STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

METROPOLITAN LIFE INSURANCE COMPANY

REGARDING RESPONSE TO

SUPPLEMENT NO. 1 TO CIRCULAR LETTER NO. 19 (2000)

DATE OF REPORT: MARCH 1, 2002

EXAMINER: CLIFFORD CHANCE ROGERS & WELLS LLP

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 1, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21657, dated July 1, 2001 and annexed hereto, a limited-scope examination has been made into the condition and affairs of the life insurance business of Metropolitan Life Insurance Company, hereinafter referred to as “the Company” or “MetLife,” at its home office located at One Madison Avenue, New York, New York.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. SUPPLEMENT NO. 1 TO CIRCULAR LETTER NO. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers and fraternal benefit societies that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement defined race-based underwriting as including, but not limited to, one or more of the following practices based solely on an insured's race, color, creed or national origin: refusing to insure; refusing to continue to insure or limiting the amount, extent or kind of coverage available; charging or collecting higher premiums or rates; making or requiring any rebate upon the amount paid; assigning substandard risk classifications; crediting or providing lower dividends, policy benefits or nonforfeiture values; making any distinction as to policy terms or conditions; imposing greater underwriting requirements (medical vs. non-medical); and fixing any fees or commissions in a manner as to encourage or discourage the writing or renewing of a specific type of policy.

The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer and fraternal benefit society to review its past and current underwriting practices regarding race-based underwriting and to report its findings to the Department no later than August 15, 2000. The Supplement further directed that all relevant documents, including, but not limited to, rate charts, mortality tables, labor negotiation documents with distribution force unions, agent and broker contracts, compensation schedules, underwriting and agent manuals, applications, policy form filings, board of directors (and committee) minutes, and internal memoranda be included in the insurer's review.

2. METLIFE'S RESPONSE TO THE SUPPLEMENT

MetLife's response contained information regarding business originally issued by New England Mutual Life Insurance Company, hereinafter referred to as "New England Mutual," and United Mutual Life Insurance Company, hereinafter referred to as "United Mutual" because New England Mutual and United Mutual merged with and into MetLife in 1996 and 1992, respectively.

By letter to the Department dated August 15, 2000 (Exhibit A), MetLife reported its findings regarding past race-based underwriting practices and its finding that no such practices were currently in place. MetLife provided additional information to the

Department by letters dated September 26, 2000, October 16, 2000, December 20, 2000, January 24, 2001 and February 16, 2001.

A. The Company's Investigation in Response to the Supplement

(1) MetLife

The Company's investigation in response to the Supplement consisted of a review of Company documents and certain life insurance policy application files, and conversations with current and former long-term Company employees. The Company indicated that its review included contacting or visiting MetLife associates and reviewing documents at the New York home office and MetLife offices in Bronxville, New York; Bridgewater, New Jersey; Pearl River, New York; Scranton, Pennsylvania; Greenville, South Carolina; Johnstown, Pennsylvania and its Canadian branch office in Ottawa, Canada.

The Company reported that the following materials, to the extent available, were included in its review:

(a) documents from home office archives (1880s-1970s);
(b) rate books (1901-1961);
(c) dividend books (1932-1959);
(d) underwriting manuals (1926-1954);
(e) tables of rates (1935-1951);
(f) circular letters (1880s-1970s);
(g) administrative letters (1880s-1970s);
(h) marketing materials (1880s-1970s);
(i) actuarial documents (dates not specified);
(j) policy registers (late 1800s-1910s);
(k) "Presidential Complaints" (1986-present);
(l) correspondence with insurance regulators (dates not specified);
(m) closed law department files (dates not specified);
(n) board minutes (dating back to the late 1870s); and
(o) historical materials (dates not specified).

By querying its computer databases, the Company also attempted to determine whether race-related trends existed in blocks of Industrial and Ordinary Life policies. For example, the Company generated a report showing (by decade of issue from 1900 to the 1960s) the number of inforce Industrial Life policies, sorted by frequency of payment, risk classification and, to the extent available, race. The Company also generated a report of inforce Ordinary Life policies sorted by criteria including risk classification and, to the extent available, race.

(2) New England Mutual

MetLife reported that employees of its affiliate, New England Life Insurance Company ("New England Life") reviewed, to the extent available, the following New England Mutual documents, at MetLife's direction:

(a) Home Office Bulletins (1913-1963);
(b) underwriting manuals (1964-present);
(c) underwriting rules (1971-present);
(d) agents' underwriting guides (1964 and 1967);
(e) Occupation/Physical Impairment rate books (1936-present);
(f) Actuarial Memoranda Scrapbook (October 1941-February 1949);
(g) summaries of board minutes (dates not specified);
(h) notices and circulars to the field (1866-present); and
(i) A Capital Ship, New England Mutual's corporate biography (1985).

New England Life also examined approximately 2,457 application files for inforce policies originally issued by New England Mutual in substandard risk classes before 1970, and application files for inforce policies issued in limited-payment plans before 1950. New England Life reported that twenty policies insuring African-Americans were discovered in these searches. New England Life also reviewed five randomly selected application files for inforce policies issued in 1920, 1925, 1933, 1941 and 1950, respectively. Finally, New England Life interviewed several long-term employees, including a retired underwriting officer whose New England Mutual employment began in the late 1950s and extended until 1988.

(3) United Mutual

MetLife reported that the following United Mutual documents, to the extent available, were included in its review:

(a) board of directors minutes (dates not specified);
(b) minutes of the Executive Committee of the Board (dates not specified);
(c) reports of the President (dates not specified);
(d) reports of the Medical Director (dates not specified);

(e) rate books (including those dated 1938, 1948, 1952, 1955, 1965);

(f) annual statements (1945-1949, 1978-1981 and 1984);

(g) New York State Insurance Department Examination Report (1986);

(h) Lincoln National Life's (United Mutual's reinsurer) occupational manual (1980);

(i) agent files (dates not specified); and

(j) policy files (dates not specified).

B. Findings Reported by MetLife

In its response to the Department, the Company reported the following findings from its internal review of MetLife, New England Mutual and United Mutual:

(1) MetLife

Refusal To Insure

- From December 27, 1880 through November 14, 1881, the Company did not insure the lives of African-Americans.
- A document dated May 25, 1889, indicates that applications would not be accepted for non-Caucasians residing in a particular area of New York City.
- In the 1920s, the Company instructed agents not to accept applications on the lives of Chinese.

Limits on Available Coverage

- In 1924, the Company made only two types of plans available to Native Americans.
- In December 1931, the Company limited the availability of two Ordinary plans to non-Caucasians in certain age groups.

Substandard Risk or Rated Risk Classifications

- Prior to 1948, MetLife generally classified non-Caucasian applicants for Industrial Weekly insurance as substandard risks. The Company had two risk classifications (standard risk and substandard risk) for Industrial Weekly insurance. Applicants who were expected to have higher mortality were designated as substandard risks. Applicants assigned the substandard risk classification generally were sold a different plan of insurance (e.g., a 30-pay life plan rather than a 20-pay life plan) than those available to applicants assigned to the standard risk classification. Non-Caucasians were assigned to substandard risk plans at "a significantly higher percentage than Caucasians." Nevertheless, some African-American applicants received standard Industrial Weekly policies during this period.

- Prior to 1948, many more African-Americans were found among the standard risk classification for Industrial Monthly plans than among the substandard risk classification for such plans. This "appears to indicate that there was not . . . [the same] risk classification practice for industrial monthly policies [as there was for Industrial Weekly policies]." Although some historical documents indicate a disinclination to sell standard risk plans to non-Caucasians who applied for Industrial Monthly plans during the late 1920s, statistical analysis indicates that this was not a widespread practice.

- From 1930 through 1934, first-year commissions for Ordinary policies issued to African-Americans were paid only on 25-Pay Life, 25-Year Endowment or Endowment at 80 plans. These plans were issued on substandard risk mortality assumptions during that time period. To the extent that the race of the insured is recorded in the Company's database, the racial composition of insureds under these plans is predominately African-American.

Policy Benefits

- Prior to 1915, the Company's practice was to pay different benefits on Industrial Weekly insurance policies based on race. The Company paid African-Americans a benefit of two-thirds of the amount paid to Caucasian policyholders paying the same premium. The policy was either issued at the full face amount but included a clause reducing the benefit to two-thirds of that amount, or issued for an amount equal to two-thirds of the amount that would have been issued to a Caucasian applicant for the same premium. The Company issued Industrial Weekly policies to African-Americans in these ways between 1881 and 1893. Nevertheless, it appears that the benefit differential was ignored on claims received for those policies with the two-thirds clause after 1900, and for all other policies after 1915.

Requiring Medical Examinations

- At various times until July 29, 1963, the Company observed lower face amount and age thresholds for requiring medical examinations for non-Caucasian applicants. Once obtained, however, medical information was considered in the underwriting process without regard to the race of the applicant. There are 38,988 Ordinary policies currently in-force and rated substandard issued prior to 1963 where the race of the insured is non-Caucasian or unknown. Insureds under these policies potentially could have been subjected to a medical examination that was required because of their race (excluding policies of sufficiently high face amounts so as to trigger the requirement for a medical examination regardless of race, and excluding those policies of a sufficiently low face value such that no medical examination would be required regardless of race). The Company estimates that of these, only 5,547 are known to be non-Caucasians, and of the remaining 33,441 policies, the Company estimates that only 10-15% are non-Caucasian (although the exact number is unknown).

Requiring Mercantile Reports

- At different times prior to 1965, MetLife's written policies required mercantile reports on non-Caucasian applicants. (The policies also required mercantile reports on Caucasian applicants, though in more limited circumstances.) It appears, however, that the information developed from these mercantile reports was used the same way regardless of the race of the applicant. Since 1964 in New York and New Jersey, and since 1965 nationwide, the Company documents that detail the criteria for requiring mercantile reports make no reference to race.

Commissions or Fees to Agents

- At times, the Company paid lower commissions on policies insuring non-Caucasians.

- From January 1, 1930 through December 31, 1934, the Company paid first-year commissions for Ordinary Life policies issued to African-Americans only for policies issued in three specific plans: 25-Pay Life; 25-Year Endowment; and Endowment at 80.

- At various times prior to 1952, the Company paid agents different commissions depending on the race of the insured. The practice appears to have predated 1935. In 1935, MetLife maintained a dual commission structure for agents outside of New York who sold to individuals of certain races or ethnic background. At the same time in New York, the Company directed its agents to discontinue active solicitation of insurance on African-Americans, although policies were issued to African-Americans who sought insurance from the Company. By 1951, the Company permitted solicitation of applications on non-Caucasian lives in New York, and in 1952 advised that commission reductions based on race were discontinued. The Company found no indication that racial differences in commission schedules continued after 1955.

- Documents dating from 1937 and 1939 reference “agents on non-Caucasian debits” in discussing qualifications for the Company’s Star Salesman Club. In addition, documents dated 1949, 1950 and 1951 make the same reference in discussing qualifications for the Honor Club.

Limiting Sales Volume

- Efforts to limit sales volume based on race date back to the 1800s. From December 27, 1880 through November 14, 1881, the Company refused to insure African-Americans. Later there may have been efforts to discourage agents from actively soliciting people of certain ethnic backgrounds. This included management conducting a review of an agent’s activities if the proportion of policies sold to African-Americans reached a specified level. In such cases, sales volume limitations may have been imposed on these agents. Documents indicate that the Company placed limits on the percentage of policies an agent was permitted to sell to African-Americans. Company records are unclear as to the extent and duration of these practices that appear to have existed in the 1940s and 1950s, and may have extended into part of the 1960s.

Race Inquiries on MetLife Forms

- The Company stopped collecting race information on application forms or agent reports in New York and New Jersey in 1964. The practice was discontinued nationwide in 1966.

(2) New England Mutual

Refusal To Insure

- Correspondence from 1913 and 1914 between the home office and its Washington, D.C. general agent indicate that New England Mutual was willing to consider applications from African-Americans employed by the government if, after investigation, the agent was satisfied as to the applicant's habits, financial ability, and general reputation.

- A document dated November 13, 1913, from a Washington, D.C. general agent indicates that the agent would not accept applications from African-American women, but would accept applications from certain African-American men for 20-Payment Life and 20-Year Endowment plans.

- In 1922 and 1923, New England Mutual distributed a report to its general agents stating that African-Americans were substandard mortality risks that "can best be insured by the negro life insurance companies, or by companies that are properly equipped to handle sub-standard business."

Limits on Coverage Available

- In a 1913 letter to a general agent, New England Mutual said that it would give "favorable consideration to applications for Limited Payment Life or Endowment policies in moderate amounts" on certain African-American lives.

Substandard Risk or Rated Risk Classifications

- A retired New England Mutual underwriting officer recalled that during a period in the late 1950s and early 1960s, underwriters would generally assign substandard risk ratings to African-American applicants.

Race Inquiries on New England Mutual Forms

- During the first half of the 20th Century, questions regarding the race/complexion of an applicant appeared on the medical examination portion of New England Mutual applications and/or underwriting worksheets, as well as third-party inspection reports. A 1949 underwriting worksheet does not include racial information and none was found on any subsequent worksheet. The practice of identifying race on application-related material stopped for New York applicants in 1964 and for non-New York applicants several years later. Despite the presence of racial inquiries, the documents reviewed do not indicate that the race of an applicant was considered in the decision to issue a policy in a substandard class.

<u>Other Findings</u>

- A New England Mutual general agent in New Orleans used a different form for African-American applicants at some time between 1892 and 1911.

- Versions of the Manual of General Agency Operations dated between 1948 and 1969 refer to the submission of a "Preliminary Application" to be used when the prospective applicant's eligibility is doubtful. If an applicant is in this category because they are planning international travel, the manuals state that the race of the prospective applicant should be identified. Identical language appears in Rate Books as early as 1936. The Preliminary Application form did not, however, include a race question and no evidence was found that race was considered in reviewing Preliminary Applications.

- A New England Mutual publication entitled *Selling Life Insurance*, first published in 1960 and reprinted in 1966, contained a section titled "What Counts With Underwriters." The section listed 13 "factors influencing longevity of the individual," including "Race and nationality."

- New England Life could not determine from its review of policy application files whether race played any role in the underwriting process of the minority policies that it reviewed.

(3) <u>United Mutual</u>

MetLife did not find any race-based underwriting issues with respect to policies issued by United Mutual. The Company reported that United Mutual's policy base was predominantly African-American.

3. <u>SCOPE OF THE EXAMINATION</u>

A limited-scope examination was made into the affairs of the Company solely with respect to race-based underwriting policies and practices. MetLife was incorporated as a stock company in 1866 under the name National Travelers Insurance Company. The name Metropolitan Life Insurance Company was adopted in 1868. In 1915, the Company reorganized as a mutual organization under the laws of the State of New York. MetLife demutualized and became a stock life insurance company in April 2000. New England Mutual was organized in 1835 as a mutual life insurance company under the laws of Massachusetts. Pursuant to Section 7105 of the New York Insurance Law, New England Mutual merged with and into MetLife in 1996. United Mutual was formed as a fraternal organization in 1933, and on January 1, 1945, United Mutual converted to a mutual life insurance company. In 1992, United Mutual merged with and into MetLife, pursuant to Section 7105 of the New York Insurance Law.

The examination included a review of life insurance business directly issued by the Company and life insurance business acquired by the Company as the result of assumptions, mergers, acquisitions, consolidations or purchases as follows: 1) life insurance business acquired by MetLife in its mergers with New England Mutual and United Mutual; and 2) certain blocks of industrial life insurance policies issued by other companies that were assumed by MetLife in the first two decades of the twentieth century. The business of three MetLife subsidiaries - Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company and MetLife Security Insurance Company of Louisiana - which was referenced in the Company's response to the Supplement, however, was not included in the examination because such business was not directly issued or acquired by the Company.

The scope of the examination included documents reviewed by the Company in its internal investigation, as well as other documents not reviewed by MetLife. The examiners also reviewed all documents produced by the Company to plaintiffs in *Thompson v. Metropolitan Life Ins. Co*., a class action lawsuit pending in the United States District Court for the Southern District of New York in which plaintiffs assert that the Company engaged in race-based underwriting practices in violation of 42 U.S.C. § 1981, 42 U.S.C. § 1982, and New York GBL § 349. The examiners' review also included, but was not limited to, the following significant MetLife materials ranging in date from 1870 through 1980:

(a) all available rate books and rate tables;

(b) all available underwriting, instruction and training manuals;

(c) selected canvassing materials supplied to the sales force;

(d) all available circular letters and correspondence with the field force;

(e) selected papers and speeches written and presented by MetLife executives;

(f) all available personal archives of selected MetLife executives;

(g) selected historical files;

(h) all available MetLife board of directors meeting minutes ranging in date from 1890 through 1906, and selected MetLife board of directors meeting minutes from 1907 through 1980;

(i) selected committee meeting minutes;

(j) all available Reports on Examination by the New York State Department of Insurance;

(k) selected company publications, including a sample of various daily, weekly, and monthly field publications;

(l) selected specimen policies and policy forms;

(m) selected "Subject Files" categorized by MetLife's archivist;

(n) all available Statistical Bulletins; and

(o) selected material housed at the College of Insurance.

The examination also included a review of documents analyzed by New England Life in its investigation of race-based underwriting practices at New England Mutual, as well as additional documents not reviewed by New England Life. The examiners' review included, but was not limited to, the following significant New England Mutual materials ranging in date from 1835 through 1980:

(a) all available rate books;

(b) selected notices and publications to the field force and home office bulletins;

(c) selected executive memoranda and position papers;

(d) all available circular letters;

(e) selected company history files;

(f) selected company publications;

(g) selected papers of New England Mutual officers and directors;

(h) all available administrative committee minutes;

(i) all available board minutes;

(j) all available clause books;

(k) selected specimen application forms;

(l) all available reports and evaluations from the Massachusetts Department of Banking and Insurance;

(m) all available annual reports;

(n) selected sales promotion materials;

(o) all available mortality tables;

(p) all available underwriting manuals;

(q) all available General Agency Operations Manuals;

(r) all available General Agency Administrative Manuals;

(s) all available Agency Builder Manuals;

(t) all available Agent's Guides; and

(u) all available Instructions to Agents.

The examiners also reviewed the limited United Mutual documents that were maintained by MetLife after the companies' 1992 merger. The examiners reviewed and analyzed the following materials ranging in date from 1937 through 1980:

(a) all available board of directors minutes, and dividend resolutions (1937 - 1968);

(b) all available rate books (1938, 1948, 1952, 1955, 1965 and various undated);

(c) a report to the board of directors written by United Mutual's president (1937);

(d) a letter from New York State Insurance Department (1967); and

(e) an occupational manual prepared by Lincoln National Life [United Mutual's reinsurer] (1980).

The examination also included a review of MetLife, New England Mutual and United Mutual policy application files. The Department, by querying the companies' databases using automated techniques based on criteria designed by the Department to enhance the likelihood of identifying minority policyholders, selected a total of approximately 4,400 policy application files from all three companies for the examiners' review. The Department also performed data analysis of the three companies' inforce files to detect patterns of issuance that may indicate race-based underwriting.

In addition to the review of MetLife, New England Mutual and United Mutual documents and policy application files, the examiners conducted meetings with Company employees responsible for key aspects of MetLife's internal investigation (including United Mutual), and New England Life employees responsible for key aspects of the investigation of New England Mutual. Examiners also interviewed several current and/or former underwriters and agents affiliated with MetLife and New England Mutual.

As to all of the companies, certain documents pertaining to their policies and practices during the relevant time period had been discarded in accordance with each company's normal record retention policies.

This report on examination is confined to comments on those matters which may involve departure from laws, regulations or rules and which in the Department's discretion require explanation or description.

4. EXAMINATION FINDINGS

Set forth below are the examination findings divided into three parts: (A) findings from the examiners' analysis of MetLife documents and application files; (B) findings from the examiners' analysis of New England Mutual documents and application files; and (C) findings from the examiners' analysis of United Mutual documents and application files.

A. Race-Based Underwriting Policies Evidenced in MetLife Documents and Application Files

The following race-based underwriting policies were evidenced in the written records of MetLife:

(1) Limits on Policy Benefits and Policy Amounts

Between 1881 and 1893, MetLife paid African-American policyholders a death benefit that was only two-thirds the benefit granted to Caucasian policyholders paying the same premium. As the Company disclosed, the policies MetLife sold to African-Americans during that period either (i) were issued at full face value, but included a clause reducing the actual death benefit to two-thirds of the face value (a "two-thirds clause"), or (ii) had a face value equal to two-thirds of the amount that would have been issued to a Caucasian paying the same premium.

Although use of the two-thirds clause ceased in 1883, agent's manuals ranging in date from November 1888 through July 1891 confirm that the Company issued African-Americans policies with face amounts equaling two-thirds of those issued to Caucasians paying the same premium. The manuals state that although African-Americans now received the full face amount of the policies issued on their lives, they continued to receive "but two-thirds the benefits of Whites" because "statistics drawn from the various States of the Union show the Black mortality so much greater than that of Whites that this discrimination is imperative." The 1891 instruction manual specifies further that agents in states prohibiting racial discrimination should "apply to their Superintendents for special instructions" with regard to African-American applicants.

In 1893, the Company discontinued its practice of assigning dissimilar benefits to African-Americans and Caucasians on new policies of the same plan. In a February 15, 1893 Circular Letter, MetLife announced that "[i]n the future, Endowment policies issued on Colored lives will provide for the payment of the same amounts as are granted to White lives of a corresponding age and for a corresponding premium." The examiners found evidence, however, that for a brief period African-Americans seeking Whole Life policies continued to receive lesser death benefits. The April 1893 edition of the Industrial Department instruction book states that "while the same restrictions as heretofore are to be enforced in issuing Whole Life Policies on Colored Lives, they will be granted the same amounts of Endowment insurance as White Lives." According to a 1917 history of MetLife entitled An Epoch of Life Insurance, the Company made the aforementioned liberalization applicable to new policies "whether endowment or life contracts" in December 1893.

In 1896, MetLife began to institute certain reforms to enable African-Americans who were issued policies before 1893 (and therefore were subject to the two-thirds clause or received a policy bearing two-thirds of the face amount a Caucasian would have received for the same premium) to receive the same death benefits as Caucasian policyholders who paid the same premium. By 1915, the Company's reforms provided that African-Americans who had been issued Industrial policies between November 1881 and December 1893 and Whole Life policies issued between August 1883 and December 1893 would be paid the amount of corresponding benefits paid to Caucasians, instead of only two-thirds thereof.

The examination also revealed that at various times until at least 1935, MetLife established different maximum face amounts for Caucasians and non-Caucasians. For example, a 1935 Table of Rates and Values for Weekly Premium and Monthly Premium Industrial Policies indicates that while Caucasian males age 18 and older could get policies with $1,000 face amount, non-Caucasian applicants were able to purchase Whole Life or Twenty-Payment policies totaling just $750 within any twelve month period.

(2) Substandard Risk or Rated Risk Classifications

(a) Ordinary Department

At least as of 1907, there were three risk classifications or "branches" within MetLife's Ordinary Department. In descending order of preference these classifications were: "Ordinary," "Intermediate" and "Special Class." (Later the Company subdivided "Special Class," adding "Special Class B" in 1920, and additional "Special Class" classifications thereafter.) Policies issued in these three classes were "alike in language for the same plans." The premiums charged, however, differed depending on the class into which an applicant was placed in accordance with the Company's mortality tables. According to a March 4, 1907 letter from a MetLife vice-president to a Company assistant secretary, the Company's mortality tables showed that "nothing is more clear . . . than that the blacks are not in the same class and have not equal expectation of life with the whites."

Although the examiners did not identify any document directing that African-American applicants be classified as "Intermediate" risks because of their race, statistical analysis suggests they were so classified in the 1920s. The Department's analysis of the inforce policies on the Company's database revealed that during the 1920s, among those whose race could be determined, approximately eighty-two percent of whites received Ordinary policies and approximately seventeen percent received Intermediate policies. In contrast, approximately twelve percent of African-Americans received Ordinary policies while approximately eighty-eight percent received Intermediate policies. Further, the examiners' analysis of a sample of application files for policies issued by the Ordinary Department in the 1920s revealed that an overwhelming majority of non-Caucasian policyholders who were classified as "Intermediate" were so classified without any apparent race-neutral basis. These findings, along with the Company's reliance on mortality tables showing increased mortality among African-Americans, suggest that during the 1920s the Company classified African-Americans seeking policies issued by the Ordinary Department as "Intermediate" based on race.

The Company's treatment of non-Caucasians seeking policies issued by MetLife's Ordinary Department during the period January 1, 1930 to December 31, 1934 is set forth in a June 12, 1935 memorandum prepared by the Ordinary Actuarial Division. According to that memorandum:

- In December 1929, the Company announced that it would issue Endowment at Age 80, 25 Payment Life, and 25 Year Endowment Policies in the "Ordinary, Intermediate, Special Class, and Special Class B branches to certain risks *not rated as Standard for other plans of insurance*." (emphasis added.)

- On March 20, 1930 a MetLife manager of the Ordinary Application Division wrote that "the Company would not accept Caucasian risks on either the 25 P.L., 25 Y.E., or E @ 80 Plans, but would issue 24 or 26 P.L., and similar Endowments." The three substandard plans in the Ordinary Department thus became available <u>only</u> to non-Caucasians.

- In December 1934, the Company announced that the Endowment at Age 80, 25 Payment Life, and 25 Year Endowment "would be discontinued, and non-Caucasian risks would be considered for any policy in the Ordinary, Intermediate, and Special Class branches, for which the risk was eligible according to regular underwriting rules."

Although the premiums for Endowment at Age 80, 25 Payment Life and 25 Year Endowment plans were set at the same levels as those for standard risk plans, dividends which were affected by the mortality experience of the plans were generally lower through the premium-paying period. As a result of assigning substandard risk classifications based solely on race to non-Caucasians seeking policies issued by the Company's Ordinary Department from 1930 through 1934, the net costs to non-Caucasians were greater than the net costs to similarly situated Caucasians.

(b) Industrial Department

In 1907 MetLife adopted different Industrial rate tables for standard risks and substandard risks. According to an August 2, 1910 letter written by a MetLife vice-president, the Company used the standard risk table for "the better class of white risks, and also, to a limited extent, the best class of black risks." The letter goes on to state that "[w]e issue the death or age 80 policies for the substandard classes, white and black, the great majority being, of course, on colored lives, because of our mortality experience." In addition, MetLife's 1927 and 1929 Instruction Books for Agents directs agents to issue to "lives that are not pure Caucasian" 25-Year Endowment or Endowment at Age 80 for weekly premium Industrial plans and Adult 25-Year Endowment and Adult Endowment at Age 75 for monthly premium Industrial plans. At the time, those plans were substandard. Although Company documents dated after 1929 do not limit the monthly premium Industrial plans available to non-Caucasians, the policy of generally issuing substandard risk plans to non-Caucasians who applied for weekly premium Industrial plans persisted through 1947. As a consequence of this policy, non-Caucasians were required based solely on their race to pay higher premiums than similarly situated Caucasians.

By 1948, the standard/substandard distinction in the Industrial Department was eliminated for Weekly policies. Also in 1948, MetLife equalized the future death benefits on all inforce premium paying or fully paid up Industrial Weekly policies, and eliminated substandard risk plans prospectively. From 1948 until 1965, when the Company ceased to sell Industrial insurance, there was a single, standard risk classification for newly issued Industrial Weekly policies. The rates for these newly issued policies were more favorable than the rates being paid on many existing inforce policies that were issued in standard risk and substandard risk plans. In an effort to provide the benefit of these new rates to Industrial Weekly policies already inforce, the death and maturity benefits payable on policies that were premium paying or fully paid up in substandard risk plans were made equal on an actuarial basis to those payable on policies issued in standard risk plans issued in the same year or 1948, whichever result was more favorable to the policyholder. Death and maturity benefits on pre-1948 standard policies were also brought up to the level of the benefit that would be provided for the same premium under the 1948 rates if the benefit was higher than the original amount. In 1951, the equalization program was made permanent. In addition, in 1963, guaranteed nonforfeiture values on premium paying Industrial Weekly policies were increased in the same proportion. Thus, policies surrendered or lapsed after 1963 (except for those policies on nonforfeiture options before 1963) were provided the full benefit of the equalization program. For the affected policies, equalization programs negated the actuarial differences between standard risk and substandard risk Industrial Weekly policies.

Finally, each year from 1982 through 1985, the Company waived all premiums due on Industrial policies after dividends were applied. In 1986, the Company made this annual premium waiver permanent.

(3) Imposing Greater Underwriting Requirements - Requiring Medical Examinations

At various times before 1965 the Company set lower face amount and age thresholds for requiring medical examinations for non-Caucasian applicants than for Caucasian applicants.

(a) Industrial Department

At least as early as 1881, all African-American applicants for life insurance were required to undergo a medical examination regardless of age or amount of insurance sought. Caucasian applicants at that time were required to undergo a medical examination depending on the amount of insurance sought and the applicant’s age. By 1923, the Company liberalized its non-medical rules, at least for Industrial Weekly policies, by permitting certain agents to submit Caucasian and non-Caucasian applications non-medically within certain policy amount limits. The policy amount limits for non-Caucasians, however, were lower than the limits for Caucasians of equal age. For example, a 40 year old “White” applicant could get up to a $500 policy non-medically, but a 40 year old "Colored” applicant could get a policy of up to just $300 non-medically.

A January 2, 1948 memorandum indicates that outside New York all African-American applicants, but not all Caucasian applicants, were required to undergo a medical examination when applying for an Industrial Monthly policy. In addition, the memorandum indicates that all African-American applicants, but not all Caucasian applicants were required to undergo a medical examination when applying for any type of Industrial policy in New York. In September 1949, however, the Company altered its practices applicable both to weekly and monthly policies in the Industrial Department by no longer requiring medical examinations of Caucasian or non-Caucasian applicants below age 46, unless specifically ordered by the Home Office. Applicants over the age of 45 could receive policies of specific face amounts without a medical examination, but lower non-medical limits continued to apply to non-Caucasian applicants.

In December 1950, a Company memorandum announced that non-medical limits for Industrial insurance had been liberalized further so that non-medical limits for non-Caucasians and Caucasian male risks were made equal. According to that memorandum, however, while Caucasian female applicants were not required to undergo a medical examination for any Industrial policy, non-Caucasian female applicants were required to undergo a medical examination for policies over certain face amounts. This differentiation was maintained until July 1963, after which non-medical limits ceased to vary by race.

(b) Ordinary Department

In 1948, the Company for the first time allowed non-Caucasians to receive certain policies issued by the Ordinary Department without a medical examination depending upon the amount of insurance sought. The non-medical face amount limits for non-Caucasians were significantly lower than those for Caucasians of equivalent ages, and in one plan non-Caucasians were ineligible for coverage without a medical examination irrespective of face amount. By 1957, the Company made equal non-medical face amount limits applicable to Caucasian and non-Caucasian military personnel.

In December 1959, MetLife introduced “Tower Series” and “Metropolitan Series” policies, replacing the plans previously issued by the Ordinary Department. Differences in non-medical limits applicable to Caucasians and non-Caucasians (other than military personnel), however, remained in place until 1963. For example, as of December 1960, Caucasian applicants, depending on their age, could obtain a Tower Series policy of up to $24,999 without a medical examination. Non-Caucasian applicants over 15 years of age seeking either a Tower Series or Metropolitan Series policy were required to have a medical examination if the coverage sought was more than $2,500. Because the Tower Series was issued with a minimum $5,000 face amount, virtually all non-Caucasian applicants (other than military personnel), but comparatively few Caucasian applicants, were required to have a medical examination. In the Metropolitan Series, non-

Caucasians over 14 years of age were required to have a medical examination for coverage over $2,500, but Caucasians (except those over 45 years of age) could obtain the maximum $5,000 policy without a medical examination. The non-medical limits applicable for both the Tower and Metropolitan Series were the same for Caucasians and non-Caucasians over the age of 45. Even in cases where MetLife required additional information for non-Caucasians, historical underwriting documents state that underwriters were to apply the same medical underwriting standards regardless of race.

Although the non-medical limits for both Caucasians and non-Caucasians increased over time, the limits continued to vary depending on the race of the applicant until July 29, 1963. On that date, a memorandum was issued announcing that non-medical limits for Tower Series, Metropolitan Series and Weekly Premium policies no longer would differ based on race or sex.

(4) <u>Imposing Greater Underwriting Requirements - Requiring Mercantile Reports</u>

Mercantile reports were only rarely required of applicants of any race seeking Industrial policies. In those instances where a mercantile report was required, race sometimes was a factor. An internal memorandum from 1948 advises Industrial Department underwriting staff that if they come upon a “white” applicant, “married to a colored spouse, refer to the Underwriter, who is to order a mercantile report. If the report is satisfactory, the application may be approved.”

Caucasian and non-Caucasians seeking policies issued by MetLife’s Ordinary Department were subject to starkly different rules with respect to mercantile reports. Although the examiners identified no documents describing MetLife’s policy related to mercantile reports in the 1920s, the examiners’ analysis of application files from that decade revealed that relatively few Caucasians in the sample were subjected to a mercantile report, while nearly all non-Caucasian policyholders’ application files contained mercantile reports. The same trend was not observed with respect to Ordinary Department policies sampled from the 1930s, however, by the 1940s MetLife clearly required mercantile reports of all non-Caucasian applicants for Ordinary policies, irrespective of age or amount of coverage sought. Two of the Company’s “Ordinary Rulings” from 1951 reaffirmed the Company's policy that, while “additional information [may be] considered necessary to make a decision on a non-Caucasian application, such as a medical or mercantile report . . . when all necessary information is obtained the final decision must be made with no regard whatsoever to the race of the applicant.”

In contrast to these policies, whether a mercantile report was required of a Caucasian applicant was dependent principally on age and the amount of coverage sought.

Ordinary Department instruction pamphlets ranging from the early-to-mid 1960s provide that, in the Tower Series, mercantile reports are required where (i) the amount of insurance applied for exceeds $5,000 (for applicants 31 years of age and older) or $7,500 (for applicants between 10 and 30 years of age) or (ii) if the race of the applicant is "other than White." Because of the $5,000 minimum face amount in the Tower series, the effect of this policy was that Caucasian and non-Caucasian applicants ages 31 years or older were treated equally, but those between 10 and 30 years of age were subject to different mercantile report requirements.

Caucasian and non-Caucasian applicants for polices in the Metropolitan Series were treated equally, with limited exception. A Home Office underwriting memorandum dated January 4, 1960, instructs that underwriters were to order mercantile reports for unemployed females depending on the amount of coverage sought and the race of the applicant, and that the Company distinguished between Caucasian and non-Caucasian females employed in a few, mostly alcohol-related settings (such as saloons, roadhouses, billiard parlors and bowling alleys).

As of April 3, 1964, MetLife ceased to apply different mercantile report requirements based on race in New York State and no Company instructions dealing with mercantile reports dated after 1965 mention race as a criterion for requiring such reports.

(5) Commissions or Fees to Agents

Depending on the agent's contract, MetLife typically paid an agent commissions for first-year premiums, as well as for collections. In addition to this compensation, under certain contracts the Company paid "special salary" to reward gross or net increases in premiums within an agent's debit.

At various times prior to 1954, MetLife (i) paid agents lesser compensation for policies sold to non-Caucasians, (ii) refused to pay any commissions to agents in certain states, including New York, for policies issued to non-Caucasians, and (iii) paid commissions to agents selling policies to non-Caucasians only on specified (and frequently substandard) plans of insurance.

(a) Industrial Department

Prior to 1935, within New York and elsewhere, MetLife varied agents' commissions depending on the racial composition of agents' debits, paid no or diminished special salary for certain policies issued to non-Caucasians, and limited the maximum premium increase attributable to non-Caucasian policyholders on which special salary would be paid.

Beginning in 1935, and continuing until 1951, the Company ordered its agents in New York not to solicit African-American business. Using salaried clerks, the Company accepted applications from African-Americans only in its sales offices. Records indicate that this directive came in response to 1935 amendment to Section 90 of the New York Insurance Law that prohibited companies from fixing any lower rates or practicing discrimination in the fees or commissions of its agents "solely by reason of the applicant being wholly or partially of African descent." Outside New York, MetLife continued to maintain a dual commission structure payable on Caucasian versus non-Caucasian business.

The New York State Insurance Department Report on Examination Showing Condition as of December 31, 1942, confirms that outside New York State "[f]irst-year commissions [were] payable at reduced rates to agents having non-Caucasian debits." In addition, the New York State Insurance Department Report on Examination Showing Condition as of December 31, 1948, states that outside New York, agents may take applications on non-Caucasian lives, however, "[w]here such policyholders constitute 75% or more of those in a debit, a 'non-caucasian' agreement is entered into with the agent [according to which] first year commissions on all weekly premium business [is paid] at a reduced rate but weekly collection commission is somewhat higher." Furthermore, the Report states that outside New York "[n]o first year credit other than the collection commission is allowed under any agreement on a monthly premium debit policy if the policy holder is a non-caucasian."

Variances in commission rates and special salary payments for African-American business continued through the remainder of the 1940s and early 1950s. An untitled document setting forth the "General Characteristics of Practice on Colored Lives and Commissions Allowed, as of August 1, 1949" indicates that agents received no "issue credit" and no first-year commissions for Industrial Monthly policies issued to "colored" policyholders. In addition, agents were limited in the amount of new "colored" business they could write for Industrial Weekly policies, and received reduced first-year commissions and higher collection commissions depending on the racial composition of the agent's debit.

As of March 19, 1951, agents in New York State operating on regular agreements were authorized to solicit applications for life insurance on non-Caucasian lives, subject to certain rules, as well as "the rules regarding commissions and credit that apply to applications on Caucasian lives," and agents operating on non-Caucasian agreements were permitted to change to regular agreements. By December 31, 1954, all limitations concerning the writing of business on non-Caucasian lives were lifted for all agents operating under regular agreements. It appears that all race-based practices with respect to commissions ceased by 1958.

(b) Ordinary Department

MetLife's commission practices in the Ordinary Department were substantially the same as, or minor variations on, the practices employed in the Industrial Department.

According to a June 12, 1935 memorandum from the Mathematical Section of the Ordinary Actuarial Division, on December 15, 1934, the Company announced that the Endowment at Age 80, 25 Payment Life, and 25-Year Endowment policies would be discontinued, and non-Caucasian risks would be considered for any policy in the Ordinary, Intermediate and Special Class branches, for which the risk was eligible according to regular underwriting rules. However, no placed credit would be allowed for this business, first-year commissions and renewable commissions would be substantially reduced, and no commission would be paid on such policies issued in the Ordinary Monthly Premium Debit.

After New York State stiffened its anti-discrimination law in 1935, MetLife's policy against soliciting non-Caucasian risks in New York State applied in the Ordinary and Industrial Departments. Outside of New York, MetLife's dual commission structure payable on Caucasian versus non-Caucasian policies also applied to the Ordinary Department. From 1935 through at least 1949, outside New York, agents received 20% of "full scale" commissions on Ordinary regular business issued to African-Americans. During this time, agents received no "issue credit" and no first-year commissions for Monthly policies issued to African-American policyholders.

As of March 19, 1951, agents in New York State operating on regular agreements were authorized to solicit non-Caucasian business in the Ordinary

Department, "subject to the rules regarding commissions and credit that apply to applications on Caucasian lives." Outside New York, agents would receive "[f]irst-year commission, renewal commission, collection fees, and placed-business credit" subject to the same rules that apply to applications on Caucasian lives. However, the renewal commission or collection fee payable to Agents operating under special Agreements on such policies issued on or after January 2, 1935, continued to be restricted to 20 percent of that payable on Caucasian lives.

By the end of 1954 all agents working under regular agreements received the same commissions and credits for policies written on non-Caucasians as for policies written on Caucasians. It appears that, with the possible exception of agents operating under old non-Caucasian agreements and selling monthly premium debit plans, all race-based practices with respect to commissions ceased prior to 1958.

(6) National Origin and Foreign-Born Applicants

At least until 1963, MetLife's written policy discriminated against certain ethnic groups and foreign-born applicants. Company underwriting memoranda directed that if the applicant's "place of birth is Czechoslovakia, Greece, Hungary, Lithuania, Poland, Rumania, Russia, or Yugoslavia, order a Mercantile Report on Males over age 46 . . . provided $250 or more is being applied for and no medical examination was completed or is required." The examiners, however, identified no current or past policyholder who was affected by the policy.

(7) Existence of Race Question on Company Forms

Until the mid-1960s, MetLife collected information regarding the race of applicants through various forms including policy application forms, medical reports and mercantile reports. The Department's Report on Examination of MetLife showing the condition of the Company as of December 31, 1963, which was issued in 1965, confirms that certain of MetLife's forms contained a question as to the race of the applicant. The Report on Examination further states that, as a result of the request made by the New York State Insurance Department and also by the Insurance Department of the State of New Jersey, MetLife notified its field force in those states to "block out" the question regarding race on all life insurance application forms currently in use. Moreover, according to the Report on Examination, the Company represented that references to race would be eliminated from such forms when reprinted. A Report to the Auditing Committee of the Board of Directors, dated December 21, 1965, discussing the Report on Examination reaffirmed that certain of the Company's forms contained questions as to the race of the applicant and that "[t]he Field Forces in New York and New Jersey were notified to block out the question regarding race on all life insurance applications and forms in use." However, the Report to the Auditing Committee acknowledges that "[t]his instruction was not uniformly followed in a few instances," and indicates that "the next printing of the applications will not contain any reference to race."

A New York State Insurance Department Circular Letter, dated February 14, 1964 ("Circular Letter No. 5 (1964)"), specifically ordered that race questions be removed from any forms used by insurers. The Circular Letter states, in part:

> The inclusion of inquiries or information as to race, color, creed or national origin in any form used by a licensed insurer, or the making of such inquiries on its behalf, clearly suggest possible or likely violation of both Section 40(10) and the firmly established policy of New York State. Accordingly, such practices shall be discontinued.

The examiners' review of a post-February 14, 1964 nationwide sampling of application files indicates that questions regarding the applicant's race continue to appear on various forms MetLife used after the issuance of Circular Letter No. 5 (1964) which prohibited such practice. In a sample of application files with forms dated between February 14, 1964 through 1966, ninety-four percent contain questions regarding the race of the applicant. The applicant's race was recorded in seventy-five percent of those application files. The latest date within this sample where an application contained a question regarding race and where the applicant's race was recorded is 1966.

The examiners found no evidence that MetLife's underwriters considered racial information that appeared on applications after February 14, 1964.

B. <u>Race-Based Underwriting Policies Evidenced in New England Mutual Documents and Application Files</u>

The following race-based underwriting policies were evidenced in the written records of New England Mutual:

(1) <u>Substandard Risk Or Rated Risk Classifications</u>

New England Mutual began issuing substandard policies in 1940. The examiners' review of application files and other documents suggests that race was a factor in the substandard risk classification of certain African-American applicants. The examiners reviewed approximately 425 application files chosen by sampling techniques designed by the Department to enhance the likelihood of identifying minority policyholders. Only three of those files were for policies issued to African-Americans. Those three were issued in 1949, 1957 and 1961, and were all issued on a substandard basis. A review of the three application files revealed no race-neutral basis for the substandard risk ratings.

In addition, the examiners reviewed 75 minority substandard risk application files identified by New England Mutual. Of these application files, 20 were for policies insuring African-Americans. The examiners could identify no race-neutral basis for the substandard "Special Class B" risk rating that certain of those policyholders received. Documents and notations contained in three application files (none of which reveal any apparent race-neutral basis for a substandard risk rating) suggest that African-Americans may have been classified "Special Class B" based on their race:

- The application file for a policy written Special Class B in 1949 refers to the insured's "lack of insurability" and the need to present such risks in a preliminary manner for "special consideration." "[W]e cannot under our selection practices consider the proposed risk on any more favorable basis than our Special Class Table B. [O]ur Table B on a Twenty-Payment Life basis actually results in a premium less than that required on a standard basis by a good negro life company."

- The application file for a policy written Special Class B in 1946 also indicates the insured's "lack of insurability" as the basis for a substandard rating.

- The application file for a policy issued Special Class B in 1954 includes a comment that: "Except for her race, I would consider her an excellent risk."

(2) <u>National Origin and Foreign-Born Applicants</u>

At least as of 1974, and continuing until at least 1978, rate books instructed agents not to submit non-medical applications for applicants born anywhere outside the United States or Canada except in cases where the proposed insured was living in the United States for at least one year. The examiners, however, identified no current or past policyholder who was affected by that policy.

(3) <u>Existence of Race Question on New England Mutual Forms</u>

The review of New England Mutual policy application files also revealed instances in which New England Mutual continued to accept third-party inspection reports and medical examiner's reports on which the race of the applicant was recorded after the issuance of Circular Letter No. 5 (1964), which prohibited such practice. The examiners reviewed a sampling of application files dated between February 14, 1964 and 1969 and sixty-five percent contained one or more documents on which a question regarding the race of the applicant was posed. Of those, fifty-eight percent recorded the applicant's race in response to the question. The latest issue date for an application file, within this sample, in which the race of the applicant was recorded is 1967.

C. United Mutual Documents and Application Files

(1) Review of United Mutual Documents

A review of the limited documents available revealed no evidence of race-based underwriting practices.

(2) Review of United Mutual Application Files

The examiners reviewed 337 United Mutual application files from both the Industrial and Ordinary departments. As disclosed by MetLife and confirmed by our review, United Mutual's business catered mostly to African-Americans. Among the 203 files from which the race of the policyholder could be discerned, only eight were other than African-Americans. The premiums each was charged was consistent with the premiums charged to similarly situated African-Americans.

5. CONCLUSION

The Department's examination revealed that certain race-based underwriting practices were evidenced in the written records of both MetLife and New England Mutual. In light of the foregoing, on August 29, 2002, the Department entered into a Regulatory Settlement Agreement with MetLife that provides relief with respect to affected policies and/or persons.

Respectfully submitted,

Clifford Chance Rogers & Wells LLP
Consultant

/s/
Partner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

James F. Moyle, being duly sworn, deposes and says that the foregoing report is true to the best of his knowledge and belief.

/s/
James F. Moyle

Subscribed and sworn to before me
This____day of ________________2002

APPOINTMENT NO. 21657

STATE OF NEW YORK

INSURANCE DEPARTMENT

*I, **GREGORY V. SERIO**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

CLIFFORD CHANCE ROGERS & WELLS LLP

as a proper person to examine into the affairs of

METROPOLITAN LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as it shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 1st day of July ,2001

GREGORY V. SERIO
Superintendent of Insurance

*by **AUDREY M. SAMERS***
Deputy Superintendent
And General Counsel

Company’s August 15, 2000 Response to
Supplement No. 1 to Circular Letter No. 19 (2000)
(Exhibit A)

Metropolitan Life Insurance Company
One Madison Avenue, New York, NY 10010-3690
Tel 212 578-3501 Fax 212 447-7237

MetLife®

Robert H. Benmosche
Chairman of the Board and
Chief Executive Officer

August 15, 2000

RECEIVED
NEW YORK STATE
INSURANCE DEPARTMENT
AUG 16 2000
LIFE BUREAU N.Y.C.

Ms. Ruth Gumaer
Principal Insurance Examiner – Life Bureau
New York State Insurance Department
25 Beaver Street
New York, New York 10004

Re: Supplement 1 to Circular Letter No. 19 (2000)

Dear Ms. Gumaer:

We have conducted a review of MetLife's records as required by the New York Insurance Department's Circular Letter. In the course of that review, we have discovered no current discriminatory practices based on race.

A review of some of the company's older files did reveal some practices included in the Circular Letter's definition of "race-based underwriting" dating back from the late 1800s to the middle of the 20th century. It appears that the company did pay a reduced benefit on policies based on the race of the insured, but that practice ended no later than 1915. It also appears that MetLife classified applicants for Industrial weekly as substandard based on race, although that was addressed through a sweeping equalization program begun in 1948. The only practices found which may affect currently in-force policies, i.e., the use of different thresholds for requiring medical examinations and mercantile reports on insurance applicants, appear to have been discontinued by 1965. These practices, and the equalization that has already occurred, are described in more detail below.

Many of the documents reviewed in the course of this effort are proprietary. This topic is also the subject of pending litigation. As a result, we respectfully request that this response, and any other information on this subject shared with the Department, be treated as confidential.

Diligent efforts have been made to collect and review all records that are relevant to this inquiry, some of which are more than 100 years old. This research has included, but was not limited to, an extensive search of several remote storage facilities and warehouses, the company archives, and the personal files of retired actuaries and underwriters, where available. This has also involved reviewing New York Insurance Department Reports on Examination and minutes from the meetings of the board of directors since the

inception of the company. Despite these exhaustive efforts, records or information may be discovered subsequent to this submission that relate to this subject and have a bearing on this response. Should that happen, we will notify the Department of any newly-discovered material information in a timely manner.
The following is a summary of those practices discovered in our review that are the subject of your inquiry.

Benefit Differentials

Prior to 1915, our records indicate that it was MetLife's practice to pay different benefits on Industrial weekly insurance policies based on race. Specifically, it appears the company paid African-Americans a benefit of two-thirds of the amount paid to Caucasian policyholders paying the same premium. This was done in one of two ways: either issuing the policy at the full face amount but including a clause reducing the benefit to two-thirds of that amount upon receipt of a claim, or by issuing the policy for an amount equal to two-thirds of the amount that would have been issued to a Caucasian applicant for the same premium. Our review indicates that MetLife issued Industrial weekly policies to African-Americans in these ways between 1881 and 1893. Although it cannot be stated unequivocally, it appears that the benefit differential was ignored on claims received for those policies with the two-thirds clause after 1900, and for all other policies after 1915. After 1915, the records reviewed indicate that MetLife paid the same death benefit regardless of the race of the insured. These conclusions are drawn from historical information contained in the company's 1954 rate manual.

Risk Classification

Prior to 1948, MetLife had two risk classifications for applicants for Industrial weekly insurance, standard and substandard. Applicants who were expected to have higher mortality were designated as "substandard" risks. Our review suggests that, for Industrial weekly policies, non-Caucasians were expected to fall into this latter class, and thus were generally classified as substandard risks, along with other applicants who, based on other factors, also were expected to have a relatively high mortality rate. The effect was that applicants assigned the substandard risk classification generally were sold a different plan of insurance (e.g., a 30-pay life plan rather than a 20-pay life plan) than may have been available to an applicant considered a "standard" risk. Although it appears this practice continued until the 1940s, our records indicate some African-American applicants did receive policies classified as standard during this period.

In 1948, MetLife eliminated the distinction between standard and substandard classifications for Industrial weekly policies because of improvements in mortality experience. In the same year, the company undertook a sweeping "equalization" effort with respect to Industrial weekly policies, both retrospectively and prospectively. This equalization program was first announced and explained in the company's circular letters to the field, numbers 34, 35, and 36, issued in 1947. From 1948 until 1965, when the company stopped selling Industrial insurance, there was only a single standard risk classification for Industrial weekly policies. These new rates were more favorable than rates being paid on many existing in-force policies, both standard and substandard. To provide the benefit of these new rates to Industrial weekly policies already in force, the death and maturity benefits payable on substandard policies that were premium paying or fully paid up at that time were made equal to those payable on a standard policy for the same plan of insurance from either the year the policy was actually issued or 1948 – whichever result was more favorable to the policyholder. (This is described in the New York Insurance Department's Report on Examination of Metropolitan Life for the period ending December 31, 1951). Death and maturity benefits on standard policies also were brought up to the level of the benefit that would be provided for the same premium under the 1948 rates, if higher than the original amount.

This equalization was initially accomplished through two mechanisms – a "mortuary dividend" on life insurance policies that increased the death benefit upon claim, and a "maturity dividend" for endowment policies that increased the benefit due upon the policy reaching maturity. In 1951, the equalization was made permanent. This is described in the company's circular letter to the field, number 43, dated December 29, 1950. In 1963, guaranteed nonforfeiture values on Industrial weekly policies were increased in the same proportion. Thereafter, those policies that were surrendered or lapsed after 1963 also were given the full benefit of this equalization program. This is described in MetLife's circular letter number 3, from November 5, 1962.

It appears that this past practice of risk classification was most prevalent in Industrial weekly policies. Moreover, a review of in-force Industrial monthly policies issued prior to 1948 reveals that although there are some African-American individuals among the substandard class, there are many more African-Americans in the standard class. This appears to indicate that there was not such a risk classification practice for Industrial monthly policies.

Additionally, a review of our Ordinary block of business issued prior to 1948 reveals that there were both African-Americans and Caucasians in each of the standard and substandard categories suggesting that this practice was not extended to Ordinary insurance.

MetLife discontinued selling Industrial weekly policies as of January 1, 1965. In 1982, the company waived all premiums due after dividends were applied. This annual premium waiver was renewed continuously until 1986, when it was made permanent.

MetLife currently has approximately 2.9 million Industrial insurance policies still in force. Our records indicate that 127,165 are policies classified as substandard, of which 124,158 are Industrial weekly policies.

Agent Commissions and Incentives

Historical documents indicate that, at various times prior to 1952, the company maintained different commission plans for agents who sold insurance to individuals of different races. No records have been found that identify precisely when this practice began, but it appears to have predated 1935. In 1935, it appears that MetLife maintained a dual commission structure for agents outside of New York who sold insurance to individuals of certain races or ethnic backgrounds. In New York in that year, it appears the company advised its agents to discontinue active solicitation of insurance on African-Americans. It appears that policies were issued on African-Americans who sought insurance from the company.

It appears that by 1951, solicitation of applications on non-Caucasian lives in New York was permitted. By 1952, the company issued advisories to agents and field managers indicating that commission reductions based on race were discontinued. This is also described in the New York Insurance Department's Report on Examination of Metropolitan Life, for the period ending December 31, 1954. There is no evidence that this practice either continued beyond 1952 or was reinstated after that date.

Beyond commissions, it appears based on documents such as circular letters to the field, that there were efforts dating back to the 1800s to limit sales based on race by prohibiting agents from selling to certain individuals. In later years, it appears that there may have been efforts to discourage, rather than prohibit, agents from actively soliciting people of certain ethnic backgrounds. This appears to have included conducting a management review of an agent's activities if the proportion of policies sold to African-Americans reached a specified level and the possible imposition of limits. This is described in the New York Insurance Department's Special Study of Industrial Life Insurance made in connection with the Report on Examination of Metropolitan Life, for the period ending December 31, 1951. Company records are very unclear as to the extent and duration of these practices, which appear to have existed in the 1940s and 1950s, but may have extended into a portion of the 1960s.

Requirements for Additional Information

Our research indicates that, at various times before 1965, the company required mercantile reports on non-Caucasian applicants, and observed lower face amount and age thresholds for requiring medical examinations. It appears that the information developed from these sources, however, was used the same way regardless of the race of the applicant.

Our research indicates that the practice of applying different thresholds for medical examinations was discontinued by 1963. Since 1964 in New York and New Jersey, and since 1965 nationwide, company documents that describe the criteria for requiring mercantile reports make no reference to race. The earliest such example found in the course of this review is a letter to managers and assistant managers, dated April 3, 1964, which provides a revised set of guidelines for agents to observe in ordering mercantile reports. This letter makes no mention of the applicant's race.

For your information, company records indicate that MetLife stopped collecting race information on application forms or agent reports in New York and New Jersey in 1964. The company discontinued the practice on a nationwide basis in 1966.

There are 38,988 Ordinary policies currently in-force and rated substandard issued prior to 1963 where the race of the insured is non-Caucasian or unknown who potentially could have been affected by a medical examination required based on race. (This figure excludes those who applied for policies of a sufficiently high face amount so as to trigger the need for a medical examination regardless of race. It also excludes those who applied for policies of a sufficiently low face amount such that they would not be required to take a medical examination regardless of race.)

Of these, 33,441 are policies on individuals whose race is unknown, and only 5,547 are policies on individuals known to be non-Caucasians. Of the larger group, our estimate is that it is likely only 10-15% (3,344 - 5,016) of those individuals are non-Caucasian. The exact number, however, is not known at this time.

Access to Coverage

A biography of the company, "The Metropolitan Life: A Study in Business Growth," written by Marquis James and published in 1947, indicates that in December, 1880, the company refrained from selling insurance to African-Americans for a brief period. This is verified by the company's circular letter number 34-D, issued December 16, 1880. Based on company files, it appears that the company resumed selling insurance to African-Americans in

November, 1881. At that time, however, the company engaged in the practice of providing a benefit of two-thirds, described above.

Some company documents from the first half of the 20th century make isolated references to refraining from selling to other non-Caucasian lives, but the effect of such instructions is unclear.

In addition to those policies originally issued by MetLife, the company is also responsible for those policies originally issued by the New England Mutual Life Insurance Company, which merged into MetLife in 1996. With respect to this block of business, the research conducted to date has not revealed anything to report.

This response is not only on behalf of MetLife, but also the wholly-owned subsidiary insurance companies Metropolitan Insurance and Annuity Company, Metropolitan Tower Life Insurance Company, and MetLife Security Insurance Company of Louisiana. None of these subsidiary companies engaged in the practices described above and have nothing to report. If required, other subsidiaries of MetLife will submit their own responses directly.

MetLife has a long and on-going tradition of dealing fairly with its customers. As noted above, we have discovered no current discriminatory practices based on race. Should we identify any specific economic harm to current policyholders that has been caused by any racial discrimination, we are committed to taking appropriate steps to address such situations.

Very truly yours,

Robert H. Benmosche
Chairman of the Board
and Chief Executive Officer

State of New York }

County of New York } SS:

Robert H. Benmosche, President (Chief Executive Officer), of the Metropolitan Life Insurance Company, being duly sworn, deposes and says that, to the best of his/her information, knowledge and belief, the attached Report, together with all attachments thereto, is true and complete and not misleading and contains the most accurate information available at the time of its submission.

President (Chief Executive Officer)

Subscribed and sworn to before me this 15 day of August, 2000

ALEXANDER A. PRIEST
Notary Public - State of New York
NO. 01PR47[illegible]
Qualified in Bronx County
My Commission Expires Apr 30, 2002