

A

TARGETED MARKET CONDUCT EXAMINATION OF

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

NAIC #79065

As Of

December 31, 2009





Honorable Mary Taylor
Director
Ohio Department of Insurance
50 West Town Street Suite 300
Columbus, Ohio 43215

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a targeted market conduct examination was conducted on the Ohio business of the following:

Sun Life Assurance Company of Canada (U.S.) NAIC# 79065

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

50 West Town Street, 3rd Floor, Suite 300
Columbus, Ohio 43215

A report of the examination is enclosed.

Respectfully submitted,


Lynette Baker
Chief, Market Conduct Division

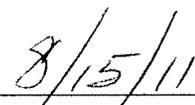

Date

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FOREWORD

This examination and risk assessment was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

EXECUTIVE SUMMARY

This examination is a targeted market conduct examination of Sun Life Assurance Company of Canada (U.S.) (“Company”) by the State of Ohio as it relates to the Company’s suitability compliance program for its fixed, equity indexed, and variable individual annuity products for the period of January 1, 2003 through December 31, 2009 (the file review was conducted on annuities issued, replaced, or surrendered, during the period of March 1, 2007 through December 31, 2009).

The examination did not reveal any significant areas of concern.

SCOPE OF EXAMINATION

The basic business areas included as part of the examination included:

- A. Compliance Procedures
- B. Suitability of New Business and Replacements
- C. Disclosures
- D. Marketing and Sales
- E. Complaint Handling

Each business area has standards that were measured during the examination. Some of the standards have specific statutory guidance; others have specific company guidelines or contractual guidelines.

The focus of the examination was on the procedures and methods used by the Company to achieve compliance with applicable Ohio statutes and rules involving the issuance of fixed, equity indexed, and variable individual annuity products. This included an analysis of how the Company communicates its instructions and philosophy with its employees, agency force, and national marketing organizations.

This examination report is a report by test, rather than a report by exception, and all standards and tests are described and the findings indicated.

METHODOLOGY

This examination is based on the standards and tests for a market conduct examination of a life and annuity insurer found in Chapters XVI and XIX of the NAIC Market Regulation Handbook and on applicable Ohio statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into two general categories: Generic and Sample.

A “Generic” review indicates that a standard was tested through analysis of general data gathered by the examiners, or provided by the Company in response to interrogatories or personnel interviews conducted by the examiners.

A “Sample” review indicates that a standard was tested through direct review of a random sample of files selected using automated sampling software.

Each standard is accompanied by a comment describing the purpose or reason for the standard. Findings are indicated and any examiner comments or observations are noted.

COMPANY OPERATIONS

Sun Life Assurance Company of Canada (U.S.) is a stock life insurance company and a wholly-owned subsidiary of Sun Life of Canada (U.S.) Holdings, Inc. domiciled in Delaware and admitted to do business in forty-nine states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

2009 Annuity Considerations

Ohio Individual Ordinary	National Individual Ordinary
\$193,013,498	\$4,240,138,986

FILE REVIEW METHODOLOGY:

The findings are based on the standards for a market conduct examination of a life and annuity insurer according to applicable Ohio statutes and rules, including Ohio Administrative Code (“OAC”) 3901-6-13 and 3901-6-14.

NEW BUSINESS AND REPLACEMENTS REVIEW FINDINGS

Standard 5: Marketing and Sales

The insurer has suitability standards for its products as required by Ohio Administrative Code 3901-6-13.

Standard 3: Marketing and Sales

The insurer’s rules pertaining to insurer requirements in connection with replacements are in compliance with Ohio Administrative Code 3901-6-05.

Standard 11: Marketing and Sales

The insurer has procedures in place to educate and monitor insurance agents/producers and to provide full disclosure to consumers regarding all sales of products involving annuity products, and all sales are in compliance with Ohio Administrative Code 3901-6-14 (E)(4)&(5) and Ohio Revised Code 3901.21(A).

Procedure Review

Methodology: The examiners reviewed compliance procedure manuals and asked annuity interview questions to determine how new business and replacements are reviewed and processed.

Examiner Observations:

The examiners reviewed the Company’s compliance policies and procedures and asked annuity interview questions regarding the suitability guidelines the Company has established to

determine if an individual qualifies for the purchase or exchange of an annuity policy. The Company endeavors to provide customer-focused sales. Sales must be appropriate for each customer and based on the customer's financial objectives and needs.

Company Position on Suitability for Fixed and Fixed Index Annuities

The Company requires that all recommendations for the purchase or exchange of a Fixed or Fixed Index Annuity product should be suitable for the consumer based on information known by the producer at the time of application. Prior to making a recommendation for the purchase or exchange of any annuity product, the producer must make a reasonable effort to obtain relevant information from the consumer regarding his or her insurance needs and financial objectives.

The Company created the Fixed Annuity and Fixed Index Annuity Suitability Profile to facilitate the producer's collection and analysis of pertinent information. The Company will assess the suitability of each sale based on this information and any additional information the Company feels is necessary to complete the assessment. This documentation will be maintained in the policyholder file.

In addition, the Company will:

- Monitor the complaint register for any suitability trends.
- Review sales by producers based on trend results.
- Provide periodic information about compliance with suitability regulations.
- Require the producer to maintain records (including client sales files and all documentation used in connection with the file) demonstrating their compliance with these procedures for five years or as required by law.
- Provide Buyer's Guides specific to the state of issue and any other documents required in the state of issue with each contract issued.
- Take corrective action where appropriate.

The Company offers a variety of annuity products, as no one single product is appropriate for each and every client's objectives. Producers must have reasonable grounds for believing that the specific recommendation is suitable for the consumer. This assessment is based on facts disclosed by the consumer as to his or her other insurance products, investments, financial situation and needs.

Producer Responsibilities

The Company requires producers to be aware of and comply with all laws and regulations concerning product solicitation and recommendation. In recommending the purchase, sale, or exchange of any variable product, producers are required to comply with applicable Financial Industry Regulatory Authority (FINRA) suitability rules in addition to state regulations. Firms that offer the Company's variable products are required to determine the suitability of these sales under securities laws and regulations as part of their supervisory responsibilities. The Company's selling agreements require firms to furnish appropriate records that demonstrate compliance with applicable suitability rules and regulations.

In cases where a non-variable product is recommended, producers are required to have determined customer financial objectives and insurable needs as part of the sales process. The process of evaluating financial objectives and insurable needs may include, among other things, an evaluation of the customer's tax status and risk tolerance. In addition, producers are required to comply with any applicable regulations relating to suitability enacted by state Insurance Departments.

If any producer fails to comply with the Company's suitability requirements, several actions may be taken. These actions range from additional education of the Company's requirements to potential termination of the producer's selling agreements.

The Company will monitor adherence to their Suitability Policy as follows:

- The Company may conduct random document requests or other means of verifying compliance with applicable state laws and regulations and their suitability policy.
- The Company will monitor and analyze complaints for compliance with their suitability policy.
- The Company may use surveys to test compliance with their suitability policy.
- The Company will obtain Third Party Certifications from Broker Dealers to demonstrate their compliance with the selling agreements.

Review of Marketing Materials and Advertising Review Process

The examiner reviewed the advertising review process as well as the sales and marketing materials used by the Company during the period effective March 1, 2007 through December 31, 2009. No issues were identified and this information met the statute requirements. It is unlawful to use any marketing material that has not been properly approved.

Record Keeping

Producers are required to maintain complete files documenting the sale, including fact finding documents, in accordance with the appropriate state and Financial Industry Regulatory Authority (FINRA) regulations in the event the Company or a regulator requests such information.

File Review:

Methodology: The examiner reviewed a sample of 50 Ohio new business policies that were not replacements on fixed annuities, equity indexed annuities, and variable annuities issued during the examination period.

Examiner Observations:

The major focus of the new business non-replacement policies involved the issue of annuity suitability and the Company's oversight of its products. During the course of the review, there were three instances of possible unsuitable sales (6%). The Ohio Department of Insurance (Department) felt the suitability of these annuity sales were questionable because of the

applicant's age, the policies had a ten (10) year surrender period, and there was missing information regarding the consumer's financial status and investment objectives.

Findings:

Population	Sample	Yes	No	Standard	Compliance
2,377	50	47	3	90%	94%

The standard for compliance is 90%. The Company's performance was above this standard.

File Review:

Methodology: The examiner reviewed a sample of 50 Ohio new business policies that were replacements on fixed annuities, equity indexed annuities, and variable annuities issued during the examination period.

Examiner Observations:

The major focus of the new business replacement policies involved the issue of annuity suitability and the Company's oversight of its products. During the course of the review, there were three instances of possible unsuitable sales (6%). The Department felt the suitability of these variable annuity sales were questionable because of the applicant's age, the policies had a seven (7) year surrender period, and one of the investment objectives was preservation of capital.

Findings:

Population	Sample	Yes	No	Standard	Compliance
785	50	47	3	90%	94%

The standard for compliance is 90%. The Company's performance was above this standard.

Additional Exam Findings:

During the new business and replacement file review, it was also noted that all disclosure documents included the minimum information that must be disclosed as required by Ohio Administrative Code 3901-6-14(E)(4).

Unreported Replacements:

Examiner Observations:

A review of the Company's replacement register and applications was conducted to check for any unreported replacements. There were four (4) policies where the "Important Notice: Replacement of Life Insurance or Annuities" indicated the existing policies were being replaced, but these policies were not included on the replacement register. These policies would be

considered a violation of OAC 3901-6-05(G)(1). All of the remaining policies in the policy sample that were replacements were included in the replacement register.

Use of senior-specific certifications and professional designations

Ohio Administrative Code 3901-5-11 “Use of senior-specific certifications and professional designations in the marketing, solicitation, negotiation, sale or purchase of a life or health insurance policy or annuity” Section (E)(1) stipulates it is an unfair and deceptive trade practice under sections 3901.19 to 3901.26 of the Ohio Revised Code and a dishonest practice under division (B)(9) of section 3905.14 of the Ohio Revised Code for an insurance agent to use a senior-specific certification or professional designation that indicates or implies in such a way as to mislead a purchaser or prospective purchaser that the insurance agent has special certification or training in advising or providing services to seniors in connection with the marketing, negotiating, soliciting, selling, or purchase of a life or health insurance policy, or annuity product or in the provision of advice as to the value of or the advisability of purchasing of a life or health insurance policy or annuity product, either directly or indirectly, through publications or writings, or by issuing or promulgating analyses or reports related to a life or health insurance or annuity product.

Section (E)(2) of Ohio Administrative Code 3901-5-11 further stipulates the prohibited use of senior-specific certifications or professional designations includes, but is not limited to, the following:

- (a) Use of a certification or professional designation by an insurance agent who has not actually earned or is otherwise ineligible to use such certification or designation;
- (b) Use of a nonexistent or self-conferred certification or professional designation;
- (c) Use of a certification or professional designation that indicates or implies a level of occupational qualifications obtained through education, training or experience that the insurance agent using the certification or designation does not have; or
- (d) Use of a certification or professional designation that was obtained from a certifying or designating organization that:
 - (i) Is primarily engaged in the business of instruction in sales or marketing;
 - (ii) Does not have reasonable standards or procedures for assuring the competency of its certificants or designees;
 - (iii) Does not have reasonable standards or procedures for monitoring and disciplining its certificants or designees for improper or unethical conduct; or
 - (iv) Does not have reasonable continuing education requirements for its certificants or designees in order to maintain the certification or designation.

Examiner Observations:

The Company does not employ a captive field force, but does (through its Affiliate Sun Life Financial Distributors Inc. ("Firm")) maintain a wholesale distribution system. Firm employees are prohibited from using designations not approved by the Firm. The following designations are approved by the Company:

- CFP – Certified Financial Planner
- ChFC – Chartered Financial Consultant
- CFA – Chartered Financial Analyst
- CLU – Chartered Life Underwriter
- CRPC – Chartered Retirement Planning Counselor
- FLMI – Fellow, Life Management Institute

In order to use approved designations on a business card, on stationery, or in electronic communications, the designation(s) must be active and in good standing.

Individuals wishing to use any other designation(s) must obtain Compliance approval prior to displaying the designation(s) on a business card, stationery or in electronic communications. The list of designations was reviewed by the examiner and no problems were found.

COMPLAINT HANDLING

Standard: Complaint Handling

The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with statutes, rules, regulations, and contract language.
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Examiner Observations:

A review was conducted on all ten (10) complaints received during the period of January 1, 2009 through June 30, 2010 to assure complaints were handled in a timely manner and analyzed for any trends that might need attention by the Company. The complaints were handled in a timely manner and no trends were identified.

The procedures for all departments is to forward all written complaints to the Customer Relations Unit or the Compliance Department (if a regulatory complaint) for review. Oral complaints are initially responded to in the Customer Service Center. If an escalated oral complaint cannot be resolved by a supervisor or manager, the complainant will be asked to put their concerns in writing, and it should be noted that such a request was made of the caller.

Upon receipt of a written regulatory complaint, the Compliance Department immediately enters it into the Complaint Management System (CMS). The Compliance Department then forwards the complaint to the Customer Relations Unit for facilitation and/or direct handling. The

Customer Relations Unit images the documents into the applicable workflow system, and sends an acknowledgement letter to the regulatory agency that submitted the complaint.

The Customer Relations Unit is responsible for researching the complaint, coordinating with Compliance, Law, and Operations as required, and bringing the case to the Complaint Committee if necessary for discussion and resolution. This unit is responsible for researching and responding to written complaints from any regulatory agency, complaints that question the actions of a broker-dealer or producer, and written complaints concerning service or the operational area.

All complaints that are submitted by a state or federal regulatory/governmental authority, or are written which make allegations regarding fraud, privacy, or a product's suitability shall be referred to the Complaint Committee. The Complaint Committee meets on a weekly basis and provides a forum to review and discuss complaints in order to ensure proper and thorough evaluation of each matter, including giving due consideration to possible risk to the reputation of Sun Life Financial.

When company procedures are identified as having caused or contributed to the problem raised in the complaint, Operations in conjunction with the Complaint Committee will ensure that appropriate root cause analysis and manager Feedback is completed and retained.

Upon request of the affected business unit, Customer Relations is available to facilitate an Operational Recommendation Meeting where trends identified through the complaint process may be discussed. The purpose of this meeting is to ensure that all trends identified are tracked and resolved by reengineering the process or procedures. This ensures that trends are identified early and resolved promptly. On a monthly basis, the Customer Relations Unit provides a summary of complaint activity, both verbal and written, to the operations units for their review.

In addition to the regular review of complaints by the Customer Relations unit, a quarterly summary is provided to the Company's Chief Compliance Officer by the Assistant Vice President of Annuity Compliance and the Senior Vice President and General Manager of the annuity division. This document provides a high-level summary of activity during the preceding quarter that includes notable volume trends.

This concludes the report of the market conduct examination of the Sun Life Assurance Company of Canada (U.S.). The examiner would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

Bob Baker
Bob Baker
Insurance Compliance Examiner

8/15/2011
Date



Matthew Clegg
Associate Director, Compliance

Sun Life Assurance
Company of Canada (U.S.)
SC2240
One Sun Life Executive Park
Wellesley Hills, MA 02481-5699
Tel: 781-446-6386
Fax: 781-235-5078
matthew.clegg@sunlife.com

August 12, 2011

Ohio Department of Insurance
Market Conduct Regulation Division
50 West Town Street
Suite 300- Third Floor
Columbus, Ohio 43215
Attention: Bob Baker, Insurance Compliance Examiner

RE: Draft Report of Market Conduct Examination of Sun Life Assurance Company of Canada (U.S.)

Dear Mr. Baker,

This confirms our receipt of the draft Report as noted above. The Company agrees with the content of the Report. Please send the final Report to my attention when it is ready to be issued.

It was a pleasure working with you on this exam and we appreciate your courtesy and professionalism throughout.

If you have any questions, please do not hesitate to contact me.

Very truly,

A handwritten signature in black ink that reads "Matt Clegg".

Matt Clegg
Compliance Associate Director