

REPORT ON

MARKET CONDUCT EXAMINATION

OF THE

Amica Life Insurance Company
10 Weybosset Street, Providence, Rhode Island
NAIC Code #72222

By Representatives of the
Rhode Island Department of Business Regulation
Insurance Division

AS OF
FEBRUARY 29, 1992

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September 15, 1992

Honorable Sheldon Whitehouse
Insurance Commissioner
State of Rhode Island
Providence, Rhode Island

Sir:

In compliance with your instructions and pursuant to the statutes of the State of Rhode Island a Market Conduct Examination has been made of the Rhode Island business of the:

Amica Life Insurance Company
10 Weybosset street
Providence, Rhode Island 02903

hereinafter generally referred to as the Company, at its office located at 10 Lincoln Center Boulevard, Lincoln, Rhode Island. The report of such examination is herein submitted.

Foreword

The Market Conduct Report is, in general, a report by exception. Additional practices, procedures or files subject to review have not been referenced in this report if no errors or improprieties were indicated.

Scope of Examination

The examination was conducted in accordance with Title 27-1-11 of the General Laws of the State of Rhode Island. The examination commenced on March 13, 1992 and covered the period of January 1, 1990 to February 29, 1992.

The examination was performed in accordance with procedures established by the National Association of Insurance Commissioners and accordingly included tests of claims, underwriting and rating, consumer complaints, agents licensing and certificate of authority, sales and advertising and policy loans.

The primary objective of the examination was to determine the Company's compliance with applicable Statutes and Regulations and to ensure the proper treatment of policyholders and claimants.

History and Profile

Amica Life Insurance Company was incorporated under the laws of Rhode Island on June 13, 1968 and began insurance operations on May 6, 1970. The company is a wholly owned subsidiary of the Amica Mutual Insurance Company. The Life Insurance Company was chartered principally to broaden the type of individual policies available to policyholders of the parent company. The corporate

charter was amended in 1988 by the legislature to grant it similar corporate powers as those of its parent.

Company Operations and Management

The sales efforts of Amica Life Insurance Company are primarily directed to existing policyholders of Amica Mutual and Amica Life. Mailings of sales promotional materials are sent directly from the home office in Providence, Rhode Island to policyholders throughout the country. Business is transacted principally by mail and telephone. All policies are issued and premium billings are directed from the home office.

The current products marketed by the Company include: Whole Life II (Flexible Premium Whole Life); Universal Life; Annual Renewable Term (level and decreasing); Flexible Premium Deferred Annuity and various traditional riders.

All claims handling and policyholder services are conducted primarily by mail and telephone directly between the client and claims division and/or policy owner services unit at the home office.

The Company is currently licensed in all states and the District of Columbia except for Arkansas and Hawaii.

All of the sales representatives and management personnel are salaried employees and receive no overrides or direct

commissions. They do not have employment contracts, agent contracts or management contracts.

The Company's business for the two calendar years covered by the period examined is broken down as follows:

	<u>1991 (%)</u>	<u>1990 (%)</u>
Life Ins. Premiums		
Rhode Island	\$1,779,448 (13%)	\$1,587,168 (13%)
Countrywide	13,679,714 (100%)	12,536,986 (100%)
Annuity Premiums		
Rhode Island	\$11,519,972 (38%)	\$4,280,991 (27%)
Countrywide	30,479,300 (100%)	15,822,448 (100%)

Charter / Certificate of Authority and Agents Licensing

The Company's Charter and Certificate of Authority for the period of examination were reviewed. The Company's writings are in conformance with authority granted therein.

A listing of twenty Rhode Island licensed agents was furnished by the Company and reconciled with records of the Division of Insurance. There were no discrepancies noted. One Rhode Island agent's license was terminated because of death during the period of examination.

Underwriting and Rating Practices

Underwriting

The Company's underwriting procedures for life insurance business were reviewed for the period under examination. The purpose of our review was to determine compliance with applicable statutes and regulations and to determine whether the Company is discriminating unfairly in the selection of risks.

A random sample of 127 policies was chosen representing a cross section of all business written based on the proportionate share of each product to the total population. The distribution of the sample was as follows:

Annual Renewable Term	98
Universal Life	15
Whole Life	10
Conversions	3
Addition of Benefits	1
Total	<u>127</u>

The Company issued a total of 1135 life insurance policies during the period covered by this examination.

The Company has an underwriting manual which they supplement with underwriting manuals of their Reinsurers. In all cases reviewed the Company was in compliance with procedures outlined in the Manuals.

Our review revealed one violation of Rhode Island Regulation XXIX Section 7C(1) regarding replacement forms for life insurance. A recommendation has been made regarding such in the replacements subsection of this comment.

A review of policy forms and applications was also performed to determine that all forms in use by the Company have been approved by the Insurance Division. There were no exceptions noted.

**Time Study
Life Underwriting Sample Survey (RI)**

Type of Coverage	Number of Applications	Avg. Days to Underwrite	% of Business
Term (ART)	98	16	77%
Universal Life	15	12	12%
Whole Life	10	22	8%
Conversions	3	1	2%
Addtn. of Benefits	1	1	1%
Total	127	16 days	100%

Replacements

The Company's replacement register for the period of examination included 252 RI policies of which 153 were replacements of current Amica policies and 99 were replacements of other insurers' policies. A random sample of 84 files was chosen for review of which 37 were from the former category and 47 were

from the latter. The amounts chosen were determined subjectively based on a review of the replacement register.

Inquiry was made to determine why the majority of the replaced policies listed in the register were Amica policies. The Company explained that these were not true replacements but merely an "exchange" or reissue of existing policies due to an increase in the face amount of coverage. The Company's current computer system does not have the capability to revise existing policies, therefore a new policy must be issued when such a policy change occurs. Because the Company does not consider these "exchanges" to be true replacements, required replacement forms are not produced prior to the issuance of the new policy. Although this practice represents a technical violation of Section 7(c) of Regulation XXIX, it does not circumvent the intended effect of the Regulation. The Company's procedures require that only term to term replacements and certain permanent policies within the first six months of the policy term be included as "exchanges" and that each such "exchange" include contestable and suicide clause endorsements pertaining to the increased amount of coverage only.

The Company is presently installing a new life insurance processing system that will allow them to properly process changes to existing policies rather than to issue new policies for the circumstances described above. According to the Company the new system will be operational by late 1993, an

implementation date that we have accepted for purposes of correcting the technical violation of Regulation XXIX cited previously. However, the Company is required to notify the Insurance Division of any delay in the implementation date represented herein.

The Company acknowledged that two policies that were true replacements, i.e., replacements of Amica Universal Life to term policies, were issued without producing the required replacement forms. In addition, one policy was missing the contestable and suicide clause endorsement as required by the Company's internal guidelines. A recommendation has been included below regarding replacement forms required for "true" replacements. It is also recommended that existing procedures be strengthened to ensure that all policies reissued due to system limitations include contestable and suicide clause endorsements for the increased amount of coverage only.

Our review of replacements of policies other than Amica policies disclosed five violations of Regulation XXIX as described below. There were four violations of Section 7C(4) requiring three day notification to existing insurers regarding possible replacement of coverage. The fifth violation was a missing notification form regarding replacement of life insurance as required by Section 7C(1). As discussed previously, our general underwriting review also disclosed a violation of this subsection and our review of replacements of current Amica policies disclosed two additional

violations of this subsection. It is recommended that the Company provide notification to existing insurers regarding possible replacement of coverage within the time period required by Regulation XXIX Section 7C(4). It is also recommended that existing procedures be strengthened to ensure that all applicants for life insurance receive replacement forms as required by Regulation XXIX Section 7C(1).

Life Insurance Death Claims

The Company's claim handling procedures were examined to determine compliance with Rhode Island Statutes and Regulations and to determine adherence to policy provisions. Our review included an evaluation of the following:

1. Timeliness of payment
2. Conformity to policy provisions
3. Standardization of claim procedures
4. Approval of claim forms in use by the Company
5. Interest paid to beneficiaries
6. Supporting documentation included in the file
7. Accuracy of proceeds paid

There were a total of forty-two RI death claims paid during the period covered by our examination. All files were reviewed due to the small number of claims processed during the period.

There was one exception noted regarding the payment of interest on proceeds to a policy beneficiary as stipulated in Rhode Island Insurance Law 27-4-26. The Company acknowledged that an

additional amount was due to the beneficiary and a letter and check were prepared and mailed to the beneficiary. This error in payment occurred due to confusion in the state of domicile of the beneficiary and was not indicative of a problem in the Company's claim handling procedures.

Summary of Recommendations

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8 It is recommended that existing procedures be strengthened to ensure that all policies reissued due to system limitations include contestable and suicide clause endorsements for the increased amount of coverage only.

9 It is recommended that the Company provide notification to existing insurers regarding possible replacement of coverage within the time period required by Regulation XXIX Section 7C(4).

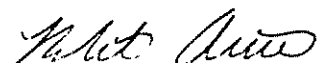
9 It is recommended that existing procedures be strengthened to ensure that all applicants for life insurance receive replacement forms as required by Regulation XXIX Section 7C(1).

Conclusion

Acknowledgment is made of the courteous cooperation extended by the officers and employees of the Company during the course of the examination.

In addition to the undersigned, Ronald Radtke, Senior Market Conduct Examiner participated in the examination and preparation of this report.

Respectfully Submitted

A handwritten signature in cursive script, appearing to read "Robert Arrow".

Robert Arrow
Senior Market Conduct
Examiner
State of Rhode Island