

STATE OF NEW YORK INSURANCE DEPARTMENT  
REPORT ON EXAMINATION  
OF THE  
JEFFERSON PILOT LIFEAMERICA INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2001

DATE OF REPORT:

MARCH 7, 2003

EXAMINER:

VICTOR AGBU

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	4
A. History	4
B. Holding company	4
C. Management	6
D. Territory and plan of operation	7
4. Market conduct activities	9
A. Advertising and sales activities	9
B. Underwriting and policy forms	12
C. Treatment of policyholders	13
5. Summary and conclusions	15



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

George E. Pataki  
Governor

Gregory V. Serio  
Superintendent

March 7, 2003

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

Sir:

In accordance with instructions contained in Appointment No. 21933, dated August 27, 2002 and annexed hereto, an examination has been made into the condition and affairs of Jefferson Pilot LifeAmerica Insurance Company, hereinafter referred to as "the Company" or "JPLA," at its office located at 100 North Greene Street, Greensboro, North Carolina 27401.

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. EXECUTIVE SUMMARY

The Company is deemed a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law for the purposes of Article 15 of the New York Insurance Law. (See item 3D of this report)

The Company violated various Sections of the New York Insurance Law and Department Regulations relating to advertising. (See item 4A of this report)

The Company violated various Sections of Article 21 of the New York Insurance Law by: paying commission to unlicensed agents; failing to file certificates of appointment; failing to file certificates of termination; and allowing an unlicensed adjuster to adjust its New York disability income claims. (See items 3B and 4A of this report)

The Company violated Section 51.6(a) and Section 51.6(b) of Department Regulation No. 60 by failing to maintain signed and completed copies of the Definition of Replacement and Disclosure Statements and by failing to require and maintain proof that applicants received the “IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.” (See item 4A of this report)

The Company violated Section 3207(c) of the New York Law for issuing juvenile policies in excess of the limits specified by law. (See item 4B of this report)

## 2. SCOPE OF EXAMINATION

The examination covers the period from January 1, 1999 through December 31, 2001. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2001 but prior to the date of this report (i.e., the completion date of the examination). The examination was limited to a review of: holding company transactions; underwriting; policy forms; privacy; replacements; agent licensing and compensation filings; treatment of policyholders; advertising; and certain items cited in the previous report on examination of First Alexander Hamilton Life Insurance Company that are pertinent to the items reviewed in the current examination. The examiner utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review.

This report on examination is confined to comments on matters which involve departure from laws, regulations or rules, or which require explanation or description.

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated as a stock life insurance company under the laws of New Jersey under the name of Colonial Life Insurance Company of America on October 27, 1897. A certificate of authority dated December 31, 1897 authorized the Company to commence business and issue policies as a joint stock life insurance company having a paid in capital of \$100,000. The Company was granted a license by the Department to conduct business in the State of New York on August 4, 1900.

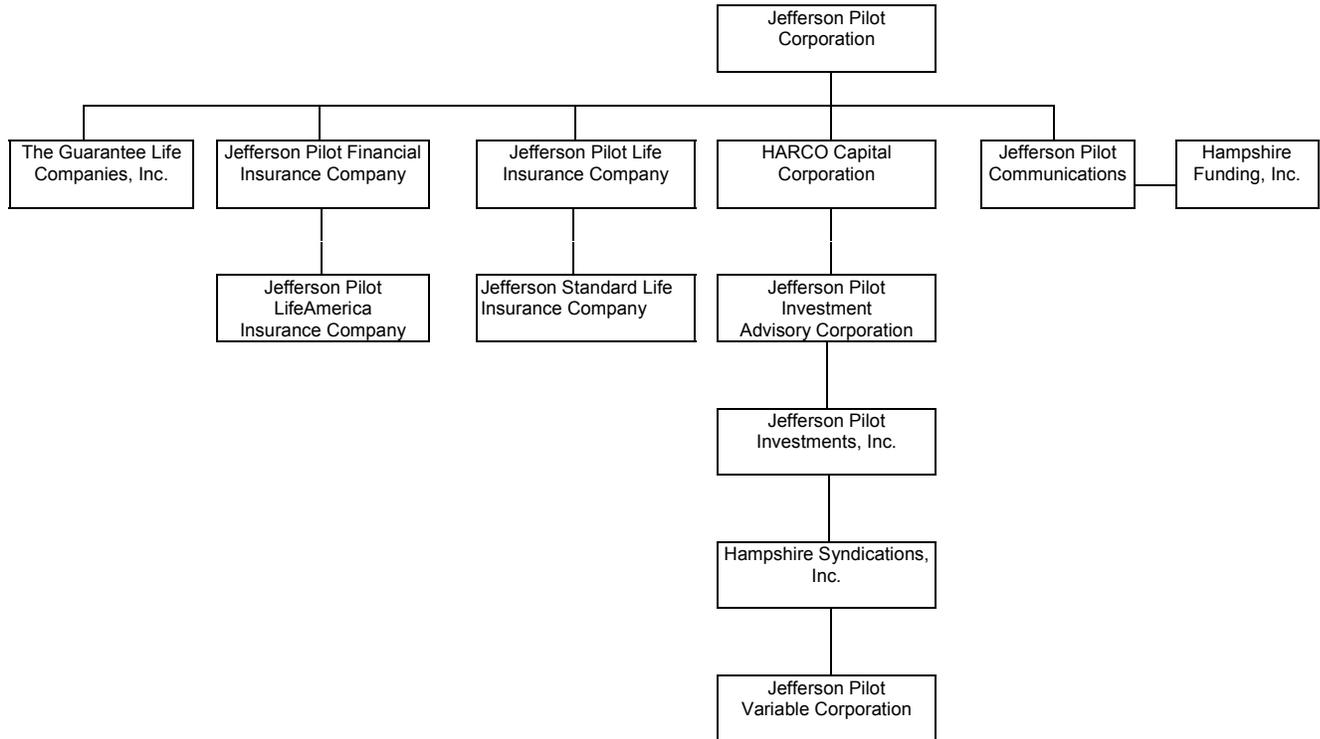
Effective May 18, 1978, the Colonial Life Insurance Company of America was acquired by Chubb Life Insurance Company, a subsidiary of the Chubb Corporation. On March 1, 1996, the Colonial Life Insurance Company of America changed its name to Chubb Colonial Life Insurance Company. Effective May 13, 1997, Chubb Life Insurance Company and its subsidiaries were acquired by Jefferson Pilot Corporation (“JPC”), a North Carolina holding company. On May 1, 1998, Chubb Colonial Life Insurance Company changed its name to Jefferson Pilot LifeAmerica Insurance Company. JPC had previously acquired Alexander Hamilton Life Insurance Company of America and its subsidiaries in 1995. Effective December 31, 2000 the Company merged with First Alexander Hamilton Life Insurance Company, a New York domiciled life insurer, with the Company being the surviving entity.

As of December 31, 2001, capital and paid in and contributed surplus were \$2,640,000 and \$94,496,208, respectively.

#### B. Holding Company

The Company is a wholly owned subsidiary of Jefferson Pilot Financial Insurance Company, a Nebraska life insurance company. Jefferson Pilot Financial Insurance Company in turn is a wholly owned subsidiary of JPC, the ultimate parent of the Company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system, as of December 31, 2001 follows:



The Company had two service agreements in effect with Jefferson Pilot Life Insurance Company (“JP Life”) as of December 31, 2001. One service agreement is for administrative services. The other provides for investment services to the Company. The Company also participates in a consolidated tax allocation agreement with JPC.

Section 2101(g)(1) of the New York Insurance Law states, in part:

“The term ‘independent adjuster’ means any person, firm, association or corporation who, or which, for money, commission or any other thing of value, acts in this state on behalf of an insurer in the work of investigating and adjusting claims arising under insurance contracts issued by such insurer and who performs such duties required by such insurer as are incidental to such claims . . .”

Section 2108(a)(3) of the New York Insurance Law states, in part:

“No adjuster shall act on behalf of an insurer unless licensed as an independent adjuster . . .”

The Company’s service agreement that allows for administrative services to be provided by JP Life permits the latter to pay all claims, including disability income benefit claims, on

behalf of the Company. A letter dated August 2, 1999 from the Department to the Company stated, in part:

“It is noted that, in accordance with Department Regulation No. 25, JPLA is reminded of the requirement for JP Life to obtain an adjuster’s license prior to the adjustment of accident and health claims on behalf of New York residents. Failure to obtain such a license is a violation of Section 2108 of the New York Insurance Law.”

The Company allowed JP Life, an unlicensed adjuster, to adjust its New York disability claims even after specific notification by the Department that such action is a violation of the New York Insurance Law.

The Company knowingly violated Section 2108(a)(3) of the New York Insurance Law by allowing an unlicensed adjuster, JP Life, to adjust its New York disability income claims.

### C. Management

The Company’s by-laws provide that the board of directors shall be comprised of not less than three and not more than 11 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held within the first six months of each year. As of December 31, 2001, the board of directors consisted of three members.

The three board members and their principal business affiliation, as of December 31, 2001, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
David A. Stonecipher Atlanta, GA	Chairman and Chief Executive Officer Jefferson Pilot Corporation	1997
Dennis R. Glass Greensboro, NC	President and Chief Operating Officer Jefferson Pilot Corporation Executive Vice President Jefferson Pilot LifeAmerica Insurance Company	1997
Kenneth C. Mlekush Greensboro, NC	Vice-Chairman Jefferson Pilot Corporation President Jefferson Pilot LifeAmerica Insurance Company	1997

The board consists of directors affiliated with JPC.

The Company's board does not physically hold meetings, but rather functions through "written consent for action."

The following is a listing of the principal officers of the Company as of December 31, 2001:

<u>Name</u>	<u>Title</u>
Kenneth C. Mlekush	President
Robert D. Bates	Executive Vice President
Charles C. Cornelio	Executive Vice President
Leslie L. Durand	Executive Vice President
Dennis R. Glass	Executive Vice President
John D. Hopkins	Executive Vice President and General Counsel
John C. Ingram	Executive Vice President
Mark E. Konen	Executive Vice President
Randal J. Freitag	Actuary
Russell C. Simpson	Treasurer
Robert A. Reed	Secretary

Mr. Jeffrey L. Smith, Assistant Vice President is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

#### D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. In 2001, 80.4% of the life premiums and 98.0% of annuity considerations were received from New York. In 2001, 78.6% of accident and health premiums were received from New York (66.2%) and New Jersey (12.3%). Since the Company writes more premiums in New York than it does in New Jersey, its home state, and such premium is more than 20% of premiums written, it is deemed to be a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law. Policies are written on a non-participating basis.

The Company's principal lines of business during the examination period were individual life and individual and group annuities. The products marketed during the examination period included individual term life, individual whole life, variable universal life and fixed annuities. The Company ceased writing individual disability income business in 1996.

The Company's agency operations are conducted through diverse distribution channels comprised of general agencies and independent marketing organizations who sell the Company's life products. The Company's fixed annuities are marketed through banks and financial advisors in New York.

#### 4. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

##### A. Advertising and Sales Activities

The examiner reviewed the Company's advertising files and a sample of the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

1. Section 1313(f) of the New York Insurance Law states, in part:

“Advertisements and other public announcements directed primarily at calling the attention of policyholders or prospective policyholders to an insurer and containing a statement of the separate financial condition of the holding company system shall also contain a statement of the separate financial condition of the insurer . . .”

The Company utilized four annuity advertisements during the examination period that called attention to the amount of the holding company's assets without indicating the amount of the Company's assets.

The Company violated Section 1313(f) of the New York Insurance Law by calling attention to the financial condition of the holding company system in its advertisements without including a statement of the separate financial condition of the Company.

2. Section 219.4(p) of Department Regulation No. 34-A states, in part:

“In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States...An advertisement shall not use a trade name . . . name of the parent company or affiliate of the insurer . . . if such use would have the tendency to mislead or deceive as to the true identity of the insurer, or create the impression that someone other than the insurer would have any responsibility for the financial obligation under a policy. ”

The Company displayed the city of its service center, Greensboro, NC, instead of its home office in Florham Park, NJ in 26 of its advertisements.

The Company violated Section 219.4(p) of Department Regulation No. 34-A by failing to clearly identify the city of its home office.

3. Section 219.5(a) of Department Regulation No. 34-A states, in part:

“Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state . . . .”

The Company’s advertising file did not include specimen copies of 11 advertisements used during the period under examination. The Company indicated that prior to late 2001, it did not keep sample copies of every advertisement disseminated.

The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file.

4. Section 2112(a) of the New York Insurance Law states, in part:

“Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . . .”

Section 2114(a)(1) of the New York Insurance Law states, in part:

“No insurer . . . doing business in this state shall pay any commission or other compensation to any person, firm or corporation, for any services in obtaining in this state any new contract of life insurance or any new annuity contract, except to a licensed life insurance agent of such insurer . . . .”

A review of a sample of 100 agent licensing files revealed that ten agents, all of whom sold policies, were not appointed to represent the Company.

The Company violated Section 2112(a) of the New York Insurance Law by failing to appoint ten agents who represented the Company during the examination period.

In addition, the Company paid commissions to six agents who were not licensed.

The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commission to six unlicensed agents.

5. Section 2112(d) of the New York Insurance Law states, in part:

“Every insurer . . . shall, upon termination of the certificate of appointment of any insurance agent licensed in this state, forthwith file with the superintendent a statement . . . of the facts relative to such termination and the cause thereof. . . .”

The Company did not file with the Superintendent a termination statement for 21 out of a sample of 32 terminated agents.

The Company violated Section 2112(d) of the New York Insurance Law by not filing with the Superintendent a termination statement for 21 of its agents.

6. Section 51.6(a) of Department Regulation No. 60 states, in part:

“Each insurer shall . . .

(3) Maintain signed and completed copies of the ‘Definition of Replacement’ for six calendar years or until after the filing of the report on examination in which the transaction was subject to review . . . .”

The Company did not maintain signed and completed copies of the Definition of Replacement for five of the 50 files reviewed.

The Company violated Section 51.6(a)(3) of Department Regulation No. 60 by failing to maintain signed and completed copies of the Definition of Replacement.

7. Section 51.6(b) of Department Regulation No. 60 states, in part:

“Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance or annuity contract shall . . .

(2) Require with or as part of each application . . . proof of receipt by the applicant of the ‘IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts’ and the completed ‘Disclosure Statement’ . . . .”

The Company did not maintain proof that the applicant received the “IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts” in five of the 50 files reviewed. In addition, the Company did not maintain the signed and completed Disclosure Statements in eight of the 50 files reviewed.

The Company violated Section 51.6(b)(2) of Department Regulation No. 60 by failing to require and maintain proof that the applicant received the IMPORTANT Notice Regarding

Replacement or Change of Life Insurance Policies or Annuity Contracts and a signed and completed Disclosure Statement.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

1. Section 3207(b)(1) of the New York Insurance Law states, in part:

“No insurer shall knowingly deliver or issue for delivery in this state any policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months for an amount or amounts of life insurance which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is . . . in excess of the following limits which are applicable at the ages specified below:

(A) Under two years and six months, one thousand dollars.

(B) Two years and six months or more of age and under nine years and six months, two thousand dollars.

(C) Nine years and six months or more of age and under eleven years and six months, three thousand dollars.

(D) Eleven years and six months or more of age and under fourteen years and six months, five thousand dollars.”

Section 3207(c) of the New York Insurance Law states, in part:

“An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months, for an amount or amounts of life insurance which may be in excess of the limits specified in subsection (b) of this section, provided . . . that an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of ten thousand dollars or the limit of fifty per centum (five thousand dollars or the limit of twenty-five per centum in the case of a minor under the age of four years and six months) of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . . ”

In two of the 20 juvenile policies reviewed, the Company issued an amount greater than that allowed for the insured’s age without first obtaining information on the amount of insurance in-force on the parent.

The amount of insurance issued by the Company in two other instances involving juveniles was in excess of 50% of the amount of insurance in-force on the parent's life.

The Company violated Sections 3207(b) and 3207(c) of the New York Insurance Law by issuing four policies in excess of the limits specified by law.

### C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

1. Regarding the payment of interest on surrenders, Section 3227 of the New York Insurance Law states, in part:

“(b) The interest . . . shall be calculated from the date the documentation necessary to complete the transaction is received by the insurer and shall be payable if the funds are not mailed or delivered by the insurer within ten working days of said receipt . . .

(c) No interest need be payable pursuant to this section unless the amount of such interest is at least twenty-five dollars . . .

(d) Irrespective of the payment of interest in accordance with the above provisions, such life insurers . . . shall make disbursements . . . as expeditiously as possible.”

The Company's surrender procedure is to send a letter to the policyholders advising them of the tax consequences of the surrender. The policy is actually surrendered either when the policyholder sends back the letter confirming the request, or 21 days after the letter was sent if no response is received. The surrender benefit is based on the cash value on the date of the original surrender request. Interest is not calculated from the date of original surrender request to the date of payment. Of a sample of 15 surrenders only four were paid within ten business days. Two of the remaining 11 surrenders would have generated interest of more than \$25.

The Company violated Section 3227(b) of the New York Insurance Law for not paying the required interest on two surrendered policies.

The examiner recommends that the Company make surrender disbursements expeditiously by paying surrenders as soon as the required documentation is received. The

examiner also recommends that the Company review all surrender payments made from January 1, 1999 to the present and calculate and pay interest where appropriate.

2. Section 216.4(e) of Department Regulation No. 64 states:

“As part of its complaint handling function, an insurer’s consumer services department shall maintain an ongoing central log to register and monitor all complaint activity.”

The Company’s complaint log did not include 17 complaints that were filed with the Department.

The Company violated Section 216.4(e) of Department Regulation No. 64 for not including 17 complaints in its central complaint log.

## 5. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company knowingly violated Section 2108(a)(3) of the New York Insurance Law by allowing an unlicensed adjuster, JP Life, to adjust its New York disability income claims.	5 – 6
B	The Company violated Section 1313(f) of the New York Insurance Law by calling attention to the financial condition of the holding company system in its advertisements without including a statement of the separate financial condition of the Company.	9
C	The Company violated Section 219.4(p) of Department Regulation No. 34-A by failing to clearly identify the city of its home office.	9 – 10
D	The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file.	10
E	The Company violated Section 2112(a) of the New York Insurance Law by failing to appoint ten agents who represented the Company during the examination period.	10
F	The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commissions to six unlicensed agents.	10
G	The Company violated Section 2112(d) of the New York Insurance Law by not filing with the Superintendent a termination statement for 21 of its agents.	11
H	The Company violated Section 51.6(a)(3) of New York Regulation No. 60, by failing to maintain signed and completed copies of the Definition of Replacement.	11
I	The Company violated Section 51.6(b)(2) of Department Regulation No. 60 by failing to require and maintain the “ <u>IMPORTANT</u> Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts” and a signed and completed Disclosure Statement.	11 – 12

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Company violated Sections 3207(b) and 3207(c) of the New York Insurance Law by issuing four policies in excess of the limits specified by law.	12 – 13
K	The Company violated Section 3227(b) of the New York Law for not paying interest on two surrendered policies.	13
L	The examiner recommends that the Company make surrender disbursements expeditiously by paying surrenders as soon as the required documentation is received.	13
M	The examiner also recommends that the Company review all surrender payments made from January 1, 1999 to the present and calculate and pay interest where appropriate.	13 – 14
N	The Company violated Section 216.4(e) of Department Regulation No. 64 for not including 17 complaints in its central complaint log.	14



APPOINTMENT NO. 21933

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:

**VICTOR AGBU**

as a proper person to examine into the affairs of the

**JEFFERSON PILOT LIFEAMERICA INSURANCE COMPANY**

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

**COMPANY**

with such other information as he 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 27th day of August, 2002



**GREGORY V. SERIO**  
Superintendent of Insurance

*[Handwritten Signature]*  
Superintendent