Order D06-237

IN THE MATTER OF

BOSTON MUTUAL LIFE INSURANCE COMPANY
Canton, Massachusetts

REGULATORY SETTLEMENT AGREEMENT

LIMITED SCOPE MUTLI-STATE MARKET CONDUCT EXAMINATION ON MILITARY SALES

This Regulatory Settlement Agreement ("Agreement") is entered into as of this ___day of May, 2006 by and between Boston Mutual Life Insurance Company (the "Company"), the Commissioner of the Massachusetts Division of Insurance (the "Lead Regulator" or the "Division"), the Commissioner of the Texas Department of Insurance ("TDI") and the Commissioner of the Georgia Department of Insurance (collectively with the Lead Regulator, the "Lead Regulators"), the insurance regulators of each of the remaining States and the District of Columbia that adopt, agree to approve this Agreement (the "Participating Regulators").

A. Recitals

1. The Company maintains its home office in Canton, Massachusetts and at all relevant times, has been a licensed insurance company domiciled in Massachusetts. The Company is also a licensed insurance company in most other jurisdictions in the United States. Further, the Company through its appointed agents has sold life insurance to military personnel and their families throughout the United States and on United States military bases in Europe.

2. On May 6, 2005, pursuant to authority in Massachusetts General Laws (M.G.L.) Chapter 175, Section 4, the Lead Regulator, in conjunction with the other Lead Regulators called a limited scope multi-state market conduct examination of the Company directed at the Company's sales to military personnel and their families at military bases throughout the United States due to numerous complaints received by the TDI about sales practices of three Texas agents operating near Ft. Hood military base in Killeen, Texas. The examination was conducted to evaluate the Company's sales practices, agent supervision efforts and whether the Company fairly addressed related complaints in a timely manner. The Texas Department concurrently conducted an investigation into the sales practices of the three Texas agents who sold the Company's polices in the Ft. Hood Area. The Report on the Limited Scope Multi-State Market Conduct Examination ("Examination Report"), issued on February 27, 2006, includes required actions as a result of findings therein as set forth in Section B.

3. As a result of the examination, the Lead Regulators engaged in discussions with Company management with respect to the concerns addressed in the examination and the required actions therein. The Company agreed to the required actions in the Examination Report and enumerated below in the Plan of Corrective Action ("the Plan").

4. The Plan seeks to provide reasonable relief to former policyholders whose policies lapsed within one year of purchase. Further, the Plan seeks changes in the Company's business practices for all lines of business related to the following: (i) complaint handling, (ii) marketing, sales and underwriting, (iii) producer licensing and supervision, and (iv) policyholder service.

B. Plan of Corrective Action (the "Plan")

1. Complaint Handling

The Company shall investigate and resolve all oral and written complaints timely and fairly. Specifically, the Company shall do the following:

a. Institute procedures to ensure oral and written complaint investigations that require input or a response from an agent are handled timely. The Company shall require its agents to respond to its request for information within seven (7) business days and institute procedures to enforce disciplinary action for non-responding agents in accordance with its contract with such agent. Moreover, failure of an agent to respond timely should be a significant factor in resolving the oral or written complaint in the policyholder's favor.

b. Provide full refunds to the two customers in response to their written complaints cited on page 11 of the Examination Report and report such actions to the Division and the TDI.

c. Clarify the Company's revised complaint policy adopted in early 2005 to all Company personnel and establish procedures to ensure that all oral and written complaints for all lines of business received through the customer service department via the telephone and through the customer satisfaction survey program are treated as complaints. All complaints must be responded to in writing by the Company. If the agent is referenced in the complaint, a copy of the complaint shall be sent to the agent in a timely manner. In these cases, the agent must timely provide a written response to the

Company. All complaints must be included on the Company's complaint log. (See Policyholder Service Required Actions.)

d. Enhance the Board of Director's monitoring of all complaint handling policies and procedures for all lines of business. The Board shall require that the internal audit function conduct more frequent and in-depth testing and monitoring than is currently conducted to evaluate compliance with all Company complaint handling practices for all lines of business. In addition, the internal audit function shall report quarterly to the Board of Directors regarding all findings and any recommendations.

2. Marketing, Sales and Underwriting

The Company shall institute new procedures as follows:

a. Revise the military sales material to remove inappropriate sales guidance. All existing sales, training and advertising materials for all Company products and distribution channels should undergo an immediate review to be completed by the compliance and legal departments by June 30, 2006. Both the legal and compliance departments shall sign off and approve all sales, training and advertising material developed by the Company prior to use. This approval shall be documented for later monitoring and follow-up. The results of this review shall be reported to the Company's Market Conduct Committee and the Board of Directors.

b. Require that Company will verify that all questions on the insurance application and agent's statement (Form NB-1) with regard to needs assessment are adequately answered when business is submitted to the home office. The underwriting department shall review the needs assessment contained on Form NB-1, and concur with the assessment, if appropriate, and document their concurrence prior to policy issuance.

c. Revise all sales and underwriting manuals to include the new needs assessment procedures and guidelines. Specifically, any such procedures and guidelines must address needs assessment for sales to military personnel with a pay grade of E-1 through E-3 and those who have Servicemembers' Group Life Insurance for active military or Veterans' Group Life Insurance.

d. Implement procedures to ensure that the required disclosure notice regarding the Company's maintenance of privacy information was delivered at the time the application was taken.

e. Enhance the Board of Director's monitoring of compliance with Company policies and procedures including those stated herein with regard to the performance of needs assessment procedures during the sales process.

f. The Company shall update its underwriting and sales manuals to expand the procedures regarding replacements to describe 1) who within the Company will be responsible for locating replacement transactions and ensuring that such transactions are included on the Company's replacement register, 2) how and when such periodic searches for replacements will occur; and 3) how such periodic searches for replacements will be supervised and monitored.

g. The underwriting and sales manuals shall be updated to include and require the use of Form NB-104 for all replacement transactions. To effectively implement the use of Form NB-104, the Company shall amend the home office underwriting approval form to include a question asking whether Form NB-104 was properly completed by agent for all replacements. The underwriting department will critically evaluate the completion of the form to ensure that the replacement was in the

customer's best interest as provided by law and regulation and further acknowledged by customers with their signatures.

h. The Company shall institute new written policies, guidelines and procedures for the home office review and approval of all replacement transactions by the underwriting department. The guidelines for reviewing replacement transactions shall address instances where the face value of the new policy is unchanged from the existing policy. The Company's policy shall require that in these instances, justification for the replacement shall be required to be in the customer's best interest as required by law and regulation and that the rationale for such justification shall be adequately documented on Form NB-104.

i. The Company shall institute new procedures to ensure that notice is provided to the replacing carrier when the application is received in the home office on a timely basis in all instances.

j. The Company's compliance department shall institute new procedures to monitor all of its agents' replacement activity monthly. Those agents who replace three or more policies per month shall be closely monitored and investigated to ensure that the level of replacement activity is appropriate and that the replacements are in the customers' best interests. The Company shall retain documentation supporting these monthly reviews for subsequent monitoring. The compliance department shall report to the Company's Market Conduct Committee and the Board of Directors quarterly on the results of this monitoring.

k. The Company shall provide refunds to the family of the child referenced on page 16 of the Examination Report who was insured under two Company policies terminated by the time the child was age four.

l. Enhance the Board of Director's monitoring of compliance with Company policies and procedures including those stated herein with regard to replacement procedures and oversight of agents who frequently replace.

m. The Company shall develop an analysis tool for evaluating the persistency of new business for all products and distribution channels for indications of problem sales and poor agent conduct. The analysis tool shall enable the Company to prepare a report of the Company's products' persistency along with a comparison to comparable LIMRA persistency averages or other comparable commonly available industry persistency data. This report shall be provided quarterly to the compliance and legal departments for review and subsequent action to address persistency problems. Additionally, the Company's Management Compliance Committee shall review the persistency report and proposed actions and provide the findings and actions to the Board of Directors quarterly.

n. The Company shall make full refunds to all former military policyholders whose policies were in-force beginning January 1, 2002 through April 30, 2005 who subsequently lapsed or surrendered their policies within one year after policy issuance. Policyholders who were sold policies by the three Texas agents and have not already received full refunds shall be included in this relief. The Company shall provide the Division with evidence, upon request, that the efforts to locate former policyholders are rigorous and exhaustive. Such efforts shall include the use of or consultation with third

parties or their databases, and consultation with the Department of Defense to locate these former policyholders, as approved by the Division.

3. Producer Licensing and Supervision

The Company shall implement the following required actions.

a. Until such time as internal processes and controls can be revised and the revisions approved to the satisfaction of the Board of Directors, responsibility for supervision and oversight of agents by the general agencies department as it relates to compliance issues shall be transferred to the compliance, legal, or other appropriate department which shall report on the progress of the reorganization to the Company's Market Conduct Committee and quarterly to the Board of Directors.

b. The Company shall accumulate and evaluate all complaints, customer service satisfaction survey results and oral complaints received by the customer service department and any other known information, such as high replacement activity, obtained by Boston Mutual employees, contractors or general agents relating to potential problem agents in a timely manner. When potential problems are identified, a thorough and complete investigation shall be conducted and documented. All correspondence relating to the matter shall be documented. A watch list of potential problem agents shall be created and maintained by the compliance department. Finally, the Company's decisions with regard to the potential problems will be documented, and the results of the investigations reported to the Company's Market Conduct Committee. The compliance department shall also continually report to the Board of Directors on the quarterly activity with regard to agents on the watch list.

c. Credit reports and criminal background checks shall be obtained for all producers prior to appointment. Any producer with unusual activity or entries on either the credit report or the criminal background check shall be presented to the Company's Market Conduct Committee for approval before any such producer is appointed.

d. The Company shall develop a short and long-term plan, approved by the legal and compliance departments, with regard to agent training. All agent training shall be planned and directed by the Company and should be tailored to various experience levels of the agents and to the products that they sell. All agents shall receive and successfully complete the first level of training prior to the Company accepting any sales from that agent.

e. The Company shall revise its procedures for tracking agent terminations and report any agent terminated "for cause" or for "in accordance" to the appropriate insurance departments immediately along with the cause for such termination. Further, the Company shall provide corrected information to the TDI and to the NAIC through its I-SITE system regarding all terminated agents. All such terminations shall be reported to the Company's Market Conduct Committee and quarterly to the Board of Directors.

f. The Company shall institute new procedures in the underwriting department to ensure that no United States business is accepted from non-appointed producers.

g. Enhance the Board of Director's monitoring of compliance with Company policies and procedures including those stated herein with regard to agent oversight.

4. Policyholder Service

The Company shall institute procedures to ensure that all oral complaints and customer satisfaction survey responses with significant concerns, complaints or grievances are reviewed, monitored and included as complaints as defined by the Company. Such complaints shall be responded to in writing by the Company. If the agent is referenced in the complaint, a copy of the complaint shall be sent to the agent in a timely manner. In these cases, the agent must timely provide a response to the Company which shall be documented. All complaints shall also be included on the Company's complaint log and monitored by the compliance department.

C. Remedies and Other Provisions

1. The Company agrees to provide the remediation as set forth in Section B.2.n. within ninety (90) days following the execution of this Agreement. The Company agrees to complete all remaining required actions set forth in Section B within one hundred eighty (180) days following the execution of the Agreement. The Company's failure to conduct timely remediation and complete all required actions within these timeframes may result in other remedies or penalties assessed by the Lead Regulators not set forth in this Agreement. Nothing in this Agreement shall be construed as to waive or limit the right of the Lead Regulators or Participating Regulators to seek additional remedies not set forth in this Agreement to the extent additional material information related to the issues set forth in this related examination becomes available to them. Further, the Company shall timely respond to any regulator regarding the status of refunds to any policyholder within the regulator's jurisdiction.

2. The Lead Regulators, on behalf of and for the benefit of the Participating Regulators, will monitor the Company's compliance with this Agreement. It is further expected that the Lead Regulators, on behalf of and for the benefit of the Participating Regulators, will conduct a re-examination of the issues addressed by the Examination Report within twenty-four (24) months after the execution of this Agreement.

3. The Lead Regulator will deliver this Agreement to each of the Participating Regulators within thirty (30) days following execution of the Agreement. Each person signing on behalf of a Participating Regulator gives his or her express assurance that he or she has the authority to enter into this Agreement. Each Participating Regulator shall execute and deliver this Agreement to the Lead Regulator within thirty (30) days following receipt of the Agreement.

4. Due to the nationwide remediation included in the required actions set forth in Section B, the Lead Regulators and Participating Regulators will not impose a fine or injunction against the Company unless the Company does not execute and complete the required actions as set forth in Section C.1 or unless additional material information related to the issues set forth in the examination becomes available to them as set forth in Section C.1.

5. During the pendency of this Agreement, each of the Participating Regulators agrees that such Participating Regulator and his or her insurance department will not conduct a market conduct examination of the Company relating to the issues set forth in this related examination. Notwithstanding the forgoing, upon notice from any Participating Regulator to the Lead Regulators, the Participating Regulator and the Lead

Regulators shall proceed to investigate an assertion of the Company's non-compliance herewith regarding matters affecting residents of said Participating Regulator's state.

6. This Agreement may be amended by the Lead Regulators and the Company in writing without consent of the Participating Regulators provided that any such amendment does not materially alter this Agreement.

7. This Agreement shall be governed by and interpreted according to the Laws of the Commonwealth of Massachusetts.

BOSTON MUTUAL LIFE INSURANCE COMPANY

BY: _____
Paul E. Petry, FSA, CLU

ITS: President and Chief Executive Officer

May 28, 2006

MASSACHUSETTS DIVISION OF INSURANCE

BY: _____
Julianne M. Bowler, Commissioner

May _____, 2006

GEORGIA DEPARTMENT OF INSURANCE

BY: _____
John Oxendine, Commissioner

May _____, 2006

TEXAS DEPARTMENT OF INSURANCE

BY: _____
Mike Geeslin, Commissioner

May _____, 2006

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BY: Mike Geeslin
Mike Geeslin, Commissioner

May _____, 2006

MIKE KREIDLER
STATE INSURANCE COMMISSIONER

STATE OF WASHINGTON

Phone (360) 725-7000

OFFICE OF
INSURANCE COMMISSIONER

PARTICIPATING REGULATOR ADOPTION

On behalf of the Office of the Insurance Commissioner for the State of Washington , I hereby adopt, agree to, and approve this Agreement.

OFFICE OF THE INSURANCE COMMISSIONER

BY: _____
Mike Kreidler

TITLE: Insurance Commissioner

DATE: 8/2/06

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