing company.

**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)

<b>Policy Type:</b>	<b>Population:</b>	<b>Sample:</b>	<b>Yes:</b>	<b>No:</b>	<b>Standard:</b>	<b>Findings:</b>
<b>Term Life</b>	147	50	47	3	90%	94%
<b>Universal Life</b>	313	50	45	5	90%	90%
<b>Variable Universal Life</b>	284	50	47	3	90%	94%

**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)

<b>Policy Type:</b>	<b>Population:</b>	<b>Sample:</b>	<b>Yes:</b>	<b>No:</b>	<b>Standard:</b>	<b>Findings:</b>
<b>Term Life</b>	147	50	50	0	90%	100%
<b>Universal Life</b>	313	50	50	0	90%	100%
<b>Variable Universal Life</b>	284	50	50	0	90%	100%

### **UNREPORTED INDIVIDUAL LIFE REPLACEMENTS**

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

**Test:** Did the Company’s practices of handling new business applications properly identify policies that were replacing other existing policies according to Ohio Adm.Code 3901-6-05(G)(3)?

**Methodology:**

- The Examiners reviewed all of the Company’s written policies and procedures that offered instruction on the handling of new business applications.
- The Company supplied a report of all internal and external replacement files between January 1, 2003 and December 31, 2004.
- The Company supplied its replacement register for business replaced in Ohio during the examination period.
- The list of new business policies marked as a replacement by the Company was compared to the Company’s replacement register.
- A total of 200 policies were found to be marked as a “replacement” in the new business file but were not listed on the replacement register. A random sample of 50 of these policies was reviewed to determine if a replacement actually occurred.

- The examiners considered a file to be an exception if an existing insurance policy was replaced with a Lincoln National Life Insurance Company policy and was not listed on the Company's replacement register.

### **Findings: Unreported Individual Life Replacement**

The review of these fifty files indicates that each of these policies involved the replacement of existing life insurance with a policy from The Lincoln National Life Insurance Company.

**Examiner's Recommendation:** The Company needs to develop procedures to ensure that every new business policy that replaces any individual life insurance policy must be included within the Company's replacement register and processed in accordance with Ohio Adm.Code 3901-6-05(G)(3).

### **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 twenty-five complaints pertaining to individual life insurance from Ohio policyholders during the examination period. Specifically, four of the individual life insurance complaints pertained to replacement issues involving surrender charges and insurance costs and fees. The remaining twenty-one complaints involved agent service delays, issues involving communication, and misunderstood billings.

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 examiners recommend that the Company review their consumer service procedures to ensure that responses to consumer questions are timely and offer clear and concise explanations of policy performance, illustrations, billings, and premium payments and amounts that are consistent with the insurance and financial goals of the consumer. Improvements in these areas may help 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 Term Life Insurance - Company Requirements</b>		
Written communication sent to existing insurer in 3 days	90%	84%
<b>External Universal Life Insurance – Agent Requirements</b>		
“Notice Regarding Replacement” presented at time of application	90%	76%
<b>External Universal Life Insurance – Company Requirements</b>		
Written communication sent to existing insurer in 3 days	90%	54%
Provide existing insurer with proposed policy information	90%	80%
<b>External Variable Universal Life – Agent Requirements</b>		
“Notice Regarding Replacement” presented a time of application	90%	88%
<b>External Variable Universal Life – Company Requirements</b>		
Written communication sent to existing insurer in 3 days	90%	70%
Provide existing insurer with proposed policy information	90%	88%
<b>Internal Term Life Insurance – Agent Requirements</b>		
“Notice Regarding Replacement” presented at time of application	90%	84%
<b>Internal Universal Life Insurance – Agent Requirements</b>		
“Notice Regarding Replacement” presented at time of application	90%	82%
“Notice Regarding Replacement” signed by agent and applicant	90%	48%
<b>Internal Universal Life Insurance – Company Requirements</b>		
Company required agent to submit signed copy of “Notice Regarding Replacement” with completed application	90%	48%
<b>Internal Variable Universal Life – Agent Requirements</b>		
“Notice Regarding Replacement” presented at time of application	90%	86%
“Notice Regarding Replacement” signed by agent and applicant	90%	20%
<b>Internal Variable Universal Life – Company Requirements</b>		
Company required agent to submit signed copy of “Notice Regarding Replacement” with completed application	90%	20%

This concludes the report of the Market Regulation Examination of The Lincoln National Life Insurance Company. The Examiners, Don Layson, 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**



July 12, 2006

John E. Pollock  
Market Regulation Division  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, Ohio 43215

Re: The Lincoln National Life Insurance Company ("Lincoln")  
NAIC # 65676  
Draft Market Conduct Examination Report – May 16, 2006  
Your email of July 12, 2006

Dear Mr. Pollock:

Thank you for your continuing review and consideration of the above referenced draft market conduct examination report. As you requested in your email of July 12, 2006, we have consolidated our comments made in our response to the draft report below.

1. Company History (Paragraph 4)

We wish to clarify that although a silhouette of Lincoln appears on the company's letterhead, it is not taken from the original photograph given to the company by Robert Todd Lincoln.

2. Company Operations

We wish to clarify the Company's statutory home office is 1300 South Clinton Street, Fort Wayne, Indiana.

3. External Life Replacement Agent Requirements

a. Test 3

The Company has procedures requiring the Notice Regarding Replacement. The Company will reinforce the requirement to present the Notice to applicants at the time of application with its selling agents.

b. Test 5

While we note that this test meets the standard, the Company will reinforce the requirement with both its agents and its internal operations staff to ensure the Notice contains both the applicants and the agent's signature.

4. External Replacement Company Requirements

a. Test 4

While we note that this test meets the standard, the Company will reinforce the requirement with both its agents and its internal operations staff to ensure the Notice contains both the applicants and the agent's signature.

b. Test 5

While we note that this test meets the standard, the Company will reinforce the requirement with internal operations staff, including additional training, to ensure the Notice, policy summary, contract summary and any ledger statement are maintained in the policy file.

c. Test 7

The company will review and update its administrative procedures to ensure written communication advising of replacement is sent to the existing insurer within the 3 business days. The company will also conduct additional training of its internal operations staff to reinforce the requirements.

e. Test 8

The Company will review and update its administrative procedures to ensure the required information is provided to the existing insurer. The company will also reinforce the requirement with internal operations staff, including additional training.

5. Internal Replacement Agent Requirements

a. Test 3

The Company has procedures requiring the Notice Regarding Replacement. The Company will reinforce the requirement to present the Notice to applicants at the time of application with its selling agents.

b. Test 4

While we note that this test meets standard, the Company will reinforce this requirement with both its agents and internal operations staff.

c. Test 5

The Company will review and update its procedures and provide appropriate training to agents and internal operations staff to ensure the requirement is met.

6. Internal Replacement Company Requirements

a. Test 4

The Company will review and update its procedures and provide appropriate training to agents and internal operations staff to ensure the requirement is met.

b. Test 5

While we note this test meets standard, the Company will reinforce this requirement with its internal operations staff, including additional training, to ensure the Notice, policy summary, contract summary and any ledger statements are maintained in the policy file.

7. Unreported Individual Life Replacements

The Company will review and update its procedures for reporting and maintaining new business in the Company's replacement registered in accordance with Ohio Adm.Code 3901-6-05(G)(3). In addition, the Company will provide additional training to internal operations staff to ensure compliance with the requirements and procedures.

8. Summary

The statement under Unreported Individual Life Insurance Replacements seems to imply that no new business policies were reflected on the replacement register. We respectfully request this statement be modified to indicate that during the time period of the exam fifty policies were not found to be on the replacement register. As a result, we respectfully also request the compliance percentage reflect the number of reported replacements divided by the universe of replacements for the exam period. While this number would be less than standard, we feel that it would give a more accurate depiction of the company's compliance rate.

Thank you again for your time and consideration. If you should have any questions or concerns regarding our response, please do not hesitate to contact me 860.466.2844 or email [JDSpada@LNC.com](mailto:JDSpada@LNC.com).

Very Truly Yours,

Joseph D. Spada  
Assistant Vice President  
The Lincoln National Life Insurance Company

STATE OF OHIO  
DEPARTMENT OF INSURANCE

In the matter of )  
The Lincoln National 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. The Lincoln National 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 Life Replacements," "Internal Life Replacements," and "Unreported Individual Life Replacements".

(E) Company shall pay an administrative fine in the amount of Thirty Thousand Dollars (\$ 30,000), 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.

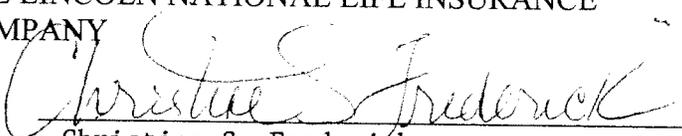
(G) Company has read and understands this Consent Order. Company fully understands that it has a right to seek counsel of its choice and to have counsel review this Consent Order.

(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

THE LINCOLN NATIONAL LIFE INSURANCE  
COMPANY

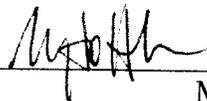
BY: 

Christine S. Frederick

TITLE: Vice President & Chief Compliance Officer

DATE 3/2/07

SUPERINTENDENT OF THE  
OHIO DEPARTMENT OF INSURANCE



Mary Jo Hudson