

Report on
Market Conduct Examination

of

The Lincoln National Life Insurance Company
Fort Wayne, Indiana

by Representatives of the
North Carolina Department of Insurance

as of

May 16, 2014

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Raleigh, North Carolina
May 16, 2014

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
Dobbs Building
430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Stephen W. Robertson
Commissioner of Insurance
Indiana Department of Insurance
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204

Honorable Commissioners:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a compliance examination has been made of the market conduct activities of

The Lincoln National Life Insurance Company
(NAIC # 65676)
NAIC Exam Tracking System Exam Number: NC299-M48
Fort Wayne, Indiana

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

FOREWORD

This examination reflects the North Carolina insurance activities of The Lincoln National Life Insurance Company. The examination is, in general, a report by exception. Therefore, much of the material reviewed will not be contained in this written report, as reference to any practices, procedures, or files that revealed no concerns were omitted.

SCOPE OF EXAMINATION

This compliance examination commenced on January 20, 2014, and covered the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 30, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of July 25, 2010.

The examination was arranged and conducted by the Department. It was made in accordance with Market Regulation standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC) and accordingly included tests of underwriting practices.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for producers who were not appointed and/or licensed and for the use of forms and rates/rules that were neither filed with nor approved by the Department, and 10 percent for all other areas reviewed.

Previous Examination Findings

A compliance and target examination covering the period January 1, 2008, through December 31, 2008, was performed on the Company and a report dated July 25, 2010, was issued. The compliance and target examination report identified concerns in the area of underwriting. Specific previous violations relating to this area are listed within the appropriate sections of this report.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following area:

Underwriting Practices - Individual Life Declined: Use of an Adverse Underwriting Decision (AUD) notice that was neither filed with nor approved by the Department and applications signed and dated prior to the producer's appointment. *Individual Variable Annuity Replacements:* Applications signed and dated prior to the producer's appointment or signed and dated by a producer not appointed to sell variable annuities and failure to send a written notification to the existing insurer within five business days of receipt of a completed application indicating replacement.

Specific violations related to the area of concern are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code (NCAC) cited in this report may be viewed on the North Carolina Department of Insurance Web Site www.ncdoi.com by clicking "INSURANCE DIVISIONS" then "Legislative Services".

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations.

UNDERWRITING PRACTICES

Individual Life Declined

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was again deemed to be in violation of the provisions of NCGS 58-39-55 as 20.0 percent of the application files did not contain evidence that an AUD notice was provided to the applicant or contained an AUD notice that was neither filed nor approved by the Department.

The current examination revealed the following:

Fifty policy files from a population of 1,171 were randomly selected for review. Seventeen application files (34.0 percent error ratio) contained an AUD notice that was neither filed with nor approved by the Department. The Company failed to utilize the AUD notice approved by the Department. The Company was again deemed to be in violation of the provisions of NCGS 58-39-55.

Two application files (4.0 percent error ratio) contained an application that was signed and dated by a producer not licensed or appointed within 15 days after the date the first insurance application was submitted. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40.

The average service time to underwrite and decline an application was 27 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	10	20.0
8 - 14	14	28.0
15 - 21	5	10.0
22 - 30	5	10.0
31 - 60	12	24.0
Over 60	4	8.0
Total	50	100.0

Individual Life Issued Substandard

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was again deemed to be in violation of the provisions of 11 NCAC 4.0507(b) and (f) as 32.0 percent of the policy files did not contain evidence of an initial illustration or contained a revised illustration that was not labeled "REVISED".
- The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40 as 2.0 percent of the policy files contained an application that was signed and dated prior to the producer's appointment.

The current examination revealed the following:

Fifty policy files from a population of 303 were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to underwrite and issue a policy was 49 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	7	14.0
8 - 14	4	8.0
15 - 21	6	12.0
22 - 30	4	8.0
31 - 60	17	34.0
Over 60	12	24.0
Total	50	100.0

Individual Annuity Replacements

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) as 26.0 percent of the policy files did not contain evidence that a written notification was sent to the existing insurer within five business days of receipt of a completed application indicating replacement and 6.0 percent of the policy files did not contain evidence that a written notification was sent to the replacing insurer.

The current examination revealed the following:

Fifty policy files from a population of 327 were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time from the date the application was received to the date on the notification letter to the existing insurer was three calendar days. A chart of the average service time to notify the existing insurer of replacement from the date of application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	50	100.0
Total	50	100.0

Individual Variable Annuity Replacements

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules.

The previous examination revealed the following:

- The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) as 52.0 percent of the policy files did not contain evidence that a written notification was sent to the existing insurer within five business days of receipt of a completed application indicating replacement.
- The Company was deemed to be in violation of the provisions of 11 NCAC 12.0420(4), 19.0102(4), and 19.0106(b)(4) as 16.0 percent of the policy files did not contain evidence of the suitability questionnaire.

The current examination revealed the following:

Fifty policy files from a population of 1,595 were randomly selected for review. Six policy files (12.0 percent error ratio) did not contain evidence that a written notification was sent to the existing insurer within five business days of receipt of a completed application indicating replacement. The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2).

Thirteen policy files (26.0 percent error ratio) contained an application that was signed and dated by a producer not licensed or appointed within 15 days after the date the first insurance application was submitted or contained an application signed and dated by a producer not appointed to sell variable annuities. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and 58-33-40.

The average service time from the date the application was received to the date on the notification letter to the existing insurer was three calendar days. A chart of the average service

time to notify the existing insurer of replacement from the date of application until the date of notification follows:

Service Days	Number of Files	Percentage of Total
1 - 7	44	88.0
8 - 14	6	12.0
Total	50	100.0

CONCLUSION

An examination has been conducted on the market conduct affairs of The Lincoln National Life Insurance Company for the period January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 30, 2014.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the area of underwriting practices.

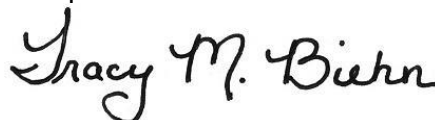
In addition to the undersigned, Linda Sinclair, ACS, AIRC, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Vicki S. Royal, CPM, ACS, AIAA, AIRC
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.



Tracy M. Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina