MARKET CONDUCT EXAMINATION

NORTH COAST LIFE INSURANCE COMPANY

W. 1116 RIVERSIDE AVENUE
SPOKANE, WA 99201

Examination Period:
January 1, 2004 – March 31, 2005

Exhibit A
Order No. G06-8

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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:

North Coast Life Insurance Company, NAIC #67059
W. 1116 Riverside Avenue
Spokane, Washington 99201

In this report, North Coast Life Insurance Company is referred to as NCL 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. Nancy L. Campbell, AIE, ACS and Jeanette M. Plitt, CLU 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 North Coast 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 North Coast Life Insurance Company by the Washington State Office of Insurance Commissioner (OIC). The examination covered operations from January 1, 2004 through March 31, 2005. 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 Spokane, Washington and in the OIC Seattle Office.

Matters Examined

The examination included a review of the following areas:

Advertising
Underwriting & Policy Issue
Policy Administration
Claims
Policy Replacements

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

North Coast Life Insurance Company incorporated February 5, 1965, in the State of Washington. The Company was issued a certificate of authority by the Office of Insurance Commissioner on April 28, 1965, and commenced business on May 3, 1965. NCL is owned by its employees. The Company reports that 84.27% of the common stock is held by the employees, the directors, and their families.

Since incorporation, NCL has acquired or merged business from a number of insurance companies. Eight (8) significant purchases of insurance business and two (2) statutory mergers were completed between 1965 and 1988.

The Company's current product portfolio includes whole life, interest sensitive life, term insurance, and individual annuity products.

Company Management

NCL is currently governed by a ten (10) member Board of Directors. The members of the board are:

Board Member	Community Representation/ Affiliation	Date Elected	Term Expires
Ronald Drake Andrews	Proprietor, Andrews Orchards	October 2004	April 2007
Gavin John Cooley	CFO, City of Spokane	April 2000	April 2008
William Carlin Fix	President, William C. Fix Investments	October 1982	April 2008
Robin L. Johnston	Secretary/Treasurer, North Coast Life	April 2005	April 2008
Nicholas Ross Knapton	CPA, McDirmid, Mikkelson & Secrest	January 2002	April 2006
Chester Robert Ogden	President, North Coast Life	April 1965	April 2007
David Martin Ogden	Owner, Clear Creek Recording Studios and Ogden Ranch	July 2004	April 2008
Douglas Hunter Ogden	Executive VP & General Counsel, The Energy Foundation	April 1998	April 2007
Robert James Ogden	Executive VP of Sales & Insurance Operations, North Coast Life	April 1990	April 2006
Ronald Robert Snyder	President, Selkirk Investments, Inc.	October 2001	April 2006

Territory of Operations

NCL is represented by a field force of approximately 250 personal producing general agents, agents and brokerage agents in 12 western states. The Company is licensed in Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. In addition, NCL is licensed in Guam and the Commonwealth of the Northern Marianas.

Findings

The following Company Operations and Management Standards passed without comment:

#	Company Operations & Management Standards	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 Standards	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 Company holds its annual meeting in April of each year. 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 ending December 31, 2004. 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 the financial examiners noted the Company's Bylaws state that it shall be governed by a 12-member board of directors. The Company informed the examiners that the vacancies on the board are the result of recent deaths.

Subsequent Event: As of the exam adoption date, NCL is actively seeking additional board members.

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 Standards	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
4	The company maintains full and adequate accounts and records of its assets, obligations, transactions and affairs.	RCW 48.05.280
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)

ADVERTISING

Advertising Procedures

The Company does not have written internal procedures for the review, creation or dissemination of its advertising pieces.

Materials that are distributed by agents of the Company are to be approved in writing according to instructions in the Agent's Manual and Agent's Contract.

Advertising Materials Review

As part of the initial information request, the Company was asked to provide a list of all advertising materials that were in use during the examination period. The Company provided a listing of 71 advertising pieces. Nine (9) pieces were eliminated from the population as they were either for products not available in the State of Washington or they were duplicates of other pieces that were listed. The remaining 62 pieces, along with the Company's website, were reviewed. In response to questions from the examiners, the Company provided a binder containing the complete advertising file during the examination. After review of the materials in the binder, the examiners determined that the binder submitted to them was actually the entire advertising file.

The following Advertising Standards passed without comment:

#	Advertising Standards	Reference
1	The company does not use any false, deceptive or misleading representations or advertising in the conduct of its business.	RCW 48.30.040, WAC 284-23-040(1), WAC 284-23-040(3)

#	Advertising Standards	Reference
3	No advertisement shall use any combination of words, symbols or physical materials which by content, phraseology, shape, color or other characteristics are so similar to materials used by a governmental program or agency that tends to mislead prospective insureds into believing that the solicitation is in some manner connected with such governmental program or agency.	WAC 284-23-060(2)
4	Any advertising of the company's financial condition must substantially correspond with the last annual statement filed with the OIC.	RCW 48.30.070
5	The company does not make, publish, disseminate, circulate, or place before the public in any newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio station or television stations any advertisement, announcement or statement which uses the existence of the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance covered by the Washington Insurance Guaranty Association Act or the Washington Life and Disability Guaranty Association Act.	RCW 48.30.075
11	A company may state in an advertisement that it is licensed in the state where the advertisement appears but this fact may not be exaggerated.	WAC 284-23-070(2)
12	An advertisement may not imply that an insurer is, in any way, recommended or endorsed by any governmental agency unless the entity has authorized the endorsement or recommendation in writing.	WAC 284-23-070(3)
13	Any statements by a commercial rating system about the insurer contained in an advertisement are accompanied with a definition of the scope and extent of the recommendation.	WAC 284-23-080
14	The company maintains a complete advertising file for the longer of four (4) years or the filing of the next regular report of examination of the insurer, whichever is later.	WAC 284-23-090

The following Advertising Standards passed with comment:

#	Advertising Standards	Reference
6	No advertising contains any false or unfair statements criticizing or implying criticism of another insurer.	RCW 48.30.080, WAC 284-23-050(15)

#	Advertising Standards	Reference
10	Any advertisement that can reasonably be expected to be seen outside of the company's stated jurisdiction must not imply that the company is licensed outside that jurisdiction.	WAC 284-23-070(1)

Advertising Standard #6:
All of the advertising materials reviewed passed this standard. However, while reviewing the replacement files, the examiners found a copy of a letter written by an agent that unfairly compared NCL to other carriers (OIC #RP7). The comparison did not reference specific policies, benefits, or features. The letter cited interest rates of the other carriers as being less than NCL, without qualification of the source of this information. Letters containing the same text were found while reviewing inforce policies in the policy administration section of this examination (OIC #IFL29, OIC #IFL32).

Advertising Standard #10:
Three (3) advertising pieces state that the Company is licensed in the Territory of Saipan. Saipan is a part of the Commonwealth of the Northern Mariana Islands and as such the Commonwealth should be listed in the advertising materials.

OIC AD19, The "Roth IRA"

- OIC AD22, Annuity 2000/Product Folder
- OIC AD29, North Coast Life's Versatile Life, The Next Generation

The following Advertising Standards failed:

#	Advertising Standards	Reference
2	All advertising materials must show the full name and location of the company.	RCW 48.30.050, WAC 284-23-060(1)
7	The company does not make, issue or circulate, or cause to be made, issued or circulated any misrepresentation of the terms of any policy, benefit or advantage of the policy, nor does the company use any name or title of any policy or class of policies misrepresenting the nature of the policy.	RCW 48.30.090
8	The company establishes and maintains a system of control over the content, form and methods of dissemination of all advertisements of its policies.	WAC 284-23-030(2)
9	All advertisements meet the disclosure requirements.	WAC 284-23-050
15	All life insurance sales illustrations must satisfy the applicable requirements and contain the information described in the regulation.	Chapter 48.23A RCW

Advertising Standard #2:
There were six (6) items that failed to include the full name and location of the Company. See Appendix 1.

Advertising Standard #7:
There were two (2) items that used the term "vanishing premium." Due to fluctuations in interest rates and in the marketplace, there are no guarantees that a premium will "vanish" after a particular period of time.

- OIC AD34, Product Folder for "Versatile Life Limited Pay" – The term "vanishing premium" was used on the inside cover of the folder. The copy provided to the OIC for review had the term blackened out. However, it is not clear at what point the Company amended the material.
- OIC AD72, Company's website – On the website page explaining the features of the Versatile Life product, the term "vanishing premium" was used as recently as January 27, 2005.

During the review of sample files in the Policy Administration section of the examination, the examiners noted one policy (IFL #22, Policy #88249331) had a premium deposit fund rider agreeing to minimum interest earnings of 5 percent on additional funds deposited. The policy holder noted that he was receiving 4% and notified the company of the error.

NCL provided a listing of the policies that were issued with the premium deposit rider. Twenty-seven (27) of the 139 policies with this rider were issued in the State of Washington between 1982 and 1985.

Advertising Standard #8:
Review of NCL's advertising records did not demonstrate a system of control over the content, form and method of dissemination of all advertisements of its policies. There is no single individual or department responsible for maintaining a system of control. The materials are not maintained in a single location. For example, website advertising, general advertising, illustrations, and company bulletins are maintained separately. Agent-produced materials were found in an insured's file, but those same pieces were not listed as being part of the company's advertising file. Bulletins and software distributed to agents are not records. In addition, the Company did not maintain a formal advertising log.

Subsequent Event: In June 2005, the Company adopted a computer tracking system to record the distribution of its software to agents. NCL has stated that it will maintain these records for a period of five (5) years.

Advertising Standard #9:

- WAC 284-23-050(1) states that information disclosed to a consumer shall not be minimized or rendered obscure if that information could be confusing or misleading. Two (2) annuity illustrations that were reviewed did not clearly

distinguish between the current, projected, and guaranteed amounts illustrated. See Appendix 2.

- WAC 284-23-050(2) states that advertisements shall not omit material information or use words or phrases that have the capacity to mislead a consumer. Eleven (11) of the advertising pieces reviewed failed to include material information. See Appendix 2.
- WAC 284-23-050(12) requires that the source of statistical information be cited in the advertisement. Five (5) of the advertising pieces failed to include this information. See Appendix 2.

Advertising Standard #15:

The examiners reviewed 20 life illustrations, one (1) software disk, and the Company's website to confirm compliance with illustration regulations. RCW 48.23A.040(2)(c) requires clear identification of assumed dates of payment receipt and benefit payout within a policy. Two (2) illustrations (OIC AD47, OIC AD48) failed to provide a description of the increasing death benefit option shown and the impact that it may have on benefits and values of the policies. One (1) illustration (OIC AD50) failed to provide a description of the joint life payable at first death benefit option that was shown.

The examiners also noted that NCL's software contains a programming language error. All of the Company's Versatile Life illustrations omitted the word "year" in the first sentence of the guaranteed assumptions explanation. The omission of the word "year" left the description difficult to understand.

Subsequent Event: On June 6, 2005, the Company confirmed that it has corrected the programming error in its software.

CLAIMS

Claims Procedures and Processing

The Company does not have written procedures in place for claims processing. Staff are trained by their supervisors and instructed to keep written notes on the processing of claims. Processing is conducted in the policy services department of the Company.

Claims Review

NCL processed 51 death claims for Washington State residents during the examination period. The examiners reviewed 13 randomly selected claims.

Findings

The following Claims Standards passed without comment:

#	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
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 without 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)
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)
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)
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)
9	The company complies with the required provision regarding simultaneous deaths of the insured and beneficiary as required by statute.	RCW 48.18.390
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

The following Claims Standards failed:

#	Claims Standard	Reference
7	Every insurer must adopt and implement reasonable standards for prompt investigation and payment of claims.	WAC 284-30-330(3)
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 #7:
There are no formal standards or procedures in place for investigation and payment of claims. Staff are trained by their supervisors and instructed to keep written notes on the processing of claims.

Claims Standard #8:
NCL inadvertently failed to pay interest on one (1) claim (OIC #C13, Policy #212689-3). Company personnel explained that there was some difficulty determining the correct beneficiary. Once the beneficiary was found, it was paid without interest.

Subsequent Event: NCL issued an additional check for the interest payable to the beneficiary in the amount of $83.63 on August 8, 2005.

UNDERWRITING AND POLICY ISSUE

Underwriting Procedures

The Company provided the examiners with its underwriting guidelines, its agent manual and reinsurance underwriting guidelines for review. All three (3) are used to determine eligibility and medical requirements. The guidelines outline the medical requirements for policy type, amount, and age of the applicant.

NCL does not have written policy issue guidelines.

Underwriting Process

A policy file is set up for each application the day it is received at the Company. A file number is assigned at that time and information from the application is entered into the computer system. The application is reviewed to assure that all paperwork is included. An underwriter reviews the information, orders additional requirements if necessary, reviews any other information received, and issues or declines the application. If the

policy is approved, it is prepared and sent to the agent for delivery. If a premium rating is offered, the agent is notified of the rating and passes that information to his client. If a policy is declined or postponed, the agent is notified first, and the declination letter with any refund of premium is sent directly to the applicant.

Life and Annuity Underwriting File Review

NCL provided the examiners with its databases of new life cases and new annuity cases processed during the examination period. The following number of files was reviewed:

Type of Policy	Population	Sample Size
Life	41	41
Declined Life	5	5
Annuities	101	50
Declined Annuities	0	0
TOTAL	**147**	**96**

The examiners found one (1) application that was accepted that did not have an agent's signature. The examiners were informed that applications that are from employees and their dependents are not signed by a licensed and appointed agent or representative of the company.

Findings

Standard #18 was not tested in this examination. The Company does not write variable life policies.

The following Underwriting and Policy Issue Standards passed without 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)
4	The policy specifies the name of the company, the parties to 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)
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
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

The following Underwriting and Policy Issue Standards failed:

#	Underwriting and Policy Issue Standard	Reference
2	All policies use a written application completed by the applicant.	RCW 48.18.060
3	No alterations are made to the application except by the applicant, or with the consent of the applicant.	RCW 48.18.070(1)
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

Underwriting and Policy Issue Standard #2:

The examiners noted that it is the practice of agents representing the company to name both husband and wife on the same application and request issue of two separate policies. Rather than requesting that new applications be signed upon delivery of the policies, amendments are issued. However, when amendments are issued, beneficiary designations

are not addressed. The Company assumes that the wife is the husband's beneficiary and the husband will be the wife's beneficiary. Authorizations and disclosures must be obtained from each applicant to assure privacy and confidentiality. Since the Company assumes the applicant's beneficiary is the spouse, insurable interest cannot be confirmed.

The examiners also noted that applications written in house or on employees of the Company are not signed by a licensed agent. The agent signature is left blank on these applications.

Subsequent Event: Effective July 28, 2005, NCL requires the signature of an agent on policies that are written in house or on employees of the Company. In addition, the Company requires that a separate application for each person applying for coverage be obtained before issuing a policy.

Underwriting and Policy Issue Standard #3:
Three (3) annuity files reviewed contained alterations to the applications that were not initialed by the applicant (NA #8, Policy #120500945; NA #40, Policy #120404369; NA #50, Policy #120413929). Amendments were not obtained to acknowledge the alterations that were made.

Subsequent Event: Effective July 28, 2005, the Company requires that any alternations to an application must be either initialed or the policy will be amended upon delivery.

Underwriting and Policy Issue Standard #9:
Two (2) of the 41 sample files reviewed were juvenile life applications. NCL was not able to provide the examiners with written procedures and standards for processing juvenile life applications or a log of denied applications.

Subsequent Event: Effective February 1, 2006, NCL adopted written policies and procedures that outline processing of juvenile life applications.

POLICY REPLACEMENTS

Policy Replacement Procedures

The Company does not maintain formal procedures for policy replacements. Each employee is responsible for keeping notes and developing ways to complete tasks based on the manner that they were trained. NCL does maintain appropriate replacement forms and the agent's manual contains a section regarding replacements.

Policy Replacement File Review

The Company provided the examiners with two (2) sets of computer-generated data showing each file involving replacement. The Company cross-references the data by company being replaced and replacing agent. There were nine (9) policies replaced during the examination period. The examiners reviewed each file.

Findings

Policy Replacement Standards #8 and #9 were not tested during the examination as the Company does not generate business through direct response sales.

The following Policy Replacement Standards passed without comment:

#	Policy Replacement Standards	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)
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 Standard passed with comment:

#	Policy Replacement Standards	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)
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)

Policy Replacement Standard #1:

There are no formal written procedures in NCL's underwriting department that address policy replacement. The Company distributes its agent kit to field representatives and personnel. It relies on the agent guidelines to provide the information and requirements regarding replacements.

Policy Replacement Standard #5:
Dates noted in one (1) file indicate that the notice was sent within three (3) working days. However, the file did not contain a copy of the letter sent to the existing carrier. (OIC #RP5, Policy #120500210).

The following Policy Replacement Standards failed:

#	Policy Replacement Standards	Reference
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 #6:
A copy of the letter notifying the existing carrier was not maintained in one (1) file. The Company informed the examiners that it maintained a copy of the letter in another file that was written at the same time (RP #2, Policy #120401131).

POLICY ADMINISTRATION

Policy Administration Procedures

The Company has no formal written policy administration procedures. Individuals are trained in their area of responsibility by their immediate supervisor. Employees are asked to compile their own manuals with notes and rules provided during training.

Policy Administration Review

There were 2,768 life and annuity policies that were in force at the conclusion of the examination period. The following is a breakdown of policy types and the number of files that were randomly selected for review:

Type	Population	Sample Size
Inforce Life	1,194	34
Inforce Annuities	301	6
Terminated Policies	146	3
Loans	407	7
TOTAL	**2,768**	**50**

Findings

Standard #1 was not tested in this examination. NCL does not write participating policies.

The following Policy Administration Standards passed without comment:

#	Policy Administration Standard	Reference
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

The following Policy Administration Standard failed:

#	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

Policy Administration Standard #2:

The letters accompanying the seven (7) policy loans did not indicate the interest rate that was charged for the loans as required by RCW 48.23.085(6). The loan confirmation letters that were in the policy files state the amount of the loan, the interest payment amount on the loan, but not the actual interest rate that was charged. As a standard practice, the Company provides a fact sheet with each loan letter. However, it does not state the actual interest rate that is charged.

Subsequent Event: NCL revised the letter that it sends when loans are taken against policies. Effective July 21, 2005, the letter clearly states the loan interest rate that is being charged. In addition, NCL stated it will include the loan interest rate on the policy owner's annual statement.

INSTRUCTIONS AND RECOMMENDATIONS

	INSTRUCTIONS	Page #
1	The Company is instructed to include its full name and location on all advertising materials. Reference: RCW 48.30.050, WAC 284-23-060(1). (Advertising Standard #2.)	11
2	The Company is instructed to cease using the term "vanishing premium" in its advertising materials. Reference: RCW 48.30.090. (Advertising Standard #7.)	11
3	The Company is instructed to audit all policies that have a premium deposit rider and to provide documentation to the OIC that shows that the appropriate interest was credited on all deposits that were made under that rider. Results of this audit and proof of additional payment must be provided to the OIC within 90 days of adoption of this report. Reference: RCW 48.30.090. (Advertising Standard #7.)	11
4	The Company is instructed to implement a system of control over the content, form, and method of dissemination of its advertising materials. Reference: WAC 284-23-030(2). (Advertising Standard #8.)	11
5	The Company is instructed to clearly distinguish current, projected, and guaranteed amounts on its policy illustrations. Reference WAC 284-23-050(1). (Advertising Standard #9.)	11
6	The Company is instructed to cease omitting material information and using words or phrases in its advertising that may have the capacity to mislead consumers. Reference: WAC 284-23-050(2). (Advertising Standard #9.)	11
7	The Company is instructed to include the source of statistical information used in its advertising. Reference: WAC 284-23-050(12). (Advertising Standard #9.)	11
8	The Company is instructed to clearly define the benefits and impact of any options that are included in its illustrations. Reference: RCW 48.23A.040(2)(c). (Advertising Standard #15.)	11
9	The Company is instructed to adopt and implement reasonable standards for prompt investigation and payment of claims. Reference: WAC 284-30-330(3). (Claims Standard #7.)	15
10	The Company is instructed to assure that appropriate interest payments are paid on death claims. Reference RCW 48.23.300. (Claims Standard #8.)	15
11	The Company is instructed to require a separate application for each individual that is applying for a policy. Reference: RCW 48.18.060. (Underwriting and Policy Issue Standard #2.)	17

	INSTRUCTIONS	Page #
12	The Company is instructed to obtain the signature of a licensed and appointed agent of the Company on in house applications and applications that are taken from employees of the Company. Reference: RCW 48.18.060. (Underwriting and Policy Issue Standard #2.)	17
13	The Company is instructed to obtain an applicant's consent on any material alterations that are made to an application. Reference: RCW 48.18.070(1). (Underwriting and Policy Issue Standard #3.)	18
14	The Company is instructed to implement written procedures and standards for the processing of juvenile life applications. The Company is instructed to maintain a log of denied juvenile life applications. Reference: RCW 48.23.345. (Underwriting & Policy Issue Standard #9.)	18
15	The Company is instructed to inform its field representatives and personnel of the requirements for compliance with the replacement regulations. Reference: WAC 284-23-450(1). (Policy Replacement Standard #1.)	19
16	The Company is instructed to maintain copies of replacement notices, policy summaries, and a replacement register for at least three (3) years or until the next market conduct examination by the State of Washington. Reference: WAC 284-23-455(3). (Policy Replacement Standard #6.)	19
17	The Company is instructed to notify policyholders of the actual loan interest rate that will be charged for a policy loan when a policy loan is taken. Reference: RCW 48.23.085(6). (Policy Administration Standard #2.)	21

	RECOMMENDATIONS	
1	It is recommended that the Company continue to actively pursue individuals to serve on its board of directors in order to have 12 members in accordance with its Bylaws. Reference: RCW 48.07.040. (Company Operations & Management Standard #2.)	8
2	It is recommended that the Company implement standardized, written procedures for all areas of operations. (Advertising, Claims, Underwriting and Policy Issue, Policy Replacements, Policy Administration.)	9, 13, 15, 18, 20
3	It is recommended that the Company review any advertising materials prepared by agents to assure that unfair comparisons of other companies and the Company are not being made. Reference: RCW 48.30.080, WAC 284-23-050(15). (Advertising Standard #6.)	10
4	It is recommended that the Company revise its advertising materials to reflect that the Company is licensed in the Commonwealth of the Northern Marianas rather than just the island of Saipan. Reference: WAC 284-23-070(1). (Advertising Standard #10.)	11

	RECOMMENDATIONS	
5	It is recommended that the Company audit records on a regular basis to ensure that the notice of replacement is sent to the existing carrier within three (3) working days of receipt of an application. During the records review, the examiners noted that processing of notices was not consistently enforced. Reference: WAC 284-23-455(2)(b). (Policy Replacement Standard #5.)	19

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	

#	Advertising Standards	Page	Pass	Fail
1	The company does not use any false, deceptive or misleading representations or advertising in the conduct of its business. Reference: RCW 48.30.040, WAC 284-23-040(1), WAC 284-23-040(3).	9	X	
2	All advertising materials must show the full name and location of the company. Reference: RCW 48.30.050, WAC 284-23-060(1).	11		X

#	Advertising Standards	Page	Pass	Fail
3	No advertisement shall use any combination of words, symbols or physical materials which by content, phraseology, shape, color or other characteristics are so similar to materials used by a governmental program or agency that tends to mislead prospective insureds into believing that the solicitation is in some manner connected with such governmental program or agency. Reference: WAC 284-23-060(2).	10	X	
4	Any advertising of the company's financial condition must substantially correspond with the last annual statement filed with the OIC. Reference: RCW 48.30.070.	10	X	
5	The company does not make, publish, disseminate, circulate, or place before the public in any newspaper, magazine or other publication, or in the form of a notice, circular, pamphlet, letter or poster, or over any radio station or television stations any advertisement, announcement or statement which uses the existence of the Washington Insurance Guaranty Association or the Washington Life and Disability Insurance Guaranty Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance covered by the Washington Insurance Guaranty Association Act or the Washington Life and Disability Guaranty Association Act. Reference: RCW 48.30.075.	10	X	
6	No advertising contains any false or unfair statements criticizing or implying criticism of another insurer. Reference: RCW 48.30.080, WAC 284-23-050(15).	10	X	
7	The company does not make, issue or circulate, or cause to be made, issued or circulated any misrepresentation of the terms of any policy, benefit or advantage of the policy, or does the company use any name or title of any policy or class of policies misrepresenting the nature of the policy. Reference: RCW 48.30.090.	11		X
8	The company establishes and maintains a system of control over the content, form and methods of dissemination of all advertisement of its policies. Reference: WAC 284-23-030(2).	11		X
9	All advertisements meet the disclosure requirements. Reference: WAC 284-23-050.	11		X
10	Any advertisement that can reasonably be expected to be seen outside of the company's stated jurisdiction must not imply that the company is licensed outside that jurisdiction. Reference: WAC 284-23-070(1).	11	X	
11	A company may state in an advertisement that it is licensed in the state where the advertisement appears but this fact may not be exaggerated. Reference: WAC 284-23-070(2).	10	X	

#	Advertising Standards	Page	Pass	Fail
12	An advertisement may not imply that an insurer is, in any way, recommended or endorsed by any governmental agency unless the entity has authorized the endorsement or recommendation in writing. Reference: WAC 284-23-070(3).	10	X	
13	Any statement by a commercial rating system about the insurer contained in an advertisement is accompanied with a definition of the scope and extent of the recommendation. Reference: WAC 284-23-080.	10	X	
14	The company maintains a complete advertising file for the longer of four (4) years or the filing of the next regular report of examination of the insurer, whichever is later. Reference: WAC 284-23-090.	10	X	
15	All life insurance sales illustrations must satisfy the applicable requirements and contain the information described in the regulations. Reference: Chapter 48.23A. RCW.	11		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.	13	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 without 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).	14	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).	14	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.	14	X	

#	Claims Standards	Page	Pass	Fail
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).	14	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).	14	X	
7	Every insurer must adopt and implement reasonable standards for prompt investigation and payment of claims. Reference: WAC 284-30-330(3).	15		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.	15		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.	14	X	
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.	14	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).	16	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).	17		X
4	The policy specifies the name of the company, the parties to the contract, the subject of the contract, the named risk, and a statement of the premium. Reference: RCW 48.18.140(2).	16	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
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).	16	X	
6	The policy contains the entire contract. Reference: RCW 48.18.190 (life), RCW 48.23.170 (annuity).	16	X	
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).	16	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.	17	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.	17		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).	17	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.	17	X	
12	The company furnishes the specified Buyer's Guide and Policy Summary to the applicant as required. Reference: WAC 284-23-230(2).	17	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).	17	X	
14	For all annuities, the specified contract summary is delivered to the applicant prior to accepting the application. Reference: WAC 284-23-350.	17	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).	17	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).	17	X	
17	The company makes an independent evaluation on each application. Reference: WAC 284-30-574.	17	X	

#	Underwriting and Policy Issue Standards	Page	Pass	Fail
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.	16	N/A	

#	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).	19	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).	19	X	
3	The company requires a statement signed by the agent indicating whether or not replacement is involved. Reference: WAC 284-23-455(1).	19	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).	19	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).	19	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).	20		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).	19	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).	19	N/A	
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).	19	N/A	
10	The specified replacement form is used in all transactions proposing replacement. Reference: WAC 284-23-485.	19	X	

#	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).	20	N/A	
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.	21		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.	21	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.	21	X	

APPENDIX 1

<u>Advertising Standard #2:</u> All advertising materials must show the full name and location of the company. Reference: RCW 48.30.050, WAC 284-23-060(1).

OIC ID #	Description	Comments
AD07	Product Description/GPWL-IV	No company address
AD21	Interest Rate Sheet Announcement	PO Box listed; no street address
AD23	SPIA Explanation Page	No company address
AD24	SPDA 7 Explanation Page	No company address
AD25	SPDA 10 Explanation Page	No company address
AD51	VIP Worksheet/Illustration Determination	No company name or address

APPENDIX 2

Advertising Standard #9: All advertisements meet the disclosure requirements. Reference: WAC 284-23-050

WAC 284-23-050(1): The information disclosed in an advertisement shall not be minimized, rendered obscure or presented in a manner that is confusing or misleading.

OIC ID #	Description	Comments
AD64	Flexible Premium Annuity Illustration	There is no clear distinction among current, projected, or guaranteed values
AD66	Flexible Premium Retirement Annuity II Illustration	There is no clear distinction among current, projected, or guaranteed values

WAC 284-23-050(2): No advertisement shall omit material information if there is a capacity to mislead.

OIC ID #	Description	Comments
AD01	Print Ad NCL	Omission of interest rate effective date and interest rate disclaimer.
AD23	SPIA Page	Use of the term "fully guarantee" in regard to policyholder reserves is misleading.
AD24	SPDA 7 Page	Use of the term "fully guarantee" in regard to policyholder reserves is misleading.
AD25	SPDA 10 Page	Use of the term "fully guarantee" in regard to policyholder reserves is misleading.
AD34	Versatile Life Folder	Use of the term "vanishing" in regard to premium.
AD35	Product Summary Sheet	Omission of interest rate effective date and interest rate disclaimer.
AD42	Drop In Rider (DIR)	Omission of interest rate effective date and interest rate disclaimer.
AD63	Premium Deposit Fund (PDF)	Omission of interest rate effective date and interest rate disclaimer.
AD64	Flexible Premium Annuity Illustration	Column heading of illustrated values imply guaranteed values when they are interest-sensitive.
AD66	Flexible Premium Retirement Annuity II Illustration	Column heading of illustrated values imply guaranteed values when they are interest-sensitive.
AD72	Company website	Omission of interest rate effective date and interest rate disclaimer.

WAC 284-23-050(12): The source of any statistics used in advertising shall be identified.

OIC ID #	Description	Comments
AD22	Annuity 2000/Product Folder	NCL quoted bond reserves over 97% investment grade without reference to source of statistics.
AD23	SPIA Page	NCL quoted bond reserves over 97% investment grade without reference to source of statistics.
AD24	SPDA 7 Page	NCL quoted bond reserves over 97% investment grade without reference to source of statistics.
AD25	SPDA 10 Page	NCL quoted bond reserves over 97% investment grade without reference to source of statistics.
AD31	"Peace of Mind"	NCL quoted bond reserves over 97% investment grade without reference to source of statistics

North Coast Life

January 9, 2006

RECEIVED
JAN 12 2006
INSURANCE COMMISSIONER
COMPANY SUPERVISION

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

Re: North Coast Life Insurance Company
Market Conduct Examination

Dear Mr. Odiorne:

Thank you for the opportunity to review and comment on the draft of the Market Conduct Examination of our Company as of March 31, 2005, which we received with your letter dated December 22, 2005. Our comments will be identified by the standard number and page of the Examination Report.

Page 8, Management Standard No. 2

As mentioned also with respect to the recent examination report of our Company, our Board of Directors now consists of ten members. While our By-laws do call for a Board of twelve members, the vacancies have resulted from deaths. We are actively seeking additional board members.

Page 11, Advertising Standard No. 10

The Commonwealth of the Northern Mariana Islands includes perhaps forty islands north of Guam of which Saipan is the largest. Guam is not a part of the Commonwealth. We do not do business on any of those islands except Saipan, which is why we refer to that location rather than to the Commonwealth.

Page 12, Advertising Standard Nos. 2 and 7

We believe that we have corrected any advertising material that did not include our Company's full name, location and telephone number, and I am confident that the use of the term "vanishing premium" has been eliminated from all of our advertising material and from our website.

Page 12, Advertising Standard No. 8

Our "Agent's Manual", of which your examiners had a copy, clearly states on page 3, "Agents are encouraged to contact the Marketing Department with ideas on how we can create materials to aid in your

North Coast Life Insurance Company
1116 W. Riverside Ave., P.O. Box 1445, Spokane, WA 99210-1445
800-541-5858 • 509-838-4235 • Fax 509-747-8569

sales practices. Anything published concerning the policies or business of North Coast needs to be authorized by the Company in writing." All agents receive this manual and it is reviewed with them by our Regional Vice Presidents. This manual was written at the time the Company was founded and has been revised many times. Every agent has a copy. Nothing that violated the standards was approved by our Home Office. All of our advertising material originates in one place, in our Agency Department.

Page 11, Advertising Standard No. 9

Since we do not have copies of the advertisements referred to in Appendix 2, we are uncertain as to the advertising pieces referred to as not being appropriate. When interest rates are changed, advertising material is rewritten to reflect the new rate. We have a record of the dates when interest has been changed. Advertising material with inappropriate rates is withdrawn. Where omissions or errors are noted, we will attempt to correct them. Agents are instructed to dispose of outdated material.

Page 15, Claim Standards Nos. 7 and 8

Our Claims Department and our Policyholder Service Department consist of the same personnel. While five people work on policy service, only three are involved in claims and principally only two of those. All claims are finally reviewed and approved by the head of the department, our Vice President in charge of Policyholder Service and Claims and who personally approves all claims, who has 34 years of experience. In such a small department, written standards and procedures have not been needed, but written notes are included in many of the claim files. We believe that we have applied the appropriate interest rates wherever required.

Page 17, Underwriting and Issues Standard No. 16

Our Company is now issuing policies submitted by our agents over the Internet, and this application was one done online. A computer generated application does not generate a conditional receipt unless money is collected.

Page 18, Underwriting and Policy Issue Standards Nos. 2,3 and 9

Standard No. 2: From now on two applications will always be required for separate policies and we will amend the beneficiary designation if only one person is insured rather than two. Also, in the future we will have a home office employee sign an application as witness when the application is written in house or on an employee of the Company if there is no agent involved.

Later this year we will begin selling to consumers on the Internet and none of those applications will involve an agent. Therefore, in the future, many of our applications will not carry the signature of an agent.

Standard No. 3: In the future we will no longer accept a crossing out of the primary or contingent designation.

Standard No. 9: Our Agent Manual contains guidelines with respect to the writing of juveniles, and we are very careful in this regard. Actually, we have never declined any juvenile application in Washington state or in the time frame of the examination. We have declined a few juveniles written in one agency in another state because of medical reasons. In the future we will keep a log of denied applications.

Page 20, Policy Replacement Standard No. 1

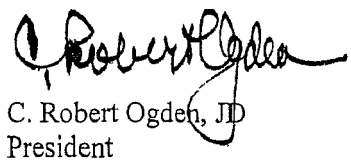
Replacement standards at North Coast originate in the Agency Department which produces our Agent's Manual and has distributed to our agents various timely bulletins concerning replacement. Despite the comment in the Examination Report on page 20 about "brief instructions", our Agent's Manual contains detailed instructions about replacements. Our Field Agency Vice Presidents are instructed to review with our agents, and especially new agents, the appropriate replacement regulations of the states where we do business.

The examiners did not visit with me, or with my son, Rob, who is Executive Vice President in charge of Sales and Insurance Operations, nor with Clifford Kutsch, who is Secretary of the Company, and also Secretary of the Agency Department and who is responsible for distributing various bulletins. For example, the attached material in Exhibit A apparently did not come to the examiner's attention at all. Exhibit A includes an explanation from Mr. Kutsch attached to which is the Oregon bulletin to which he refers and which is dated October 31, 2001, followed by recent bulletins dated November 1, 2005, to Utah producers, August 18, 2005, to Idaho producers and a copy of our "Ethical Conduct Addendum" which each of our agents has signed and returned to us and which is required of all new agents.

We are very cautious at this Company with respect to replacements. The first thing our Underwriting Department looks for is whether the application indicates there is a replacement, and we do go back to the agent to ask if it is a replacement even if the application indicates it is not. Our Underwriting Department is a two person department. Our Vice President in charge of underwriting has 25 years of experience and her assistant has 20 years of experience. They are well aware of the laws on replacements in all of the states in which we are admitted. We do have a replacement register and it covers more than three years. Eventually we expect to have this computerized but for now we use cards, one box for the agent replacing a policy and one for the companies whose policies we are replacing.

In addition to the comments in this letter concerning the confidence I have in the personnel in our Claims and Policy Service and Underwriting Departments, and my reference to their long experience, I do agree that some written guidelines concerning procedures within those departments are useful and a way to record the experience of these people while they are still here and working in their fields. I have asked that guidelines be written down in both departments.

Yours very truly,



C. Robert Ogden, JD
President

CRO/lb

EXHIBIT A

BULLETIN 01-01 - OREGON

North Coast Life

October 31, 2001

To: **All North Coast Life Producers in Oregon**

From: **Robert J. Ogden, Exec. V.P. Sales & Insurance Operations**

Re: **New Replacement Requirements for life insurance & annuities**

Summary of New Model Replacement Law

States are beginning to update rules governing replacement of life insurance and annuities last amended in 1984. Those rules follow the model regulation on the subject that had been adopted at that time by the National Association of Insurance Commissioners (NAIC).

The NAIC replaced its model regulation in 1998 with a new model regulation and then amended the new regulation in 2000. Adoption and amendment of the new model regulation by the NAIC followed extensive consultation with consumers, insurers and organizations representing insurance agents and insurers. Current state rules are proposed to be amended in order to incorporate the current (1998) NAIC model regulation.

The first states in NCL's territory to do so are Hawaii, effective July 1, 2001 **and Oregon, effective November 1, 2001.** The purposes of the amended rules are to ensure that a consumer who wishes to replace a life insurance policy or annuity is thoroughly informed and to ensure that insurers and agents do not engage in improper sales tactics that result in unnecessary replacement of coverage primarily benefiting the agent and potentially harming the consumer.

The proposed changes include a new rule that specifies the duties of agents. An agent who initiates an application will have to submit with the application a statement signed by the applicant and agent as to whether the applicant has existing policies or contracts. If the answer is affirmative, the agent must give the applicant a form notice regarding replacement of coverage. The notice must list and identify all life policies and annuities proposed to be replaced. The agent must also submit copies of required documents and sales material to the insurer to whom the application is made. The rule that generally governs duties of insurers that use agents is amended to require insurers to establish a system of supervising their agents' replacement practices.

Duties of the Agent

An agent who initiates an application shall submit to the insurer, with or as part of the application, a statement signed by both the applicant and the producer as to whether the applicant has existing policies or contracts. If the answer is "no", the agent's duties with respect to replacement are complete.

If the applicant answers "yes", that he or she does have existing policies or contracts, the agent shall present and read to the applicant, not later than at the time of taking the application, a notice per this regulation. The notice shall be signed by both the applicant and the producer attesting that the notice has been read aloud by the agent or that the applicant did not wish the notice to be read aloud (per the applicants initials being added to the form) and the notice was left with the applicant.

The notice shall list all life insurance or annuity policies, properly identified by name of Insurer, Insured name, policy number (if available) and shall include a statement as to whether each policy or contract will be replaced or whether a policy will be used as a source of financing for the new policy. If a policy has not been issued by the existing insurer, alternative identification, such as an application or receipt number, shall be listed.

The agent shall leave with the applicant at the time an application for a new policy is completed the original or a copy of all sales material. Electronically presented sales material shall be provided to the policy or contract owner in printed form not later than at the time of policy or contract delivery.

The agent shall submit to the insurer a copy of each document required by this rule, a statement identifying any preprinted or electronically presented insurer-approved sales materials used, and copies of any individualized sales mate-

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rials, including illustrations related to the specific policy purchased.

Duties of Insurers that use Agents

1) Maintain a system of supervision and control to insure compliance. The system shall do at least:

A) Inform its agent of the requirements and incorporate requirements into all relevant agent training manuals prepared by the insurer;

B) Provide a written statement to all agents of the insurers position with respect to the acceptability of replacements, providing guidance to its agents as to the appropriateness of these transactions;

C) Include a system to review the appropriateness of each replacement transaction that the producer does not indicate is in accord with paragraph (B);

D) Procedures to confirm that the requirements of this part have been met; and

E) Procedures to detect transactions that are replacements of existing policies or contracts by the existing insurer, but that have not been reported as such by the applicant or agent.

Compliance with this section may include but shall not be limited to systematic customer surveys, interviews, confirmation letters, or programs of internal monitoring;

2) Have the capacity to monitor each agent's life insurance and annuity policies for replacements for the insurer, and produce, upon request, and make such records available to the commissioner. The capacity to monitor shall include the ability to produce records for each agent's:

A) Life replacements, including financed purchases, as a percentage of the agent's total annual sales for life insurance;

B) Number of lapses of policies by the agent as a percentage of the agent's total annual sales for life insurance;

C) Annuity contract replacements as a percentage of the agent's total annual contract sales;

D) Number of transactions that are unreported replacements of existing policies or contracts by the existing insurer detected by the company's monitoring system as required by paragraph (1) (E); and

E) Replacements, indexed by replacing agent and existing insurer;

3) Require with or a part of each application for life insurance or an annuity a signed statement by both the applicant and the agent as to whether the applicant has existing policies or contracts;

4) Require with each application for life insurance or an annuity that indicates an existing policy or contract a completed notice as required regarding replacements;

5) When the applicant has existing policies or contracts, each insurer shall be able to produce copies of any sales material as required, the basic illustration and any supplemental illustrations related to the specific policy or contract that is purchased, and the agent's and applicant's signed statements with respect to financing and replacement for at least five years after the termination or expiration of the proposed policy or contract (or until the next company examination);

6) Ascertain that the sales material and illustrations required, meet the requirements of this part and are complete and accurate for the proposed policy;

7) If an application does not meet the requirements of this part, notify the producer and applicant and fulfill the outstanding requirements; and

8) Maintain records in paper, photograph, micro process, mechanical, or electronic media, or by any process that accurately reproduces the actual paper document.

As you can see the monitoring of agent replacement activity by NCL or any other company is beginning to increase dramatically. Reporting by agent name of replacement activity and randomly checking applications for possible additional insurance/replacement activity has never been required until now.

Other requirements include NCL keeping track of replacements from other companies, referenced by company name. There are also requirements for direct sales from a company to the consumer.

We have enclosed a few of the new Replacement forms that must be used in Oregon effective November 1, 2001. The "old" replacement form in use before this "new" form is no longer needed. Please review the new form and you will see that it is relatively simple to comply with. If you have questions concerning this new regulation and the appropriate use of the form please call the home office and talk with Rob Ogden, extension 214. If you need additional Replacement forms please call the home office and ask for Agent supplies.

Thank you for your business and we will work with you to make this new Oregon rule as smooth as possible.

North Coast Life

Important Announcement

Date: November 1, 2005

To: All Utah Producers Appointed & Licensed with North Coast Life

From: Clifford D. Kutsch, Secretary
Director of Agency Administration

Re: State of Utah R-590-93-12 Life Insurance & Annuity Replacement

A recent Legislative Bill went into effect in the State of Utah adopting the NAIC Model Replacement Regulation.

A small supply of the North Coast Life Form NAIC REPL-701 is enclosed. Please destroy your supply of the previous replacement form and begin using this current approved edition.

Additional copies may be obtained by calling the Home Office Agency Department.

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North Coast Life

Important Announcement

Date: August 18, 2005

To: All Idaho Producers Appointed & Licensed with North Coast Life

From: Clifford D. Kutsch, Secretary
Director of Agency Administration

Re: State of Idaho - House Bill No. 117 -- Section 41-1940
Suitablility of Annuity Sales to Senior Consumers

A recent Legislative Bill went into effect in the State of Idaho whereby all licensed producers proposing Annuity sales to "senior consumers " (a person 65 years or older) shall have reasonable grounds that the recommendation is suitable for the purposed annuity.

A small supply of the North Coast Life Statement of Suitability Form NCL IDS705 is enclosed.

Additional copies may be obtained by calling the Home Office Agency Department

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Ethical Market Conduct Addendum
To NCL Representative Contract Agreement

The following additions are made to Section (II) "Relationship, Regulations and Duties" of your Representative's Contract Agreement with North Coast Life Insurance Company ("NCL") and are incorporated and made part of said Agreement. In the sales and marketing of individual life and annuity products, I ("The Representative") agree to:

I. Introduction.

- Conduct business according to high standards of honesty and fairness and to render the same service to my clients that I would demand for myself.
- Conduct business in accordance with all laws and NCL policies applicable to marketing life and annuity products.

II. Licensing, Appointment, Continuing Education and Training.

- Maintain a current license and valid appointment in all states where I solicit the sale of NCL products.
- Participate in continuing education and training, and review NCL's newsletters and memorandums, in order to remain current and in compliance with all applicable insurance laws, regulations, and NCL rules/procedures.

III. Competent, Customer-Focused Sales and Service.

- Provide to my clients a careful evaluation of insurance needs and financial objectives. Use only NCL-approved advertisements, sales material, and illustrations when determining appropriate insurance and/or annuity products for my clients.
- Describe to my clients the terms, benefits and costs of NCL's products in a manner consistent with NCL's written advertising, sales material and training information.

IV. Advertising and Sales Material.

- Send all advertising and sales material, including electronic communication, such as Internet, intended to be used to promote the sale of NCL products and/or services to NCL for review and approval prior to use.
- Use only NCL-approved sales illustrations and marketing materials, and do so in a manner that ensures that premiums and considerations, costs, values, and benefits are accurately and fairly disclosed, and make appropriate disclosure of amounts which are not guaranteed and those which are guaranteed in the policy.
- Use all advertising and sales material in accordance with applicable laws and NCL policies and procedures.

V. Active and Fair Competition.

- Refrain from providing false or misleading information or otherwise making disparaging remarks about a competitor or its products. ("Disparaging remarks" do not include relevant, factually accurate information.)
- Make only fair comparisons between NCL's products and services and those of competitors.

VI. **Policy Replacement.**

- Recommend replacement only when a prior determination has been made that a replacement is in the client's best interest.
- Fully disclose all relevant information, including as appropriate:
  - complete and accurate comparison of old and new premiums, expenses, surrender charges, cash values, guaranteed and maximum values of both policies and death benefits.
  - any cash or policy value loss by surrendering the policy.
  - the start of a new contestability and suicide period under a new life policy.
  - the customer's new life policy must be re-underwritten.
- Comply with all state and NCL replacement procedures in a timely manner.

VII. **Customer Complaints.**

- Immediately report to NCL any client and/or regulatory complaints, and assist NCL in a good-faith effort to review and resolve any complaint(s).

VIII. **Representative's Contract Agreement.**

- The addition of this addendum is made to my Representative's Contract Agreement with NCL.
- To continue my NCL Representative's Contract, I understand that I must sign and promptly return a copy of this Addendum to the home office.
- NCL may terminate my Representative's Contract Agreement without notice if I fail to comply with the policies and procedures set forth in this Addendum.

IX. **Representative's Signature.**

I agree to adhere to this addendum made to my Representative's Contract Agreement with North Coast Life Insurance Company, signed:

X _____. **(please sign here).**

NORTH COAST LIFE
INSURANCE COMPANY

C. Robert Ogden
President
July 1, 1998