MARKET CONDUCT EXAMINATION

FARMERS NEW WORLD LIFE INSURANCE COMPANY

3003 77TH Avenue S.E.
Mercer Island, Washington 98040

Examination Period:
January 1, 2003 – June 30, 2004

EXHIBIT A
G05-82
Farmers New World Life
Insurance Company

TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification & Acknowledgements	4
Foreword	5
Company Operations and Management	7
General Examination Findings	8
Agent Activity	9
Claims	10
Complaints	15
Underwriting and Policy Issue	16
Policy Replacements	20
Policy Administration	23
Instructions and Recommendations	25
Summary of Standards	27
Appendices	33

The Honorable Mike Kreidler
Washington State Insurance Commissioner
302 14th Avenue SW
P.O. Box 40258
Olympia, Washington 98504-0258

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of Chapter 48.03 RCW and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed of:

Farmers New World Life Insurance Company, NAIC #63177
3003 77th Avenue S.E.
Mercer Island, WA 98040

In this report, Farmers New World Life Insurance Company is referred to as FNWL or referred to as the Company.

This report of examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION and ACKNOWLEDGEMENTS

This examination was conducted in accordance with Office of Insurance Commissioner and National Association of Insurance Commissioners procedures for market conduct examinations. Leslie A. Krier, AIE, FLMI; Nancy L. Campbell, AIE, ACS; Sandy Ray, CPCU; Jeanette M. Plitt, CLU; George J. Lazur, CIE, CPCU; and Charlotte F. Wright of the Washington State Office of Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended to them by the personnel at Farmers New World Life Insurance Company.

I certify that this document is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of Insurance Commissioner and that this report is true and correct to the best of my knowledge and belief.

Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Scope

Time Frame

This was the first market conduct examination of Farmers New World Life Insurance Company by the Washington State Office of Insurance Commissioner (OIC). The examination covered operations from January 1, 2003 through June 30, 2004. In some instances, the review period may be extended to cover a more current time frame. These areas will be noted in the report. This examination was performed both in the Company's office in Mercer Island, Washington and in the OIC Seattle Office.

Matters Examined

The examination included a review of the following areas:

Agent Activity	Claims
Complaints	Inforce Policy Administration
Policy Replacements	Underwriting & Policy Issue

Sampling Standards

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

92 %	Confidence Level
-/- 5 %	Mathematical Tolerance.

Regulatory Standards

Market conduct samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as met. The standards in the areas of agent licensing and

appointment, and policy and form filings will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the Company follows established procedures

Standards will be reported as Passed (without Comment), Passed with Comment or Failed. The definition of each category follows:

Passed	There were no findings for the standard.
Passed with Comment	Errors in the records reviewed fell within the tolerance level for that standard.
Failed	Errors in the records reviewed fell outside of the tolerance level established for the standard.

COMPANY OPERATIONS AND MANAGEMENT

Company History

Farmers New World Life (FNWL) originally incorporated as Roman Catholic Life Insurance Company of America, of Spokane, Washington in 1910. The company name was changed to New World Life Insurance Company the same year. In 1953, Farmers Underwriters Association purchased 52.4% of its outstanding stock, changing the company name to Farmers New World Life Insurance Company. In 1977, the remaining company stock was acquired by Farmers Group, Inc., the successor of Farmers Underwriters Association.

FNWL is a wholly-owned subsidiary of Farmers Group, Inc., a management and insurance holding company. In 1998, Farmers Group, Inc., and all of its subsidiaries and affiliates became part of Zurich Financial Services (ZFS) a global insurance organization headquartered in Switzerland.

FNWL offers a portfolio of life insurance and annuity products, mainly universal life, term life, whole life, variable life, fixed and variable annuities. FNWL primarily uses multi-line modified-exclusive agents (agents may place risks unacceptable to FNWL with outside companies) for distribution of life and annuity products in Washington.

FNWL was issued a Certificate of Authority by the Office of Insurance Commissioner May 23, 1911. FNWL is domestic life insurance company authorized to sell life and disability policies.

Company Management

FNWL is governed by a Board of Directors. The members of the Board as of April 4, 2004 are:

Board Member	Company/Community Affiliation	Date Appointed
Brian S. Cohen	Farmers Group, Inc.	7/2004
Jerry J. Carnahan	Farmers Group, Inc.	3/2003
Martin D. Feinstein, Chair	Farmers Group Inc.	4/1995
Paul N. Hopkins	Farmers Group Inc.	1/2002
Michael W. Keller	Farmers New World Life, Inc.	7/2000
Ryan R. Larson	Farmers New World Life, Inc.	5/2002
C. Paul Patsis, President	Farmers New World Life, Inc.	4/2000
James I. Randolph	Farmers New World Life, Inc.	4/2000
Gary R. Severson	Casey Family Programs	10/2002
Richard M. Shriver	Farmers Group, Inc.	1/2001
John F. Sullivan, Jr.	Sullivan Group	10/2002
Oscar C. Tengtio	Farmers New World Life, Inc.	3/2003

Territory of Operations

During the examination period, Farmers New World Life operated in 48 states and the District of Columbia.

Findings

The following Company Operations and Management Standards passed without comment:

#	Company Operations & Management Standard	Reference
1	The company is issued a certificate of authority by the OIC prior to acting as a life insurance carrier in the State of Washington.	RCW 48.05.030(1)
3	No less than three-fourths of the directors are United States or Canadian citizens, and a majority of mutual insurer directors are residents of this state.	RCW 48.07.050
4	All domestic insurers report to the OIC any amendments to the Articles of Incorporation.	RCW 48.07.070(2)

The following Company Operations and Management Standard passed with comment:

#	Company Operations & Management Standard	Reference
2	The company holds an annual meeting of its shareholders as stated and in accordance with its bylaws.	RCW 48.07.040

Company Operations and Management Standard #2:

The market conduct examiners did not review the minutes of the Board of Directors meetings. However, board meeting minutes were reviewed as part of the OIC's financial examination for the period January 1, 1996 through December 31, 2001. Based on the financial examiners' review of the minutes, annual meetings are held in accordance with the company's bylaws. The market conduct examiners acknowledge that, at the conclusion of their examination, the financial examiners recommended that the Board of Directors take a more active role in managing the Company in order to effectively exercise its powers to make contracts, establish officers' compensation, and oversee all important functions.

GENERAL EXAMINATION FINDINGS

The Company's records and operations were reviewed to determine if the Company does business in accordance with the requirements of this state.

Findings

The following General Examination Standards passed without comment:

#	General Examination Standard	Reference
1	The company does business in good faith, and practices honesty and equity in all transactions.	RCW 48.01.030
2	The company allows the examiners access to all records, documents and files, and facilitates the examination process.	RCW 48.03.030(1)
3	The company does business in its legal name.	RCW 48.05.190(1), Bulletin 78-7
5	The company does not discourage insureds from contacting the OIC and does not discriminate against those that do contact the OIC.	WAC 284-30-572(2)

The following General Examination Standard passed with comment:

#	General Examination Standard	Reference
4	The company maintains full and adequate accounts and records of its assets, obligations, transactions and affairs.	RCW 48.05.280

General Examination Standard #4:
There were multiple instances throughout the examination where the Company relied on agents for back-up documentation and information (underwriting and policy replacement).

AGENT ACTIVITY

Licensing and Appointment Procedures

FNWL provided the examiners with its 2002 and 2003 licensing procedures. Each individual service center handles licensing and appointment requirements. In 2003, more specific direction regarding agent appointment requirements was added to the procedures. The procedures now include a listing of the states that have unique appointment requirements.

File Review

The examiners selected a random sample of 100 new business files for review. The licensing and appointment status of the agents that wrote the business was reviewed. The examiners compared the Company's records with those of the OIC to ensure that agents were licensed and appointed prior to soliciting business on behalf of FNWL.

In the 100 files that were selected, one (1) file was removed from the sample as it was a policy change rather than a new business file. Of the remaining 99 files, there were 90

agents that were responsible for writing the new business. The records of these agents were reviewed.

Findings

Note: Standards #1 and #2 have a zero tolerance level.

The following Agent Activity Standards passed without comment:

#	Agent Activity Standard	Reference
3	The company provides written notice to the agent and the OIC when an agent's appointment has been revoked.	RCW 48.17.160(3)
4	The company ensures that agents and brokers selling variable policies or contracts are licensed as security salesmen or securities brokers under a license issued by the director of financial institutions.	RCW 48.18A.060

The following Agent Activity Standards failed:

#	Agent Activity Standard	Reference
1	The company ensures that agents and brokers are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the company in any way.	RCW 48.17.060(1), RCW 48.17.060(2)
2	The company ensures that agents are appointed to represent the company prior to allowing them to solicit business on behalf of the company.	RCW 48.17.160(1)

Agent Activity Standard #1:
There was one (1) agent that signed an application on December 29, 2003. The agent's license expired on January 27, 2001 (OIC #43).

Agent Activity Standard #2:
There was one (1) agent that signed an application on June 7, 2004. The agent did not hold an individual appointment with FNWL. This agent was affiliated with two (2) agencies. The agency appointments were cancelled on August 17, 2001 and March 13, 2003 respectively (OIC #57).

CLAIMS

Claims Procedures and Processing

The Company provided the examiners with its claims handling procedures that were in use during the examination period. The examiners were provided with procedures for the following:

- Life Claims

- Annuity Claims
- Waiver of Premium Claims
- Accelerated Benefit Rider Claims
- Accidental Death Benefit Claims

The claims procedures were reviewed to ensure that Company personnel are processing claims in accordance with the Company's procedures. The procedures were also reviewed to ensure that processes are in place to avoid fraud. Claims were tested to assure the Company adjudicates claims accurately and timely.

The Company stated that it performed three (3) internal audits on claims functions between 1999 and 2004. In addition, the Company did a compliance review based on claims standards in the NAIC Market Conduct Examiners Handbook. Results of these audits were not provided to the examiners.

The examiners noted four (4) procedures that are currently in place that have a negative impact on claims reporting:

- There were instances in which errors occurred in determining interest due on claims proceeds.
- The Company does not cross-reference its inforce policies against Social Security administration records to determine if policies should be terminated. The Company continues to reserve for policies where death claims should be paid. There may be instances where taxes are due on transfer of annuities, and these are not being paid. The Company's current procedure is to mail privacy notices to policyholders annually and rely on policyholders to contact FNW to confirm the existence of a policy.
- The Company's alpha system contains flaws cross-referencing policies. If an insured has more than one (1) policy, there is no guarantee that all policies for that insured are identified when a claim is filed. The system keys on name only. Therefore the data entry of the name must be consistent throughout the database in order to obtain all policies associated with one policyholder.
- The Company enters claim log information into an Access database that will perform interest calculations. Discussions with the claims manager indicate that any claims examiner can override the values in the database, and there is no audit trail to indicate what examiner has made a change. This practice leaves the Company open to fraudulent claims and to inaccurate data being used to pay claims.

Claims Review

There were 312 claims reported to the Company during the examination period. A random sample of 53 claims was selected for review:

Type of Claim	Claim Population	Sample Size
Life Paid	209	34
Life Not Paid	21	3
Accelerated Benefits Rider Paid	2	1
Accelerated Benefits Rider Not Paid	3	1
Waiver of Premium Paid	7	1
Waiver of Premium Not Paid	10	2
Annuities Paid	42	7
Annuities Not Paid	17	3
TOTAL	**312**	**53**

Findings

Claims Standard #9 was not applicable to this examination. There were no simultaneous death claims, and there were no OIC inquiries during the examination period.

The following Claims Standards passed without comment:

#	Claims Standard	Reference
2	No insurer shall misrepresent policy provisions by a) failing to disclose all pertinent benefits, coverages and policy provisions to the claimant; b) setting a time limit or filing a claim unless such a limit is allowed in the policy language; c) issuing a partial settlement which contains language that release the insurer from the full liability to which the claimant is due; or d) making payment of benefits under a reservations of right provision with disclosing such to the claimant.	WAC 284-30-330(1), WAC 284-30-350(1), WAC 284-30-350(6), WAC 284-30-350(7)
4	An insurer must complete claim investigations within 30 days of receipt of proof of loss unless file notes show that this was not reasonably possible.	WAC 284-30-370
5	Within 15 days of receiving proof of loss, an insurer must accept or deny the claim. If determination cannot be made within 15 days, the insurer must notify the claimant of the status within 15 days and every 30 days thereafter until final determination is made.	WAC 284-30-380(1), WAC 284-30-380(3)

#	Claims Standard	Reference
6	If a claim is denied based on specific policy provisions, the denial must be in writing and a copy must be in the file. If a claim is denied for reasons other than specific policy provisions, notice may be in other forms but appropriately documented in the claim file.	WAC 284-30-380(1), WAC 284-30-380(2)
7	Every insurer must adopt and implement reasonable standards for prompt investigation and payment of claims.	WAC 284-30-330(3)

The following Claims Standards passed with comment:

#	Claims Standard	Reference
3	No insurer shall fail to acknowledge communications. Receipt of communication must be acknowledged and correspondence from a claimant must be answered within 10 working days for non-group claims and within 15 working days for group claims, unless payment is made within the stated time limits. Response to OIC communications concerning claims must be made within 15 working days of receipt from the OIC.	WAC 284-30-360(1), WAC 284-30-360(2), WAC 284-30-360(3)
10	The company provides appropriate disclosures and does not unfairly discriminate in payment of accelerated benefit payments.	WAC 284-23-650(7), WAC 284-23-680

Claims Standard #3:

There was one (1) claim that the Company did not acknowledge within the required ten (10) working days (OIC# WOP NP#1, Policy #005529177U).

In practice, the Company provides the necessary claim forms, instructions, and reasonable assistance within ten (10) days of receipt of notice for non-group claims. However, the Company's procedure manual refers to 15 calendar days for all claims. It does not differentiate between group and individual claims.

Claims Standard #10:

One (1) accelerated death benefit disclosure statement did not contain all of the requirements listed under WAC 284-23-650(7). It did not state what effect the payment of an accelerated benefit would have on the policy's premium (OIC #ABRPpd1, Policy #004961395U).

The following Claims Standard failed:

#	Claims Standard	Reference
1	The company maintains complete claim files with all notes and work papers in such detail that the claims history can be reconstructed.	WAC 284-30-340
8	Interest will be payable at no less than 8% from the date of death until payment is made on claims where the decedent is a resident of Washington at the time of death. If the date of payment is greater than 90 days from the date completed proof of loss forms are received, the insurer will increase the interest rate by 3% from day 91 until payment of the proceeds is complete.	RCW 48.23.300

Claims Standard #1:

In four (4) of the individual life claims reviewed, it was difficult to determine if the claim was paid based on the issue state or the Company's last known address rather than the decedent's resident state at time of death See Appendix 1.

Claims Standard #8:

The interest paid on two (2) claims was not calculated correctly (OIC# LP2, Policy #0047045460; OIC #LP21, Policy #004407390P). The Company paid interest commencing on the date the proof of loss was received or on the date the proof of loss was signed rather than from the date of death.

Subsequent Event: FNW provided the examiners with copies of letters that accompanied additional interest payments for OIC #LP2 and OIC #LP21. Additional interest was mailed to the beneficiaries on September 16, 2005 and March 7, 2005, respectively.

In another instance, the Company did not cross reference all policies of the insured and missed one (1) policy (OIC# LP27, Policy #002024533) when calculating the payable claims.

Subsequent Event: The agent for the decedent notified FNW of the missed policy on January 5, 2004. Proceeds and interest from the date of death were paid to the beneficiary on January 14, 2004. As a result of the OIC's request to audit all claims paid during the examination period, an additional check for interest due to the beneficiary was mailed on September 20, 2005.

COMPLAINTS

Complaint Policy & Procedures

The Companies provided the examiners with seven (7) documents:

- Procedures Bulletins:
  - 97-27: Questionable Agent Practice/Market Conduct Notification
  - 92-24: Quality Control Program

- Directive Memos:
  - D-9918: Consumer Complaints
  - D-9840: Questionable Agent Practices/Market Conduct Notification
  - D-9659: Consumer/Department of Insurance Complaints

- VPSO Business Rules:
  - V-02:004 Department of Insurance & Consumer Complaints
  - V-02:005 Farmers Insurance Representative Complaints (Questionable Agent Practices)

The procedures are comprehensive and explain the steps necessary to record and handle complaints in a thorough and timely manner.

File Review

The Companies provided a complaint database with ten (10) Company complaints and 12 OIC complaints. Two (2) of the OIC complaints were removed from the sample. One (1) was from a California resident, and the other was reviewed during an agent investigation/disciplinary action in 2003.

Review of the Company complaints indicates that the Company responded promptly and provided appropriate responses. The review of the OIC complaints indicates that the Company's responses to the OIC were timely and complete.

Findings

The following Complaint Standard passed without comment:

#	Complaint Standard	Reference
1	The company responds to any inquiry from the OIC within 15 business days, and the response is in writing, unless otherwise indicated in the inquiry. The response to the OIC contains the substantial information requested by the OIC.	WAC 284-30-650, Technical Advisory T 98-4

UNDERWRITING AND POLICY ISSUE

Underwriting Procedures

The Company has written procedures in place documenting the underwriting process, underwriting requirements, and underwriting guidelines. The procedures outline the very specific tasks handled in each separate functional area.

The Company also provided 41 interoffice directive memos and 23 procedure bulletins for review. In addition, the Company provided online access and its CD containing the Company's electronic underwriting manual. Based on the files that were reviewed, the policies and procedures appear to be adequately representative of the underwriting process.

While reviewing the Company's new business underwriting files, the examiners noted that the Company issues policies based on the state in which the writing agent is licensed rather than based on the state in which the application is signed. The appropriate determination is to use the state in which the application was signed.

Underwriting Process

FNWL underwrites individual life, annuities, variable life, and variable annuities. FNWL receives applications submitted by the agency field force by facsimile or mail. Applications are logged on an incoming application report, entered into the Company's computer system, and reviewed for missing information. When all requested information is received, the file is sent to underwriting for review and a decision. When the final decision is made, the file is sent to policy issue. Amendments or endorsements that apply are added and the policy is mailed to the agent for delivery to the policy owner.

Electronic Application Process

The Tele-App underwriting process began in January of 2002. The Company currently estimates 15% of its new business is written through this process. The agent enters basic information onto the Life-Net site. The agent prints relevant documents from the site and obtains signatures from the applicant. The initial information provided by the agent is electronically sent to LabOne. LabOne, the company's third party vendor, then completes the interview via phone. LabOne conducts all interviews following a set script. The company system determines what additional information is needed based on the preliminary information provided by the agent.

Individual Life Underwriting File Review

A random sample of 100 individual new business life policies was selected for review from the Company's database of 9,613 individual new business life policies. The database consisted of:

- 8,607 traditional life policies
- 1,006 variable life policies

One (1) file was excluded (OIC#71) from the sample as it involved a conversion.

A random sample of 50 declined individual life applications was selected from the Company's database of 726 declined individual life applications. The database consisted of:

- 701 traditional life declined applications
- 25 variable life declined applications

Annuities Underwriting File Review

A random sample of 50 new business annuities was selected from the Company's database of 434 new business annuities. The database consisted of:

- 282 traditional annuities
- 152 variable annuities

There were no declined annuity applications during the examination period.

Findings

The following Underwriting and Policy Issue Standards passed without comment:

#	Underwriting and Policy Issue Standard	Reference
2	All policies use a written application completed by the applicant.	RCW 48.18.060
4	The policy specifies the name of the company, the parties of the contract, the subject of the contract, the named risk, and a statement of the premium.	RCW 48.18.140(2)
5	The premium stated in the policy includes all fees, charges, premiums or other considerations charged for the insurance.	RCW 48.18.180(1)
6	The policy contains the entire contract.	RCW 48.18.190 (Annuity: RCW 48.23.170)
7	The company does not use unfair discrimination between insureds having substantially like insuring, risk, and exposure factors, or expense factors.	RCW 48.18.480, RCW 48.30.300(1)

#	Underwriting and Policy Issue Standard	Reference
8	Correspondence concerning denial of an application must give the true and actual reason for denying insurance in clear and simple language that does not require an applicant or insured to do further research to understand that reason.	RCW 48.30.320, WAC 284-30-570
10	If a policy form is filed to be marketed without an illustration, an illustration may not be used until after the first policy anniversary.	RCW 48.23A.020(2)
12	The company furnishes the specified Buyer's Guide and Policy Summary to the applicant as required.	WAC 284-23-230(2)
13	The company maintains a complete file with copies of the Buyer's Guides and Policy Summaries for 3 years.	WAC 284-23-240(1)
14	For all annuities the specified Contract Summary is delivered to the applicant prior to accepting the application.	WAC 284-23-350
15	The company maintains a complete file with copies of the annuity Contract Summaries for 3 years.	WAC 284-23-360(1)
16	A receipt is given to the insured by the agent, solicitor, or insurer's representative for money collected with the application.	WAC 284-30-550(1)
17	The company makes an independent evaluation on each application.	WAC 284-30-574
18	Every individual variable contract issued shall include a notice that the policy owner shall be permitted to return the policy within ten days after it is received with a return of market value, less applicable deductions, if the policy owner is not satisfied in any way.	RCW 48.18A.035

The following Underwriting and Policy Issue Standards passed with comment:

#	Underwriting and Policy Issue Standard	Reference
1	The company does not issue a life insurance policy unless the benefits are payable to the individual insured, his personal representative or a person having an insurable interest at the time of issue.	RCW 48.18.030(1)
3	No alterations are made to the application except by the applicant, or with the consent of the applicant.	RCW 48.18.070(1)

Underwriting and Policy Issue Standards #1:

There was one (1) life file (OIC #87, Policy #007158446U) where the juvenile life policy was issued with the aunt as the policy owner. The juvenile's parents were listed as beneficiaries and as the parties holding the insurable interest in the child. The minor was not dependent on the aunt for support.

Subsequent Event: The Company published a directive memo on June 4, 2004. This memo clearly defined who may effectuate insurance upon the life of a minor.

Underwriting and Policy Issue Standard #3:

While reviewing the life and annuity applications, the examiners noted that material changes were made to applications and application documents without being initialed or acknowledged by the applicant. The following changes were made:

- OIC #5, Policy #007002365R: The election of partial liquidation on the transfer/rollover form was changed and not initialed by the applicant.
- OIC #26, Policy #007232400: The contingent beneficiary was changed. The change was not initialed by the applicant.
- OIC #31, Policy #007037881: The accelerated benefit rider election was changed and not initialed by the applicant.
- OIC #85, Policy #007230941U: The guaranteed insurability election was changed without being initialed by the applicant.

Subsequent Event: FNW issued a directive memo to affected areas of operations on September 30, 2005. This memo addressed procedures and policies regarding application, illustration and replacement processing.

The following Underwriting and Policy Issue Standards failed:

#	Underwriting and Policy Issue Standard	Reference
9	The company has standards to ensure that juvenile life applications are appropriate and maintains a log of juvenile life denied applications.	RCW 48.23.345
11	A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of a "revised illustration" sent to the applicant is retained by the company.	RCW 48.23A.060

Underwriting and Policy Issue Standard #9:

The Company has developed underwriting standards and procedures designed to detect and prevent the purchase of juvenile life insurance for speculative or fraudulent purposes. Review of sample files indicates that the standards were not implemented on a consistent basis.

There was one (1) life file (OIC #87, Policy #007158446U) where the juvenile life policy was issued with the aunt as the policy owner. The juvenile's parents were listed as beneficiaries and as the parties holding the insurable interest in the child. The minor was not dependent on the aunt for support.

Subsequent Event: The Company published a directive memo on June 4, 2004. This memo clearly defined who may effectuate insurance upon the life of a minor.

Fifteen (15) juvenile life underwriting files were reviewed. The Company's standards state that juvenile coverage may not exceed twice family income. None of the applications used asked for household income.

Subsequent Event: In July 2003, FNW revised its life application form to include a question regarding annual household income. The Company also revised its underwriting guidelines for juvenile insurance on June 4, 2004.

Underwriting and Policy Issue Standard #11:

There were ten (10) files found to be in violation of this standard. Seven (7) files did not contain a copy of the illustration or an acknowledgement that an illustration was not used in the sale. Two (2) of the files contained revised illustrations and were not identified as such. An illustration was used in the sale of one (1) policy and a copy of the illustration used in that sale was not retained. See Appendix 2.

The examiners noted that standard operating procedure for the Company is to require agents to return only the signed summary page of the illustration for its files. The signature page the Company retains does not necessarily indicate if an illustration has been revised. This procedure makes testing for compliance of RCW 48.23A.060(1)(b) impossible.

Subsequent Event: FNW issued a directive memo to affected areas of operation on September 30, 2005. This memo addressed procedures and policies regarding application, illustration and replacement processing.

POLICY REPLACEMENTS

Policy Replacement Procedures

The Company's general replacement procedures are outlined in Company Bulletins and in the Agent Training Manual. Procedures for handling replacements are outlined in the Company's Risk Management Procedure Manual.

It is the Company's practice to review applications for indications of possible replacement and review the notice of replacement forms for completeness. The Company asserts it opposes replacement of inforce coverage with any policy that does not improve the position of the policy owner. However, review of the sample files indicates that sufficient controls are not in place to ensure compliance with the Company's procedure.

Subsequent Event: FNW issued a directive memo to affected areas of operation on September 30, 2005. This memo addressed procedures and policies regarding application, illustration and replacement processing.

Policy Replacement File Review

The Company provided a database of 1,115 individual policy replacements during the examination period. The database consisted of:

- 1,093 variable life, traditional life, and traditional annuities
- 22 variable annuities

A random sample of 50 files was selected for review. The selected sample included:

- Five (5) variable annuity replacements
- Three (3) variable life replacements
- One (1) traditional annuity replacement
- 41 traditional life replacements

One (1) file was removed from the sample. The agent initially answered yes to the replacement question on the agent's report, but no replacement was involved.

Findings

Policy Replacement Standards #8 and #9 were not applicable to this examination. The Company is not a direct response insurer.

The following Policy Replacement Standards passed without comment:

#	Policy Replacement Standard	Reference
1	The company informs its field representatives or personnel responsible for compliance about the requirements of the replacement regulations.	WAC 284-23-450(1)
4	The company shall require that agents include a listing of all existing insurance to be replaced and a copy of the replacement notice provided to the applicant.	WAC 284-23-455(2)(a)
7	The company notifies the applicant in its policy or by separate written notice that the applicant has the right to an unconditional refund of all premiums paid if exercised within 20 days from the date of delivery of the policy.	WAC 284-23-455(4)
10	The specified replacement form is used in all transactions proposing replacement.	WAC 284-23-485

The following Policy Replacement Standards passed with comment:

#	Policy Replacement Standard	Reference
5	The company sends the required notice of replacement and policy summary to the existing insurer within three (3) working days of receipt of the application.	WAC 284-23-455(2)(b)
6	The company maintains copies of the notice of replacement, policy summaries and a replacement register for at least three (3) years or until examination by its state of domicile, whichever is later.	WAC 284-23-455(3)

Policy Replacement Standard #5:

The Company failed to send out written communication to the existing carrier advising of the replacement or proposed replacement in two (2) files (OIC #31, Policy #007284543; OIC #45, 007300877). WAC 284-23-455(b) requires that the Company send written notice to the existing carrier within three (3) working days of the receipt of the application.

Subsequent Event: FNW issued a directive memo to affected areas of operation on September 30, 2005. This memo addressed procedures and policies regarding application, illustration and replacement processing.

Policy Replacement Standard #6:

The Company failed to maintain a copy of the replacement notice in one (1) file (OIC #5, Policy #007164995). When questioned by the examiners, the Company was able to obtain a copy of the replacement notice from the writing agent.

The following Policy Replacement Standards failed:

#	Policy Replacement Standard	Reference
2	All life insurance applications must include a statement signed by the applicant regarding replacement of an existing policy.	WAC 284-23-450(2)
3	The company requires a statement signed by the agent indicating whether or not replacement is involved.	WAC 284-23-455(1)

Policy Replacement Standards #2 and #3:

On an application, the applicant and the agent must answer whether replacement of existing life insurance or annuity is involved in the transaction. The applicant did not answer the question on four (4) applications, and the agent did not answer the question on four (4) applications. See Appendix 3.

Subsequent Event: FNW issued a directive memo to affected areas of operation on September 30, 2005. This memo addressed procedures and policies regarding application, illustration and replacement processing.

POLICY ADMINISTRATION

Policy Administration Procedures

FNWL provided the examiners with the following procedures manuals, memos, and procedure bulletins:

- Disbursement Services Manual
- Premium Billing Procedure Manual
- Policy Changes Manual
- Annuity Services Department Manual
- 29 Interactive Directive Memos
- 10 Procedure Bulletins

The procedures were found to be comprehensive and provide company personnel with step-by-step processing instructions for policy administration.

Policy Administration Review

The examiners were provided with databases for the Company's inforce life and annuity policies. The following is a breakdown of policy type and the random sample size selected and reviewed:

Policy Type	Population	Sample Size
Traditional Inforce	52,286	35
Variable Inforce	2,024	25
Traditional Policy Loans	1,208	15
Variable Policy Loans	14	5
Traditional Terminations	6,103	25
Variable Terminations	284	15
TOTAL	**61,919**	**120**

Findings

The following Inforce Policy Administration Standards passed without comment:

#	Inforce Policy Administration Standard	Reference
1	The company only pays dividends, unused premium refunds, or savings distributed on account of any policy to the policy owner as shown in its records, or any party to whom the policy owner has assigned these rights. *Individual Life Only*	RCW 48.18.340(1) RCW 48.18.340(2)

#	Inforce Policy Administration Standard	Reference
2	The company processes all types of policy administration procedures in accordance with the required policy provisions. *Individual Life Only*	RCW 48.23.030, RCW 48.23.070(1), RCW 48.23.080(1), RCW 48.23.085(6), RCW 48.23.120
3	The company processes all types of annuity contract administration procedures in accordance with the required contract provisions. *Individual Annuity Only*	RCW 48.23.150, RCW 48.23.190, RCW 48.23.210
4	The company uses policy illustrations at issue and provides the insured with an annual report on the status of the policy in accordance with the regulations. *Individual & Group Life Only*	RCW 48.23A.070

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTIONS	Page #
1	The Company is instructed to ensure that all agents and brokers are licensed with the State of Washington prior to soliciting business. Reference: RCW 48.17.060(1), RCW 48.17.060(2). (Agent Activity Standard #1.)	10
2	The Company is instructed to ensure that agents are appointed to represent the Company prior to allowing them to solicit business on behalf of the Company. Reference: RCW 48.17.160(1). (Agent Activity Standard #2.)	10
3	The Company is instructed to maintain complete claim files with all notes and work papers in such detail that the claims history can be reconstructed. Reference: WAC 284-30-340. (Claims Standard #1.)	14
4	The Company is instructed to pay interest on death claims in accordance with the regulations. Reference: RCW 48.23.300. (Claims Standard #8.)	14
5	The Company is instructed to correct death claim paying procedures to ensure all death benefits payable under the terms of a life insurance policy are paid based on the decedent's resident state at time death and in accordance with Washington law. Revised procedure training is required for all examiners. Reference: RCW 48.23.300. (Claims Standard #8.)	14
6	The Company is instructed to review all death claims paid from 1/1/2003 forward to ensure that all claims on Washington residents at time of death were paid in accordance with Washington law. The Company will have 90 days from the adoption of this report to notify the OIC of the audit results and additional amount paid, if any. Reference: RCW 48.23.300. (Claims Standard #8.)	14
7	The Company is instructed to implement standards to ensure that juvenile life applications are appropriate. Reference: RCW 48.23.345. (Underwriting and Policy Issue Standard #9.)	19
8	The Company is instructed to maintain a copy of any illustration used in the sale of a policy, an acknowledgement that no illustration was used, or a signed copy noting a "revised illustration." Reference: RCW 48.23A.060. (Underwriting and Policy Issue Standard #11.)	19
9	The Company is instructed to require a statement signed by the applicant regarding replacement of an existing policy. Reference: WAC 284-23-450(2). (Policy Replacement Standard #2.)	22
10	The Company is instructed to require a statement signed by the agent indicating whether or not replacement is involved. Reference: WAC 284-23-455(1). (Policy Replacement Standard #3.)	22

	RECOMMENDATIONS	
1	It is recommended that the Company maintain full and adequate records and cease relying on its agents and brokers to maintain full file documentation. Reference: RCW 48.05.280. (General Examination Standard #4.)	9
2	It is recommended that the Company implement procedures to cross-reference policies against Social Security administration records to determine if policies should be terminated. (Claims Procedures and Processing.)	11
3	It is recommended that the Company implement procedures to determine if more than one (1) policy is involved when a death claim is filed. (Claims Procedures and Processing.)	11
4	It is recommended that the Company implement audit controls to assure that claims data is entered into the Company's system accurately. (Claims Procedures and Processing.)	11
5	It is recommended that the Company acknowledge communications and correspondence from claimants within 10 working days. Reference: WAC 284-30-360(1), WAC 284-30-360(2), WAC 284-30-360(3). (Claims Standard #3.)	13
6	It is recommended that the Company provide appropriate disclosures relating to accelerated death benefits and policy premiums. Reference: WAC 284-23-650(7), WAC 284-23-680. (Claims Standard #10.)	13
7	It is recommended that the Company issue its policies based on the state that the application is signed rather than the state that the agent holds a license. (Underwriting Procedures.)	16
8	It is recommended that the Company verify insurable interest at the time of application. Reference: RCW 48.18.030(1). (Underwriting and Policy Issue Standard #1.)	18
9	It is recommended that the Company obtain the consent of the applicant when alterations are made to an application. Reference: RCW 48.18.070(1). (Underwriting and Policy Issue Standard #3.)	18
10	It is recommended that the Company send the required notice of replacement and policy summary to the existing carrier within three (3) working days of receipt of the application. Reference: WAC 284-23-455(2)(b). (Policy Replacement Standard #5.)	22
11	It is recommended that the Company maintain replacement notices, summaries, and a replacement register for a minimum of three (3) years. Reference: WAC 284-23-455(3). (Policy Replacement Standard #6.)	22

SUMMARY OF STANDARDS

#	Company Operations & Management Standards	Page	Pass	Fail
1	The company is issued a certificate of authority by the OIC prior to acting as a life insurance carrier in the State of Washington. Reference: RCW 48.05.030(1).	8	X	
2	The company holds an annual meeting of its shareholders as stated and in accordance with its bylaws. Reference: RCW 48.07.040.	8	X	
3	No less than three-fourths of the directors are United States or Canadian citizens, and a majority of mutual insurer directors are residents of this state. Reference: RCW 48.07.050.	8	X	
4	All domestic insurers report to the OIC any amendments to the Articles of Incorporation. Reference: RCW 48.07.070(2).	8	X	

#	General Examination Standards	Page	Pass	Fail
1	The company does business in good faith, and practices honesty and equity in all transactions. Reference: RCW 48.01.030.	9	X	
2	The company allows the examiners access to all records, documents and files, and facilitates the examination process. Reference: RCW 48.03.030(1).	9	X	
3	The company does business in its legal name. Reference: RCW 48.05.190(1), Bulletin 78-7.	9	X	
4	The company maintains full and adequate accounts and records of its assets, obligations, transactions and affairs. Reference: RCW 48.05.280.	9	X	
5	The company does not discourage insureds from contacting the OIC and does not discriminate against those that do contact the OIC. Reference: WAC 284-30-572(2).	9	X	

#	Agent Activity Standards	Page	Pass	Fail
1	The company ensures that agents and brokers are licensed for the appropriate line of business with the State of Washington prior to allowing them to solicit business or represent the company in any way. Reference: RCW 48.17.060(1), RCW 48.17.060(2).	10		X
2	The company ensures that agents are appointed to represent the company prior to allowing them to solicit business on behalf of the Company. Reference: RCW 48.17.160(1).	10		X
3	The company provides written notice to the agent and the OIC when an agent's appointment has been revoked. Reference: RCW 48.17.160(3).	10	X	

#	Agent Activity Standards	Page	Pass	Fail
4	The company ensures that agents and brokers selling variable policies or contracts are licensed as security salesmen or securities brokers under a license issued by the director of financial institutions. Reference: RCW 48.18A.060.	10	X	

#	Claims Standards	Page	Pass	Fail
1	The company maintains complete claim files with all notes and work papers in such detail that the claims history can be reconstructed. Reference: WAC 284-30-340.	14		X
2	No insurer shall misrepresent policy provision by a) failing to disclose all pertinent benefits, coverages, and policy provisions to the claimant; b) setting a time limit or filing a claim unless such a limit is allowed in the policy language; c) issuing a practical settlement which contains language that releases the insurer from the full liability to which the claim is due; or d) making payment of benefits under a reservations of right provision with disclosing such to the claimant. Reference: WAC 284-30-330(1), WAC 284-30-350(1), WAC 284-30-350(6), WAC 284-30-350(7).	12	X	
3	No insurer shall fail to acknowledge communications. Receipt of communication must be acknowledged and correspondence from a claimant must be answered within ten (10) working days for non-group claims and within 15 working days for group claims, unless payment is made within the stated time limits. Response to OIC communications concerning claims must be made within 15 working days of receipt from the OIC. Reference: WAC 284-30-360(1), WAC 284-30-360(2), WAC 284-30-360(3).	13	X	
4	An insurer must complete claim investigations within 30 days of receipt of proof of loss unless file notes show that this was not reasonably possible. Reference: WAC 284-30-370.	12	X	
5	Within 15 days of receiving proof of loss, an insurer must accept or deny the claim. If determination cannot be made within 15 days, the insurer must notify the claimant of the status within 15 days and every 30 days thereafter until final determination is made. Reference: WAC 284-30-380(1), WAC 284-30-380(3).	12	X	
6	If a claim is denied based on specific policy provisions, the denial must be in writing and a copy must be in the file. If a claim is denied for reasons other than specific policy provisions, notice may be in other forms but appropriately documented in the claim file. Reference: WAC 284-30-380(1), WAC 284-30-380(2).	13	X	

#	Claims Standards	Page	Pass	Fail
7	Every insurer must adopt and implement reasonable standards for prompt investigation and payment of claims. Reference: WAC 284-30-330(3).	13	X	
8	Interest will be payable at no less than 8% from the date of death until payment is made on claims where the decedent is a resident of Washington at the time of death. If the date of payment is greater than 90 days from the date completed proof of loss forms are received, the insurer will increase the interest rate by 3% form day 91 until payment of the proceeds is complete. Reference: RCW 48.23.300.	14		X
9	The company complies with the required provision regarding simultaneous deaths of the insured and beneficiary as required by the statute. Reference: RCW 48.18.390.	12	NA	
10	The company provides appropriate disclosures and does not unfairly discriminate in payment of accelerated benefit payments. Reference: WAC 284-23-650(7), WAC 284-23-680.	13	X	

#	Complaint Standards	Page	Pass	Fail
1	The company responds to any inquiry from the OIC within 15 business days, and the response is in writing, unless otherwise indicated in the inquiry. The response to the OIC contains the substantial information requested by the OIC. Reference: WAC 284-30-650, Technical Advisory T 98-4.	15	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
1	The company does not issue a life insurance policy unless the benefits are payable to the individual insured, his personal representative, or a person having an insurable interest at the time of issue. Reference: RCW 48.18.030(1).	18	X	
2	All policies use a written application completed by the applicant. Reference: RCW 48.18.060.	17	X	
3	No alterations are made to the application except by the applicant, or with the consent of the applicant. Reference: RCW 48.18.070(1).	18	X	
4	The policy specifies the name of the company, the parties of the contract, the subject of the contract, the named risk, and a statement of the premium. Reference: RCW 48.18.140(2).	17	X	
5	The premium stated in the policy includes all fees, charges, premiums or other considerations charged for the insurance. Reference: RCW 48.18.180(1).	17	X	
6	The policy contains the entire contract. Reference: RCW 48.18.190 (life), RCW 48.23.170 (annuity).	17	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
7	The company does not use unfair discrimination between insureds having substantially like insuring, risk, and exposure factors, or expense factors. Reference: RCW 48.18.480, RCW 48.30.300(1).	17	X	
8	Correspondence concerning denial of an application must give the true and actual reason for denying insurance in clear and simple language that does not require an applicant to do further research to understand the reason. Reference: RCW 48.30.320, WAC 284-30-570.	18	X	
9	The company has standards to ensure that juvenile life applications are appropriate and maintains a log of juvenile life denied applications. Reference: RCW 48.23.345.	19		X
10	If a policy form is filed to be marketed without an illustration, an illustration may not be used until after the first policy anniversary. Reference: RCW 48.23A.020(2).	18	X	
11	A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of a "revised illustration" sent to the applicant is retained by the company. Reference: RCW 48.23A.060.	19		X
12	The company furnishes the specified Buyer's Guide and Policy Summary to the applicant as required. Reference: WAC 284-23-230(2).	18	X	
13	The company maintains a complete file with copies of the Buyer's Guides and policy summaries for three (3) years. Reference: WAC 284-23-240(1).	18	X	
14	For all annuities, the specified contract summary is delivered to the applicant prior to accepting the application. Reference: WAC 284-23-350.	18	X	
15	The company maintains a complete file with copies of the annuity contract summaries for three (3) years. Reference: WAC 284-23-360(1).	18	X	
16	A receipt is given to the insured by the agent, solicitor, or insurer's representative for money collected with the application. Reference: WAC 284-30-550(1).	18	X	
17	The company makes an independent evaluation on each application. Reference: WAC 284-30-574.	18	X	
18	Every individual variable contract issued shall include a notice that the policy owner shall be permitted to return the policy within ten (10) days after it is received with a return of market value, less applicable deductions, if the policy owner is not satisfied in any way. Reference: RCW 48.18A.035.	18	X	

#	Policy Replacement Standards	Page	Pass	Fail
1	The company informs its field representatives or personnel responsible for compliance about the requirements of the replacement regulations. Reference: WAC 284-23-450(1).	21	X	
2	All life insurance applications must include a statement signed by the applicant regarding replacement of an existing policy. Reference: WAC 284-23-450(2).	22		X
3	The company requires a statement signed by the agent indicating whether or not replacement is involved. Reference: WAC 284-23-455(1).	22		X
4	The company shall require that agents include a listing of all existing insurance to be replaced and a copy of the replacement notice provided to the applicant. Reference: WAC 284-23-455(2)(a).	21	X	
5	The company sends the required notice of replacement and policy summary to the existing insurer within three (3) working days of receipt of the application. Reference: WAC 284-23-455(2)(b).	22	X	
6	The company maintains copies of the notice of replacement, policy summaries and a replacement register for at least three (3) years or until examination by its state of domicile, whichever is later. Reference: WAC 284-23-455(3).	22	X	
7	The company notifies the applicant in its policy or by separate written notice that the applicant has the right to an unconditional refund of all premiums paid if exercised within 20 days from the date of delivery of the policy. Reference: WAC 284-23-455(4).	21	X	
8	If the sale is generated by direct response and replacement was not proposed by the insurer, the company sends a replacement statement to the applicant with the policy. Reference: WAC 284-23-460(1).	21	NA	
9	If the sale is generated by direct response and the insurer proposed replacement, the company provides a replacement notice, requests a listing of all existing policies, and informs any existing carriers of proposed replacement. Reference: WAC 284-23-460(2).	21	NA	
10	The specified replacement form is used in all transactions proposing replacement. Reference: WAC 284-23-485.	21	X	

#	Inforce Policy Administration Standards	Page	Pass	Fail
1	The company only pays dividends, unused premium refunds, or savings distributed on account of any policy to the policy owner as shown in its records, or any party to whom the policy owner has assigned these rights. *Individual Life Only.* Reference: RCW 48.18.340(1), RCW 48.18.340(2).	23	X	
2	The company processes all types of policy administration procedures in accordance with the required policy provisions. *Individual Life Only.* Reference: RCW 48.23.030, RCW 48.23.070(1), RCW 48.23.080(1), RCW 48.23.085(6), RCW 48.23.120.	24	X	
3	The company processes all types of annuity contract administration procedures in accordance with the required contract provisions. *Individual Annuity Only.* Reference: RCW 48.23.150, RCW 48.23.190, RCW 48.23.210.	24	X	
4	The company used policy illustrations at issue and provides the insured with an annual report on the status of the policy in accordance with the regulations. *Individual and Group Life Only.* Reference: RCW 48.23A.070.	24	X	

APPENDIX 1

Claims Standard #1: The company maintains complete claim files with all notes and work papers in such detail that the claims history can be reconstructed. Reference: WAC 284-30-340.

OIC ID #	Claim #	Policy/Contract #	Comments
#LF Pd8	71572	004783697	Policy issued in WA; insured moved to AZ; insured died in AZ. Claims examiner based payment on address of record rather than address on death certificate.
#LF Pd15	73050	001816802P	Policy issued in WA; insured moved to OR; insured died in OR. Claims examiner based payment on issue state.
#LF Pd29	75436	005516303U	Policy issued in WA; insured was resident of MT when died. Company states that this was examiner error.
#LF Pd32	76708	004490061U	Policy issued in WA; insured was resident of NV when died. Examiner based payment on address of record rather than address on death certificate.

APPENDIX 2

Underwriting and Policy Issue Standard #11: A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of the "revised illustration" sent to the applicant is retained by the company. Reference: RCW 48.23A.060.

OIC ID #	Policy/Contract #	Comments
#2	007041042	No illustration used; acknowledgement not on file.
#5	007256683	Second illustration not labeled revised.
#23	007162321	Second illustration not labeled revised.
#28	006943093	Entire copy of illustration used in sale not retained.
#33	007088745	No illustration used; acknowledgement not on file.
#37	007021946	No illustration used; acknowledgement not on file.
#42	007247211	No illustration used; acknowledgement not on file.
#54	007304926	No illustration used; acknowledgement not on file.
#67	007054300U	No illustration used; acknowledgement not on file.
#89	007103376U	No illustration used; acknowledgement not on file.

APPENDIX 3

Policy Replacement Standard #2: All life insurance applications must include a statement singed by the applicant regarding replacement of an existing policy. Reference: WAC 284-23-450(2).

Policy Replacement Standard #3: The company requires a statement signed by the agent indicating whether or not replacement is involved. Reference: WAC 284-23-455(1).

OIC ID #	Policy/Contract #	Comments
#6	8600867	Agent did not answer question regarding replacement.
#19	7200598	Applicant did not answer question regarding replacement correctly.
#27	7181271	Applicant did not answer question regarding replacement correctly.
#34	7305290	Agent did not answer question regarding replacement.
#47	8506622Z	Agent did not answer question regarding replacement.
#49	8505417Z	Applicant did not answer question regarding replacement correctly.
#50	8504461Z	Applicant did not answer question regarding replacement correctly. Agent did not answer question regarding replacement.

FARMERS

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September 6, 2005

James T. Odiorne, CPA, JD
State of Washington
Office of the Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

SENT BY OVERNIGHT MAIL

Re: Farmers New World Life Insurance Company Draft Market Conduct Report

Dear Mr. Odiorne:

We have received the draft Market Conduct Examination Report for Farmers New World Life for the exam period January 1, 2003 – June 30, 2004. We appreciate the opportunity to review and comment on the Report. Farmers New World Life treats all insurance department examinations seriously and considers carefully the recommendations of the examiners. Therefore, we have thoroughly reviewed each of the comments and criticisms.

Following is our response to several criticisms for which we wish to provide further clarification, or where we respectfully disagree with the findings. Statements in italics reference the comments and criticisms identified in the draft Report and are immediately followed by our response.

Company Management (Page 7)

FNWL is governed by a Board of Directors. The current members of the Board are:

Board Member	***Company/Community Affiliation***	***Date Appointed***
Brian S. Cohen	*Farmers Group, Inc.*	*7/2004*
Jerry J. Carnahan	*Farmers Group, Inc*	*3/2003*
Martin D. Feinstein, Chair	*Farmers Group, Inc.*	*4/1995*
Paul N. Hopkins	*Farmers Group, Inc.*	*1/2002*
Michael W. Keller	*Farmers New World Life, Inc.*	*7/2000*
Ryan R. Larson	*Farmers New World Life, Inc.*	*5/2002*
C. Paul Patsis, President	*Farmers New World Life, Inc.*	*4/2000*
James I. Randolph	*Farmers New World Life, Inc.*	*4/2000*
Gary R. Severson	*Casey Family Programs*	*10/2002*

John F. Sullivan, Jr.	*Sullivan Group*	*10/2002*

We respectfully request that you revise the statement regarding 'current' members to "The members of the Board as of April 4, 2004 are:" and include the following two Board members who were active at that time.

Richard M. Shriver	Farmers Group, Inc	1/2001
Oscar C. Tengtio	Farmers New World Life, Inc.	3/2003

Agent Activity (Page 9)

The Licensing and Appointment Procedures section, second sentence states "*The 2002 procedures placed responsibility for knowing the relevant licensing and appointment requirements on each individual field office.*" Please note that each individual Service Center handles our license and appointment requirements. We respectfully request that this statement be corrected.

Agent Activity (Page 10)

Agent Activity Standard #1: **Instruction #1**

There was one (1) agent that signed an application on December 29, 2003. The agent's license expired on January 27, 2001 (OIC #43).

We would like to note that since the end of the examination period, further procedural and system controls have been put in place to help assure applications are solicited only by duly licensed and appointed agents.

Agent Activity Standard #2: **Instruction #2**

There was one (1) agent that signed an application on June 7, 2004. The agent did not hold an individual appointment with FNWL. This agent was affiliated with two (2) agencies. The agency appointments were cancelled on August 17, 2001 and March 13, 2003 respectively (OIC #57).

Upon receipt of an appointment confirmation from the Washington Department of Insurance, we noted that the Balmores Agency structure was incorrectly listed as a 'Corporation'. The Washington Department of Insurance cancelled the Balmores Insurance Agency Inc effective August 17, 2001. The Balmores Agency was appointed effective September 10, 2001, under the correct structure of a 'Firm'. This agency listed Darren Balmores and Jerri Lynn Balmores as affiliated agents.

The *Jerri Lynn Balmores Insurance Agency* was licensed and appointed with Farmers New World Life effective January 15, 1998. Unfortunately, when the agency structure correction noted above was processed by the Washington Department of Insurance, the Farmers New World Life appointment under the *Jerri Lynn Balmores Insurance Agency* was inadvertently cancelled by the Department. During the course of this exam, the examiners acknowledged (see Information Request 024SR) that Farmers New World Life did not request the cancellation of the *Jerri Lynn Balmores Insurance Agency* appointment with the Company. We respectfully request that this information be noted in the Draft Report.

Claims – Procedures and Processing (page 10 - 11)

The claims procedures were reviewed to ensure that Company personnel are processing claims in accordance with the Company's procedures. The procedures were also reviewed to ensure that processes are in place to avoid fraud. Claims were tested to assure the Company adjudicates claims accurately and timely.

The examiners noted that four (4) procedures are not currently in place and have an impact on claims reporting:

- *The Company does not perform regular internal audits. As a result, issues such as processing claims payment based on the issue state rather than the decedent's resident state at the time of death are not being identified.*

  Our Internal Audit department conducts regular audits of the Claims area. A list of internal audits completed from1999 through June 2004 was provided in our initial response dated September 1, 2004, to your notice of this Market Conduct Examination. See pg.3, question 7. This list indicates three audits were performed on claims functions.

  In addition, from 2000 through 2004, the Claims department conducted a compliance review of their area based on the claims standards detailed in the NAIC Market Conduct Examiners Handbook. This process encompassed a review of company procedures as well as state laws and regulations to ensure Company compliance. Any identified issues were resolved through procedural and system changes, as needed. We therefore respectfully request that this observation be amended or removed from the Report.

Recommendation #2

- *The Company does not cross-reference its inforce policies against Social Security administration records to determine if policies should be terminated. The Company continues to reserve for policies where death claims should be paid. There may be instances where taxes are due on transfer of annuities, and these are not being paid.*

  We are required by Federal law each year to send a privacy notice mailing to all policyholders with an in-force policy. Subsequent to this mailing, we experience an increase in claims inquires when the recipient of the mailing realizes there may be an active policy for a deceased insured. This annual mailing provides an opportunity to identify unreported claims. Taxes are properly paid when the Company receives proper notice of a claim and it is processed.

  We could not locate a legislative or regulatory requirement that instructs an insurer to cross-reference their in-force policies against the Social Security Administration records to identify possible unreported claims. In the absence of a statutory requirement, we respectfully request that this observation be removed from the Report.

Recommendation #3

- *The Company's systems do not have the capability to cross-reference policies. If an insured has more than one (1) policy, there is no guarantee that all policies for that insured are identified when a claim is filed.*

  We would like to clarify our procedures for setting up a claim file. It is our standard operating procedure to access our 'Alpha System' to identify all policies covering the decedent. All identified policies are then verified to ensure that the policy is in-force and that the decedent is an insured person on the policy.

  Diligent efforts are made to ensure all policies associated with a claim are identified and handled in accordance with our published procedures. These procedures are documented in the Life Claims Department Manual (Pgs. B-7 thru B-11). We therefore respectfully request that this observation be removed from the Report.

Recommendation #4

- *The Company enters claim log information into an Access database that will perform interest calculations. The claims examiner can override any of the values in the database and there is no audit trail. This practice leaves the Company open to*

fraudulent claims and to inaccurate data being used to pay claims. This possibility increases because there is no regular internal audit of the claims processes.

Claims examiners review and approve payment of a claim file. Once a claim is approved for payment, a Service Assistant inputs data to the Access database to calculate any interest due on the payment and prepares the check request. The completed check request is returned to the claims examiner, or higher authority, for approval. A completed check request, with all required approval signatures is submitted to the Financial Services area to prepare and mail the check. Claims examiners **do not** input data to the Access database used for interest calculations; service assistant personnel who **cannot override** any of the calculated values within the database handle this function. This separation of duties was established to prevent payment of fraudulent and inaccurate claims. In addition, the formulas in the fields that calculate interest payments were provided by our Actuarial department, and the actual database fields are 'locked'. The only person with authority to 'unlock' these fields is the Claims department supervisor.

If an input error is made in the Access database, the service assistant prints the screen showing the error, voids the transaction and re-inputs the data correctly. The voided screen print is retained in the file along with a copy of the corrected print, which provides an audit trail. These procedures were verbally reinforced with the service assistants to emphasize the need to provide an accurate audit trail within the claims file. We therefore respectfully request that this observation be removed from the Report.

Claims – Review (Page 13 - 14)

Claims Standard #3. **Recommendation #5**

There was one (1) claim that the Company did not acknowledge within the required ten (10) working days (OIC # WOP NP#1, Policy #005529177U).

In practice, the Company provides the necessary claim forms, instructions, and reasonable assistance within ten (10) days of receipt of notice for non-group claims. However, the Company's procedure manual refers to 15 calendar days for all claims. It does not differentiate between group and individual claims.

Claims personnel have been advised of Washington' requirement to acknowledge receipt of a claim within 10 working days. Our practice is to consistently acknowledge receipt of a claim as quickly as possible, but in any event no later than 10 working days. The Claims Department manual will be updated to reflect the correct response time of 10 working days.

Claims Standard #10. **Recommendation #6**

One (1) accelerated death benefit disclosure statement did not contain all of the requirements listed under WAC 284-23-650(7). It did not state what effect the payment of an accelerated benefit would have on the policy's premium (OIC #ABRPpd1, Policy #004961395U).

In the case noted above (OIC #ABRPpd1), the policy involved is a universal life plan that allows flexible premium payments. For this plan type, premiums are not automatically changed. Therefore, the face reduction processed to pay the Accelerated Benefit claim had no affect on the premium. If desired, the policy owner may request a premium change at any time.

For a traditional plan of insurance that has a set premium, the premium amount is automatically adjusted when the reduction in face amount is processed. An endorsement to the policy contract is prepared and sent to the policy owner with a confirmation letter, which

provides information regarding the changes made to the contract, including any premium changes.

A request to revise the Accelerated Benefit Payment Statement of Policy Accounts form (MIM 7556) will be submitted to include the premium amount pre-and post-claim.

Claims – Findings (Page 14)

Claims Standard #1. **Instruction #3**

In five (5) of the individual life claims reviewed, it was difficult to determine if the claim was paid based on the issue state rather than the decedent's resident state at time of death. File documentation is required to demonstrate consistency in claims payment. See Appendix 1.

Appendix 1

Claims Standard #1

The Company maintains complete claim files with all notes and work papers in such detail that the claims history can be reconstructed. Reference WAC 284-30-340.

OIC ID#	Claim #	Policy/contract #	Comments
#LF Pd8	71572	004783697	Policy issued in WA; insured moved to AZ insured died in AZ.
#LF Pd15	73050	001816802P	Policy issued in WA; insured moved to OR; insured died in OR.
#LF Pd20	74254	001647700	Policy issued in WA; insured was resident of CA when died.
#LF Pd29	75436	005516303U	Policy issued in WA; insured was resident of MT when died.
#LF Pd32	76708	004490061U	Policy issued in WA; insured was resident of NV when died.

Each file noted above included a print of the completed 'Approval for Payment' screen from the Access database. This screen print is included in all claim files and clearly identifies which state is used to determine claims payment and any accrued interest due. See attached sample. The laws and regulations of the decedent's state of residency at the time of death will determine how a claim is paid. If the state has not clear laws or regulations, the claim is paid in the state where the contract was issued.

Our records do include sufficient documentation to determine which state was used to determine claims payment at time of death. We therefore respectfully request that this finding be removed from the Report.

Claims Standard #8. **Instructions #4, #5 and #6**

The interest paid on two (2) claims was not calculated correctly (OIC #LP2, Policy #004704546U; OIC #LP21, Policy #004407390P). The Company paid interest commencing on the date the proof of loss was received or on the date the proof of loss was signed rather than from the date of death.

Procedures are in place to identify the commencement date used to pay interest on death claims. Due to a clerical oversight, interest was not correctly paid for the two cases noted above. The interest miscalculation for OIC #LP2 was identified during the examination, immediately corrected and a check was sent to the beneficiary. The interest amount due for OIC #LP21 has also been corrected and a check sent to the beneficiary for the interest balance due.

Claims personnel were reminded of the requirement to ensure correct interest payments are calculated on death claims.

In another instance, the Company did not cross reference all policies of the insured and missed one (1) policy (OIC #LP27, Policy #002024533) when calculating the payable claims.

Based on the documentation in the claim file for OIC #LP27, three (3) policy numbers were provided at the time of the initial claim notification. A cross-reference check was also done to identify any additional policies and determine if the policies were in force. All policies were identified, but due to a clerical oversight, the life policy claim (OIC #LP27 Policy 002024533) was not paid at the same time as the other identified policy contracts (Policies 006441537 and 002074428R). Our agent notified us of the missed policy on January 5, 2004. The claim and interest for policy 002024533 was paid on January 14, 2004.

Underwriting and Policy Issue – Underwriting Procedures (Page 15) Recommendation #7

The third paragraph of this section states, "*While reviewing the Company's new business underwriting files, the examiners noted that the Company issues policies based on the state in which the writing agent is licensed rather than the state in which the application is signed. The appropriate determination is to use the state in which the application was signed.*"

We would like to clarify our procedures in this matter. As the agent must be licensed in the state in which the application is written, we would agree that the appropriate determination is to use the state in which the application is signed. We therefore respectfully request that the above-quoted observation be amended or removed from the Report.

Underwriting and Policy Issue – Underwriting Process (Page 15)

The last sentence of this section states, "*Amendments or endorsements that apply are added and the policy is mailed to the agent for delivery to the proposed insured.*" Please note that it is our procedure to mail the policy to the policy owner, not the insured. We respectfully request that this statement be corrected.

Underwriting and Policy Issue – Findings (Page 18 - 20)

Underwriting and Policy Issue Standard #1. *Recommendation #8*

There was one (1) life file (OIC #87, Policy #007158446U) where the juvenile life policy was issued with the aunt as the policy owner. The juvenile's parents were listed as beneficiaries and as the parties holding the insurable interest in the child. The minor was not dependent on the aunt for support.

Subsequent Event: The Company published a directive memo on June 4, 2004. This memo clearly defined who may effectuate insurance upon the life of a minor.

This finding references RCW 48.18.030(1) for compliance determination. Our interpretation of this law is that a person may contract for life insurance on another individual as long as the benefits under the insurance contract are payable to the individual insured, his/her personal representative or a person having an insurable interest in the insured at the time the contract was made.

The life insurance policy referenced above was issued on a juvenile insured. The application was signed by both the insured's aunt, as policy owner and by the insured's mother, and lists the parents as the primary beneficiaries. Since the benefits are payable to persons having an insurable interest (the parents) at the time of issue, this policy complies with RCW 48.18.030(1). Therefore, we respectfully request this issue be removed from the report.

Underwriting and Policy Issue Standard #3. *Recommendation #9*
While reviewing the life and annuity applications, the examiners noted that material changes were made to the applications and application documents without being initialed or acknowledged by the applicant. The following changes were made:

- *OIC #5, Policy #007002365R: The election of partial liquidation on the transfer/rollover form was changed and not initialed by the applicant.*
- *OIC #26, Policy #007232400: The contingent beneficiary was changed. The change was not initialed by the applicant.*
- *OIC #31, Policy #007037881: The accelerated benefit rider election was changed and not initialed by the applicant.*
- *OIC #85, Policy #007230941U: The guaranteed insurability election was changed without being initialed by the applicant.*

It is our standard practice to review contract files for complete and accurate forms, which includes verifying that any material changes are initialed by a proposed insured and/or policy owner and requesting an application amendment, if necessary. Our Underwriting and Annuity Services areas were reminded of the importance of this practice during the course of the examination. A formal reminder will be provided to all affected areas to further reinforce the need to request application amendments or form corrections, as appropriate.

Underwriting and Policy Issue Standard #9. **Instruction #7**
The Company has developed underwriting standards and procedures designed to detect and prevent the purchase of juvenile life insurance for speculative or fraudulent purposes. Review of sample files indicates that the standards were not implemented on a consistent basis.

There was one (1) life file (OIC #87, Policy #007158446U) where the juvenile life policy was issued with the aunt as the policy owner. The juvenile's parents were listed as beneficiaries and as the parties holding the insurable interest in the child. The minor was not dependent on the aunt for support.

Subsequent Event: The Company published a directive memo on June 4, 2004. This memo clearly defined who may effectuate insurance upon the life of a minor.

Please see our response to Underwriting and Policy Issue Standard #1 on page 6.

Fifteen (15) juvenile life underwriting files were reviewed. The Company's standards state that juvenile coverage may not exceed twice family income. None of the applications used asked for household income.

Subsequent Event: FNWL has filed a revised application form with the OIC. This application form asks that the applicant state household income. The Company revised its underwriting guidelines for juvenile insurance on June 4, 2004.

Our Application for Life Insurance Part 1 (31-4501) was revised effective July 2003 to include a section for 'Annual Household Income'.

Underwriting and Policy Issue Standard #11. **Instruction #8**
There were ten (10) files found in violation of this standard. Seven (7) files did not contain a copy of the illustration or an acknowledgement that an illustration was not used in the sale. Two (2) of the files contained revised illustrations and were not identified as such. An illustration was used in the

sale of one (1) policy and a copy of the illustration used in that sale was not retained. See Appendix 2.

The examiners noted that standard operating procedure for the Company is to require agents to return only the signed summary page of the illustration for its files. The signature page the Company retains does not necessarily indicate if an illustration has been revised. This procedure makes testing for compliance of RCW 48.23A.060(1)(b) impossible.

Appendix 2
Underwriting and Policy Issue Standard #11
A copy of the illustration used in the sale of the life insurance policy, or acknowledgement of no illustration used in the sale, or a signed copy of the "revised illustration" sent to the applicant is retained by the company. Reference: RCW 48.23.060.

OIC ID#	***Policy/Contract #***	***Comments***
# 2	*007041042*	*No illustration used; acknowledgement not on file.*
# 5	*007256683*	*Second illustration not labeled revised.*
#23	*007162321*	*Second illustration not labeled revised.*
#28	*006943096*	*Entire copy of illustration used in sale not retained.*
#33	*007088745*	*No illustration used; acknowledgement not on file.*
#37	*007021946*	*No illustration used; acknowledgement not on file.*
#42	*007247211*	*No illustration used; acknowledgement not on file.*
#54	*007304926*	*No illustration used; acknowledgement not on file.*
#67	*007054300U*	*No illustration used; acknowledgement not on file.*
#89	*007103376U*	*No illustration used; acknowledgement not on file.*

We would like to clarify our illustration retention procedures. It is our standard operating procedure to retain a copy of illustrations prepared and submitted by our agents. During the course of the examination, our Underwriting area was verbally reminded of the importance of retaining all pages of illustrations received from the agent. A formal reminder will be provided to reinforce the need to retain a copy of all illustrations signed by an applicant, as required by law.

Illustrations prepared by FNWL through our DocuMerge system are printed with two copies of the signature page and are either mailed to the agent for delivery or directly to the policy owner. In either case, we request the additional signature page of the illustration be signed and returned. Since the entire illustration prepared by FNWL through our DocuMerge system is maintained in an electronic file and retained indefinitely, we only require the signed and dated second copy of the signature page be returned for our records. Illustrations prepared by our DocuMerge system can be viewed at any time.

Policy Replacements – Policy Replacement Procedures (Page 20)
It is the Company's practice to review applications for indications of possible replacement and review the notice of replacement forms for completeness. The Company asserts it opposes replacement of inforce coverage with any policy that does not improve the position of the policy owner. However, review of the sample files indicates that sufficient controls are not in place to ensure compliance with the Company's procedure.

When replacement questions on the application are left unanswered or the applicant's and/or agent's answers do not match, it is our general practice to obtain clarification. Other indicators, such as the presence of a Notice of Replacement form, Transfer/Rollover form, or a "Yes" answer to one of the replacement questions, may indicate a possible replacement. Any indication of a possible replacement is pursued and confirmed. We require and rely on the completion of the replacement form as the ultimate statement regarding replacement from both the applicant and the agent. If replacement is confirmed, the policy owner receives full disclosure regarding replacement by

reviewing and signing the replacement form and is provided an extended free look period on the issued policy, as required.

During the course of the examination, Underwriting personnel were reminded to obtain clarification or an amendment when replacement questions are left unanswered or the applicant's and/or agent's answers do not match. A formal reminder will be provided to all affected areas to further reinforce the need to request application amendments or form corrections, as appropriate.

Policy Replacements – Policy Replacement Findings (Page 20 - 22)

Policy Replacement Standard #4. **Recommendation #10**

The Company failed to require a listing of all the applicant's existing life insurance or annuities to be replaced with the application on one (1) file (OIC 18, Policy #007064368).

The application stated the existing carrier's name but had "unk" noted for the policy number. The replacement notice also stated the existing carrier's name. Because the information provided (carrier's name, insured's name and other identifying information such as date of birth) was sufficient to notify the other company, the application or notice was not returned to the agent to obtain the policy number, especially as, in this case, the applicant had indicated that the policy number was unknown. We therefore respectfully request this finding be removed from the report.

The Company failed to require a copy of the replacement notice with the application from the agent or broker on one (1) file (OIC #20, Policy #007148902).

The agent was notified that a replacement form was required. However, the policy was declined before the replacement form was received. We therefore respectfully request this finding be removed from the report.

Policy Replacement Standard #5. **Recommendation #11**

The Company failed to send out written communication to the existing carrier advising of the replacement or proposed replacement in two (2) files (OIC #31, Policy #007284543; OIC #45, Policy #007300877). WAC 284-23-455(b) requires that the Company send written notice to the existing carrier within three (3) working days of the receipt of the application.

Notification was sent to the existing carrier regarding possible replacement. However, in these isolated cases, due to a delay in the Underwriting Department, these files were not routed to the replacement processing clerks in a timely manner and replacement notification was not sent within three working days. It is standard company procedure to promptly route new application files to the replacement clerks to handle notification to the existing insurer. Underwriting personnel will be reminded of the existing company procedure.

Policy Replacement Standard #6. **Recommendation #12**

The Company failed to maintain a copy of the replacement notice in one (1) file (OIC #5, Policy #007164995). When questioned by the examiners, the Company was able to obtain a copy of the replacement notice from the writing agent.

The replacement notice for this policy was received with the application on September 25, 2003. Unfortunately, only a copy of page 1 of the replacement notice was filmed for retention in the file. We were able to obtain a copy of page 2 of this notice from the agent and have updated the file accordingly.

Policy Replacement Standards #2 and #3. **Instructions #9 and #10**

On an application, the applicant and the agent must answer whether replacement of existing life insurance or annuity is involved in the transaction. The applicant did not answer the questions on four (4) applications, and the agent did not answer the question on four (4) applications. See Appendix 3.

Appendix 3

Policy Replacement Standard #2

All life insurance applications must include a statement signed by the applicant regarding replacement of an existing policy. Reference WAC 284-23-450(2).

Policy Replacement Standard #3
The Company requires a statement signed by the agent indicating whether or not replacement is involved. Reference WAC 284-23-455(1).

OIC ID #	***Policy/Contract #***	***Comments***
# 6	*008600867*	*Agent did not answer question regarding replacement.*
#19	*007200598*	*Applicant did not answer question regarding replacement correctly.*
#27	*007181271*	*Applicant did not answer question regarding replacement correctly.*
#34	*007305290*	*Agent did not answer question regarding replacement.*
#47	*008506622Z*	*Agent did not answer question regarding replacement.*
#49	*008505417Z*	*Applicant did not answer question regarding replacement correctly.*
#50	*008504461Z*	*Applicant did not answer question regarding replacement correctly. Agent did not answer question regarding replacement.*

OIC #6, #34, #47 - When questions on the application are left unanswered, it is our general practice to obtain clarification as appropriate. Our Underwriting areas were reminded of the importance of this practice during the course of the examination. A formal reminder will be provided to all affected areas to further reinforce the need to request application amendments or form corrections, as appropriate.

OIC #19, #27, #49 – On these cases, the applicant's answer to the replacement question was marked "No", but the agent's replacement question was marked "Yes". In each case, a concurrently signed and dated replacement notice was also received with the application. Based on the receipt of this notice, we handled these cases as replacements, notified the existing insurers and provided the required extended free look period on the issued policies. A formal reminder will be provided to all affected areas to reinforce the need to request application amendments or form corrections, as appropriate.

OIC # 50 - When questions on the application are left unanswered, it is our general practice to obtain clarification as appropriate. However, in the case above, where one of the replacement questions was left blank or was answered "No", we were made aware of possible replacement by other indicators, such as the presence of a Notice of Replacement form, Transfer/Rollover form, or a "Yes" answer to the other replacement question. We pursue and confirm any possible indication of replacement, and require and rely on the completion of the replacement form as the ultimate statement regarding replacement from both the applicant and the agent. We therefore did not amend the applications in these cases. If replacement is confirmed, regardless of whether the application is amended, the policy owner receives full disclosure regarding replacement by reviewing and signing the replacement form, and is provided an extended free look period on the issued policy, as required.

Policy Replacement Standard #10. **Instruction #11**
Five (5) files contained incorrect replacement forms. The Company sends clear directives to agents indicating the correct replacement forms to be used. The use and acceptance of incorrect forms indicates a need for improved training of agents as well as a need for the Company to monitor agent compliance with directives. See Appendix 4.

Appendix 4
Policy Replacement Standard #10
The specified replacement form is used in all transactions proposing replacement. Reference WAC 284-23-485.

OIC ID #	***Policy/Contract #***	***Comments***
# 5	*007164995*	*Replacement form 31-0069 (9/87) used.*
#14	*007265076*	*Replacement form 31-0069 (4/92) used; appears to be applicant's copy*
#18	*007064368*	*Replacement form 31-0069 (11/90) used.*
#25 retained	*007219880*	*Replacement form 31-0069 (1/93) used. Copy not however noted on worksheet.*
#38	*007091409*	*Replacement form 31-0069 (11/90) used. Copy not retained however noted on worksheet.*

Agents have access to the Washington replacement notice (31-0069 – 11/99) online through the Company intranet site.

As noted in the examination, agents also used other previous print date versions of the form.

However, we would like to point out that the only differences between these forms are the headers and footers containing the Company logo, Company address and other cosmetic changes such as format and font styles. In all other respects, these forms contain identical text such as is required by WAC 284-23-485. We therefore respectfully request that this finding be removed from the Report.

Please note that neither this response nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Department or any other party as constituting any admissions. Please further note that we are providing this response and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connection with the information provided.

Thank you again for the cooperation and courtesy shown to us during the exam process. We appreciate the recommendations of the examiners, and the opportunity the examination provides us to review our operations to help assure compliance.

Sincerely,

Bennett L Katz
Assistant Vice President, Regulatory Affairs

cc: Michael G Watson, Chief Deputy Commissioner
Leslie A Krier, Chief Market Conduct Examiner

FARMERS
LIFE INSURANCE

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October 4, 2005

Nancy L. Campbell, AIE, ACS
Market Conduct Examiner
State of Washington
Office of the Insurance Commissioner
810 3rd Avenue Suite 650
Seattle, WA 98104

RECEIVED
OCT 06 2005
INSURANCE COMMISSIONER
SEATTLE

Re: Farmers New World Life Insurance Company Draft Market Conduct Report – Clarification of Response to Draft Report and Publication of Procedure Reminders

Dear Ms. Campbell:

This is in response to verbal communications between the Department and Farmers regarding our September 6, 2005 response to the Draft Report. We are providing further clarification to our previous responses to the Draft Report and in some cases, copies of procedures and/or procedure reminders. We greatly appreciate this additional opportunity to review and comment on the Draft Report.

Following is further clarification and/or documentation for items listed in the Draft Report. Statements in bold reference items identified in the Draft Report and are immediately followed by our response.

Company Management – Board of Directors (Page 7)

This will confirm that the Department agreed in verbal communications to correct the Report to include the addition of two Directors as of April 4, 2004, as stated in our Draft Response of September 6, 2005.

Agent Activity (Page 9)

This will confirm that the Department has agreed in verbal communications to change the reference from "field office" to "Service Center".

Agent Activity (Standard #1, Instruction#1) (Page 10)

We would like to take this opportunity to provide additional clarification in regards to this finding. The agent in question was part of the Farmers Agency Service Team, a small alternate

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agency distribution program implemented in September 2003 as a marketing pilot program. This program was designed to use licensed and appointed agents to contact existing Farmers customers for the opportunity to purchase life insurance. As indicated previously, additional system controls were put in place to prohibit an agent's inadvertent access to leads outside their state(s) of licensure.

Agent Activity Standard #2: (Balmores Agency) Instruction #2

The *Jerri Lynn Balmores Insurance Agency* was licensed and appointed with Farmers New World Life effective January 15, 1998. Unfortunately, when the agency structure correction (outlined in our previous response) was processed by the Washington Department of Insurance, the FNWL appointment under the *Jerri Lynn Balmores Insurance Agency* was inadvertently cancelled by the Department. During the course of this exam, the examiners acknowledged (see Information Request 024SR) that Farmers New World Life did not request the cancellation of the *Jerri Lynn Balmores Insurance Agency* appointment with the Company. Again, we respectfully request that this information be noted in the Report.

Claims – Procedures and Processing (page 10 - 11)

As stated in our recent verbal communications, Farmers New World Life does conduct regular audits in Claims. Claims management personnel are aware of the audits as they are being completed and of the results of the audits. This will confirm that the Department has agreed in verbal communications to modify the Report to reflect this information. A list of audits completed in the Claims area was previously provided.

Recommendation #3 – Cross Referencing Policies in Claims

We would like to re-emphasize that Company procedures and systems do provide the capability to cross-reference policies. Our standard procedure to access our 'Alpha System' allows us to identify all policies covering the decedent. All identified policies are then verified to ensure that the policy is in-force and that the decedent is an insured person on the policy.
Diligent efforts are made to ensure all policies associated with a claim are identified and handled in accordance with our published procedures. These procedures are documented in the Life Claims Department Manual (Pgs. B-7 thru B-11). We therefore respectfully request that this observation be amended or removed from the Report.

Claims – Findings (Page 14) – (Determination if Claim was Paid Based on Issue State/Decedent's Resident State)

As requested during recent verbal communications with the Department, we are providing copies of the completed "Approval for Payment" screens for the following policies:

OIC ID#	*Claim #*	*Policy/contract #*	*Comments*
#LF Pd8	*71572*	*004783697*	*Policy issued in WA; insured moved to AZ insured died in AZ.*
#LF Pd15	*73050*	*001816802P*	*Policy issued in WA; insured moved to OR; insured died in OR.*
#LF Pd20	*74254*	*001647700*	*Policy issued in WA; insured resident of CA when died.*

#LF Pd29	*75436*	*005516303U*	*Policy issued in WA; insured was resident of MT when died.*
#LF Pd32	*76708*	*004490061U*	*Policy issued in WA; insured was resident of NV NV when died.*

These screen prints are included in all claim files and clearly identify which state is used to determine claims payment and any accrued interest due.

Please note that in the five policies above, the decedent was not a resident of Washington at the time of death. However, when the laws of one or more states may be considered in the payment of a claim, it is our practice to evaluate all state requirements and pay the amount that would most benefit the beneficiary.

Please see attached screen prints, Exhibit 1.

Claims Standard #8. Instructions #4, #5 and #6 (Interest Calculations and Review of Claims)

As indicated previously, procedures are in place to identify the commencement date used to pay interest on death claims. Claims personnel have been formally reminded of the requirement to ensure correct interest payments are calculated on death claims. Please see attached Directive Memo D0057, Exhibit 2.

In addition, Instruction #6 directed the Company to complete a review of all death claims paid from 1/1/2003 forward to ensure that all claims on Washington residents at the time of death were paid in accordance with Washington law, and to notify the Department of the results of the audit 90 days from the adoption of the Report. We have already completed this review and would like to provide the audit results as follows:

220 paid claims were reviewed. Of these, two claims were found to have been paid incorrectly, due to clerical error:

Policy #002024533 - an additional $23.60 was paid to the beneficiary.
Policy #004407390P- an additional $630.60 was paid to the beneficiary.

Please see attached copies of correspondence regarding corrected amounts paid; Exhibit 3.

Please note that a third claim (Policy #4704546U) had already been identified and corrected during the course of the exam, and an additional $2,489.49 was paid to the beneficiary. Copies of documentation for that claim correction are also attached for your records; please see Exhibit 3

As indicated above, reminders have been provided to personnel to ensure correct requirements are applied when calculating interest payments; see Exhibit 2.

Underwriting and Policy Issue – Underwriting Procedures (Page 15) Recommendation #7 (Issuance of policies based on state where application is signed)

As previously indicated, our procedures require that the agent must be licensed in the state in which the application is written, and we therefore agreed with the Department that the appropriate

determination to use for policy issuance is the state in which the application is signed, which is also the state in which the agent is licensed. Furthermore, agents are instructed to deliver the policy in the state where it was issued. We therefore respectfully request that the above-quoted observation be amended or removed from the Report.

Underwriting and Policy Issue – Underwriting Process (Page 15)

This will confirm that the Department has agreed in verbal communications to correct the statement "*Amendments or endorsements that apply are added and the policy is mailed to the agent for delivery to the proposed insured*" to reflect that policies are mailed to the agent for delivery to the policy owner.

Underwriting and Policy Issue Standard #3. Recommendation #9 (Material Changes to Application forms)

As stated previously, it is our standard practice to review contract files for complete and accurate forms, which includes verifying that any material changes are initialed by a proposed insured and/or policy owner and requesting an application amendment, if necessary. A copy of the formal reminder sent to affected departments is attached. See Directive Memo D0558, Exhibit 4.

Underwriting and Policy Issue Standard #11. Instruction #8 (Retention of Illustrations)

As previously indicated, it is standard operating procedure to retain a copy of illustrations prepared and submitted by our agents. During the course of the examination, our Underwriting area was verbally reminded of the importance of retaining all pages of illustrations received from the agent. A copy of the formal reminder provided to affected departments is attached. See Directive Memo D0058, Exhibit 4.

Policy Replacements – Policy Replacement Procedures (Page 20)

As indicated previously, when replacement questions on the application are left unanswered or the applicant and/or agents answers do not match, it is our general practice to amend for a complete answer or to obtain clarification. During the course of the examination, Underwriting personnel were reminded to obtain clarification or an amendment when replacement questions are left unanswered or the applicant and/or agents' answers do not match. A copy of the formal reminder provided to affected departments is attached. See Directive Memo D0558, Exhibit 4.

Policy Replacements – Policy Replacement Findings (Page 20 - 22) -Policy Replacement Standard #4. Recommendation #10

This will confirm that the Department has agreed in verbal communications to remove findings related to OIC 18 Policy #007064368 (regarding listing of existing policies) and OIC #20, Policy #007148902 (regarding replacement on a declined policy).

Policy Replacement Standard #5. Recommendation #11

It is standard company procedure to promptly route new application files to the replacement processing clerks to handle notification to the existing insurer. A copy of the formal reminder provided to affected departments is attached. See Directive Memo D0558, Exhibit 4.

Policy Replacement Standards #2 and #3. Instructions #9 and #10

As indicated previously, when questions on the application are left unanswered, or are answered inconsistently, it is our general practice to amend for a complete answer or to obtain clarification as appropriate. Our Underwriting areas were reminded of the importance of this practice during the course of the examination. A copy of the formal reminder provided to affected departments is attached. See Directive Memo D0558, Exhibit 4.

Policy Replacement Standard #10. Instruction #11 (Replacement Form)

As indicated previously, agents have access to the Washington replacement notice (31-0069 – 11/99) on-line through the Company intranet site. Previous print date versions of the form contain the same text, as required by WAC 284-23-485. This will confirm that the Department has agreed in verbal communications to remove this finding from the Report.

Please note that neither this response nor any of our actions are admissions on our part of any violation, wrongdoing or fault, and should not be interpreted by the Department or any other party as constituting any admissions. Please further note that we are providing this response and taking actions without waiver of any defense, legal or equitable, and without waiver of any applicable privilege in connection with the information provided.

Thank you again for the opportunity to provide additional clarifying information in response to the Draft Report. It is our understanding that our responses to the Draft Report will be included along with the Final Report.

Sincerely,

John R. Patton, FLMI, FLHC, CLU, ChFC, AALU
Assistant Vice President, Staff Operations

cc: Michael G Watson, Chief Deputy Commissioner
Leslie A Krier, Chief Market Conduct Examiner