

**DELAWARE DEPARTMENT OF INSURANCE**  
**MARKET CONDUCT EXAMINATION REPORT**

**State Farm Life Insurance Company**

**NAIC #69108**

**One State Farm Plaza, A3**

**Bloomington, IL, USA**

**As of**

**September 30, 2017**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of September 30, 2017 on

**State Farm Life Insurance Company**

is a true and correct copy of the document filed with this Department.

Attest By: \_\_\_\_\_



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 29<sup>th</sup> day of January, 2019.

Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
**State Farm Life Insurance Company**

AS OF

September 30, 2017

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand  
and affixed the official seal of this Department at the  
City of Dover, this 29<sup>th</sup> day of January, 2019.

  
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Trinidad Navarro  
Insurance Commissioner

## Table of Contents

EXECUTIVE SUMMARY .....	2
SCOPE OF EXAMINATION.....	4
METHODOLOGY .....	4
COMPANY HISTORY AND PROFILE .....	5
COMPANY OPERATIONS AND MANAGEMENT .....	5
COMPLAINTS HANDLING.....	6
MARKETING AND SALES.....	6
PRODUCER LICENSING .....	6
POLICYHOLDER SERVICES .....	7
UNDERWRITING AND RATING.....	7
CONCLUSION.....	11

Honorable Trinidad Navarro  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Exam Authority Number #69108-ANN-16-602, and pursuant to statutory provisions including 18 *Del. C.* §§ 318-322, a market conduct examination has been conducted of the affairs and practices of:

**State Farm Life Insurance Company NAIC #69108**

The examination was performed as of September 30, 2017.

The examination was performed off-site at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

## EXECUTIVE SUMMARY

According to the 2016 Annual Statement for the State of Delaware, State Farm Life Insurance Company, hereinafter referred to as the Company or State Farm, reported direct business life insurance premiums in the amount of \$17,460,528 and annuity considerations in the amount of \$2,535,131. As of the 2016 Annual Statement, the Company reported direct business life insurance premiums in the amount of \$4,597,733,470 and annuity considerations in the amount of \$422,200,908 for all states, territories and Canada.

The examination was announced as part of a series of examinations on companies in the Annuity marketplace in Delaware. The examination focused on the Company's annuity and life insurance business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; and Underwriting and Rating. This effort was conducted to gauge the Company's practices in suitability, replacement, and surrender transactions.

All exceptions were noted in Underwriting and Rating.

The following exceptions were noted:

- 8 Exceptions

18 *Del. Admin. C. 1204 § 5.1.2 Duties of Agents and Brokers*

*Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:*

*5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.*

The Company's representative did not answer the replacement question in seven instances and the agent's statement did not contain a replacement question in one instance.

- 2 Exceptions

18 *Del. Admin. C. 1204 § 5.2.1 Duties of Agents and Brokers*

*Where replacement is involved, the agent or broker shall:*

*5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.*

The Company's representative signed the replacement form after the application.

- 5 Exceptions

18 *Del. Admin. C.* 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers  
*Each insurer that uses an agent or broker in a life insurance or annuity sale shall:*

*7.1.2 Where a replacement is involved:*

*7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.*

The Company failed to send a Notice Regarding Replacement to the existing company in one instance and for failing to send a Notice Regarding Replacement within seven working days in four instances.

- 3 Exceptions

18 *Del. Admin. C.* 1210 § 9.1.1 Delivery of Illustration and Record Retention

*9.1*

*9.1.1 If a basic illustration is used by an insurance producer or other authorized representative of the insurer in the sale of a life insurance policy and the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this regulation, shall be submitted to the insurer at the time of policy application. A copy also shall be provided to the applicant.*

The Company failed to have the illustration signed at the time of application.

- 1 Exceptions

18 *Del. Admin. C.* 1210 § 9.1.2 Delivery of Illustration and Record Retention

*9.1*

*9.1.2 If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy. The revised illustration shall conform to the requirements of this regulation, shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer no later than the time the policy is delivered. A copy shall be provided to the insurer and the policy owner.*

The Company failed to have the term “revised” on a revised illustration presented to the applicant after the application.

- 1 Exceptions

18 *Del. Admin. C.* 1210 § 9.4 Delivery of Illustration and Record Retention

*9.4 A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or*

*that the policy was applied for other than illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. A copy need not be retained if no policy is issued.*

The Company failed to maintain the illustration used at the time of the application.

## **SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318-322 and covered the experience period of January 1, 2014, through September 30, 2017, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware annuity suitability, replacement, and surrender laws and regulations related to the sales and marketing of individual cash value life insurance, individual fixed annuities, and individual variable annuities.

The examination was a targeted market conduct examination of the Company's life insurance and annuity business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; and Underwriting and Rating.

## **METHODOLOGY**

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on the errors found in individual files, the examiners also focus on general business practices of the Company.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during an examination may not be referenced in the Report if no improprieties were noted.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries regarding



the exceptions noted.

## **COMPANY HISTORY AND PROFILE**

State Farm is a principal subsidiary of State Farm Mutual Automobile Insurance Company, which is owned by its policyholders, and began selling life insurance in April 1929. The Company offers a variety of Life and Annuity products and uses an exclusive agency system of over 17,000 agents to market its products throughout the United States and Canada. As of 12/31/17, the Company had over 8 million life insurance policies in force, of which over 30,000 were written in Delaware. Servicing of Delaware policies are provided by our agents and licensed staff members, as well as our Life Operations Center in New Albany, Ohio. State Farm Life's mission is to help people manage risks of everyday life, recover from the unexpected, and realize their dreams.

According to the 2016 Annual Statement for the State of Delaware, State Farm reported direct business life insurance premiums in the amount of \$17,460,528 and annuity considerations in the amount of \$2,535,131. As of the 2016 Annual Statement, State Farm Life Insurance Company reported direct business life insurance premiums in the amount of \$4,597,733,470 and annuity considerations in the amount of \$422,200,908 for all states, territories and Canada.

## **COMPANY OPERATIONS AND MANAGEMENT**

The Company provided the requested information documenting its management and operational procedures in areas for which they conduct business for the State of Delaware, including:

- Company History and Profile
- Company Organization
- Internal Audit & Compliance
- Antifraud Program Compliance
- Managing General Agents (MGAs), General Agents (GAs), and Third-Party Administrators (TPAs)
- Company Records and Records Retention Policies and Procedures
- A statement that the Company's records are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements.
- Copies of the Annual Report for 2016 and specific state pages for 2014, 2015 and 2016.

The documents were reviewed to ensure compliance with the State of Delaware Laws and Regulations and NAIC Standards.

No exceptions were noted.

## **COMPLAINTS HANDLING**

The Company was requested to provide a list of all complaints for the years of January 1, 2015 thru September 30, 2017. The Company identified a total of 12 Delaware Complaints which included six DDOI complaints for the period. The entire universe of 12 complaint files was requested, received, and reviewed. The files were reviewed to ensure compliance with all Delaware laws and regulations.

No exceptions were noted.

## **MARKETING AND SALES**

The Company was requested to provide a list of all advertising materials, including both printed and audio/visual materials, which were approved for use by field personnel for the examination period. The Company identified a total of 253 advertisements. A random sample of 79 advertisements and 2 phone scripts were requested, received and reviewed. Twelve advertisements were targeted toward non-English speaking audiences and were not reviewed. The materials were reviewed to determine compliance with Delaware laws and regulations.

The examiners also reviewed documentation for replacements, illustrations, suitability, annuity solicitation training, and fixed index annuity disclosure.

No exceptions were noted.

## **PRODUCER LICENSING**

The Company provided a list of all producers appointed with the Company in Delaware or authorized to conduct business in Delaware at any time during the examination period. In addition, the policies and procedures related to producer licensing and training were received and reviewed. In addition, the examiners reviewed a random sample of 25 producers terminated during the exam period. The examiners reviewed all producers during the exam period against the Delaware database of active producers. The requested lists were compared to departmental records of producers to verify appointments, terminations and licensing. All files were reviewed to ensure compliance with contract provisions and all Delaware laws and regulations.

No exceptions were noted.

## **POLICYHOLDER SERVICES**

### **A) Individual Cash Value Life Insurance Contracts Surrendered**

The Company was requested to provide a list of all policies surrendered during the experience period. The Company identified a universe of 912 life insurance policies surrendered. A random sample of 86 policy files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

### **B) Individual Fixed Annuity Contracts Surrendered**

The Company was requested to provide a list of all Individual Fixed Annuities Surrendered during the experience period. The Company identified a universe of 81 Individual Fixed Annuities Surrendered. A random sample of 79 contract files was requested, received, and reviewed. Only 78 of the files were able to be used. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

### **C) Individual Variable Annuity Contracts Surrendered**

The Company provided a list of all annuities surrendered during the experience period. The Company identified a universe of five individual variable annuity contracts surrendered. All five contract files were requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

## **UNDERWRITING AND RATING**

### **A) Life Policies Issued as New**

The Company identified a universe of 3,963 cash value life insurance policies issued as new during the experience period. A random sample of 115 policy files, and 10 extra files, was requested, received and reviewed. A total of 115 “new issued” files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following exceptions were noted:

**1 Exception – 18 Del. Admin. C. 1210 § 9.1.1 Delivery of Illustration and Record Retention**

The Company failed to use an illustration at the time of application.

*Recommendation:* It is recommended the Company revise its procedures to ensure that an illustration is used at the time of application as required by 18 Del. Admin. C. 1210 § 9.1.1.

**B) Life Policies Issued as Replacements**

The Company identified a universe of 99 cash value life insurance policies issued as replacement during the experience period. A random sample of 79 policy files, and 10 extra files, was requested, received and reviewed. During the review, it was determined that 63 of the replacement policies were term conversions, surrenders, sold in another state or a change in the existing policy. Therefore, 36 files remained and were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following exceptions were noted:

**1 Exception – 18 Del. Admin. C. 1204 § 5.2.1 Duties of Agents and Brokers**

The Company's representative signed the replacement form after the application.

*Recommendation:* It is recommended the Company revise its procedures to ensure the replacement notice is signed by the producer no later than the time of taking the application as required by 18 Del. Admin. C. 1204 § 5.2.1.

**1 Exception – 18 Del. Admin. C. 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers**

The Company failed to send a Notice Regarding Replacement to the existing company within seven working days.

*Recommendation:* It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office as required by 18 Del. Admin. C. 1204 § 7.1.2.2.

**2 Exceptions – 18 Del. Admin. C. 1210 § 9.1.1 Delivery of Illustration and Record Retention**

The Company failed to have the illustration signed at the time of application.

*Recommendation:* It is recommended the Company revise its procedures to ensure that an

illustration is used at the time of application as required by 18 *Del. Admin. C.* 1210 § 9.1.1.

**1 Exception – 18 *Del. Admin. C.* 1210 § 9.1.2 Delivery of Illustration and Record Retention**

The Company failed to have the term “revised” on a revised illustration presented to the applicant after the application.

*Recommendation:* It is recommended the Company revise its procedures to ensure that the Company presents a “revised” illustration as required by 18 *Del. Admin. C.* 1210 § 9.1.2.

**1 Exception – 18 *Del. Admin. C.* 1210 § 9.4 Delivery of Illustration and Record Retention**

The Company failed to maintain the illustration used at the time of the application.

*Recommendation:* It is recommended the Company revise its procedures to ensure that the Company maintains a copy of the illustration used as required by 18 *Del. Admin. C.* 1210 § 9.4.

**C) Individual Fixed Annuities-New Issue**

The Company identified and provided a list of 181 Individual Fixed Annuities-New Issue Contracts during the experience period. A random sample of 79 files and 10 extras was requested. The Company then further determined that 18 files were internal replacement and were excluded. The Company provided an additional 18 files at the examiners’ request. A total of 79 files were reviewed to ensure compliance with contract provisions and all Delaware laws and regulations.

The following exception was noted.

**1 Exception – 18 *Del. Admin. C.* 1204 § 5.1.2 Duties of Agents and Brokers**

The Company failed to have the replacement question on the agent’s statement.

*Recommendation:* It is recommended the Company revise its procedures to ensure the correct response to the replacement question is provided by the producer as required by 18 *Del. Admin. C.* 1204 § 5.1.2.

**B) Individual Fixed Annuities - Replacements**

The Company identified and provided a list of 34 Individual Fixed Annuities-Replacement Contracts during the experience period. All 34 files were requested. The Company then further determined that three internal replacement files that were added.

An additional three files were identified by the examiners as replacements that were submitted as new issue, these were included in the review. The files were reviewed to ensure compliance with contract provisions and all Delaware laws and regulations.

The following exceptions were noted:

**7 Exceptions – 18 Del. Admin. C. 1204 § 5.1.2 Duties of Agents and Brokers**

The Company failed to have the replacement question on the agent's statement answered.

*Recommendation:* It is recommended the Company revise its procedures to ensure the correct response to the replacement question is provided by the producer and that the replacement form is signed by the producer as required by 18 Del. Admin. C. 1204 § 5.1.2.

**1 Exception – 18 Del. Admin. C. 1204 § 5.2.1 Duties of Agents and Brokers**

The Company's representative signed the replacement form after the application.

*Recommendation:* It is recommended the Company revise its procedures to ensure the replacement notice is presented to the applicant no later than the time of taking the application as required by 18 Del. Admin. C. 1204 § 5.2.1.

**4 Exceptions – 18 Del. Admin. C. 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers**

The Company failed to send a Notice Regarding Replacement to the existing company in one instance) and for failing to send a Notice Regarding Replacement within seven working days in three instances.

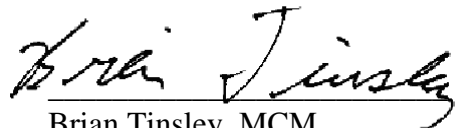
*Recommendation:* It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office as required by 18 Del. Admin. C. 1204 § 7.1.2.2.

## CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the report. Location in the report is referenced in parenthesis.

1. It is recommended the Company revise its procedures to ensure the correct response to the replacement question is provided by the producer as required by 18 *Del. Admin. C.* 1204 § 5.1.2. (Underwriting and Rating –Fixed Annuities – New Issue; Fixed Annuities – Replacements)
2. It is recommended the Company revise its procedures to ensure the replacement notice is signed by the producer no later than the time of taking the application as required by 18 *Del. Admin. C.* 1204 § 5.2.1. (Underwriting and Rating – Life Policies – Replacements; Fixed Annuities – Replacements)
3. It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within 7 working days of the date the application is received in the replacing insurer’s home office as required by 18 *Del. Admin. C.* 1204 § 7.1.2.2. (Underwriting and Rating – Life Policies – Replacements; Individual Fixed Annuities – Replacements)
4. It is recommended the Company revise its procedures to ensure that an illustration is used at the time of application as required by 18 *Del. Admin. C.* 1210 § 9.1.1. (Underwriting and Rating – Life Policies – New Issue; Life Policies – Replacements)
5. It is recommended the Company revise its procedures to ensure that the Company presents a “revised” illustration as required by 18 *Del. Admin. C.* 1210 § 9.1.2. (Underwriting and Rating – Life Policies – Replacements)
6. It is recommended the Company revise its procedures to ensure that the Company maintains a copy of the illustration used as required by 18 *Del. Admin. C.* 1210 § 9.4. (Underwriting and Rating –Life Policies – Replacements)

The examination conducted by Joseph Krug, Pete Salvatore and Brian Tinsley is respectfully submitted.



Brian Tinsley, MCM  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance