

Report on
Market Conduct Examination

of the

Protective Life Insurance Company
Brentwood, Tennessee

by Representatives of the
North Carolina Department of Insurance

as of

September 19, 2014

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Raleigh, North Carolina
September 19, 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 Julie Mix McPeak
Commissioner of Insurance
Tennessee Department of Commerce & Insurance
Davy Crockett Tower, 12th Floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

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

Protective Life Insurance Company (NAIC #68136)
NAIC Exam Tracking System Exam Number: NC299-M40
Brentwood, Tennessee

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 Protective 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 16, 2014, and covered the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through August 21, 2014. This action was taken due to previous examination findings referenced in the Market Conduct Report of October 27, 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 and policy rescissions.

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 10 percent for all other areas reviewed.

Previous Examination Findings

A target examination covering the period January 1, 2008, through December 31, 2008, was performed on the Company and a report dated October 27, 2010, was issued. The target examination report identified concerns in the areas of underwriting practices. Specific previous violations relating to this area are listed within the appropriate sections of the report.

EXECUTIVE SUMMARY

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

Underwriting Practices – Individual Annuity Replacements: Failure to give proper notification to the replaced insurer and applications signed and dated prior to the producer’s appointment. *Individual Life Non-Variable Issued Substandard:* Applications signed and dated prior to the producer’s appointment, failure to label illustration “Revised Illustration”, and failure to send an Adverse Underwriting Decision (AUD) notice.

Specific violations related to each 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 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 Annuity Replacements

The Company’s underwriting practices were reviewed to determine adherence to Company guidelines and compliance with 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)(4) as 54.0 percent of the policy files indicated that the Company did not offer a 30-day free look provision with the new policy.
- The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) as 42.0 percent of the policy files indicated that the replaced insurer was not notified within five days of receipt of the application in the home office.
- The Company was deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40 as 2.0 percent of the policy files were written by producers who were not appointed with the Company at the time of the application.

Fifty policy files from a population of 57 were reviewed. **The current examination revealed the following:**

Thirteen policy files (26.0 percent error ratio) evidenced that the replaced insurer was not notified within five business days from the date the application was received in the home office. The Company was again deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2). The service time could not be calculated on one policy file as no communication was sent to the replaced insurer. The survey reflects the remaining 49 files.

Seven policy files (14.3 percent error ratio) contained an application signed and dated prior to the producer's appointment. 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 issue a policy was six calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	36	73.5
8 - 14	8	16.3
15 - 21	3	6.2
22 - 30	1	2.0
31 - 60	1	2.0
Total	49	100.0

Individual Non-Variable Life Issued Substandard

The Company's underwriting practices were reviewed to determine adherence to Company guidelines and compliance with 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 4.0507(b) as 24.0 percent of the policy files contained an illustration that was not labeled "Revised Illustration".
- The Company was deemed to be in violation of the provisions of NCGS 58-39-55 as:
 1. 12.0 percent of the policy files did not contain an AUD notice.

2. 2.0 percent of the policy files did not contain a response to the insured that requested the reason(s) for the adverse underwriting decision.

Fifty policy files from a population of 201 were reviewed. **The current examination revealed the following:**

Three policy files (6.0 percent error ratio) were invalid receipts, as the policies were never issued. We reviewed the remaining 47 files.

Two policy files (4.3 percent error ratio) contained an application signed and dated prior to the producer's appointment. The Company was again deemed to be in violation of the provisions of NCGS 58-33-26 and NCGS 58-33-40.

Six policy files (12.8 percent error ratio) contained an illustration that was not labeled "Revised Illustration" at the time the policy was issued. The Company was again deemed to be in violation of the provisions of 11 NCAC 4.0507(b).

Twenty-six policy files (55.3 percent error ratio) did not contain evidence that an AUD notice was provided to the applicant, policyowner, or proposed insured. The Company was again deemed to be in violation of the provisions of NCGS 58-39-55.

The average service time to underwrite and issue a policy was 63 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	2	4.3
15 - 21	2	4.3
22 - 30	2	4.3
31 - 60	21	44.6
Over 60	20	42.5
Total	47	100.0

POLICY RESCISSIONS

Individual Life Rescissions

As a result of the Department's market surveillance activities, all rescission files from a population of 12 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to investigate and rescind (or modify) a policy was 62 calendar days. The calculations used by the Department began with the claim receipt date as opposed to the actual start date of the investigation. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
15 - 21	1	8.3
22 - 30	3	25.0
31 - 60	3	25.0
Over 60	5	41.7
Total	12	100.0

CONCLUSION

A compliance examination has been conducted on the market conduct affairs of Protective Life Insurance Company for the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through August 21, 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 areas of underwriting practices and policy rescissions.

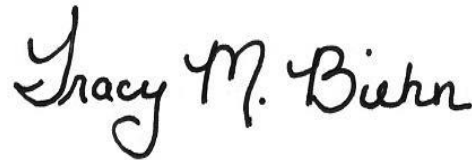
In addition to the undersigned, Marion Flemmings, HIA, HIPAAP, HCSA, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kim D. King". The signature is fluid and cursive, with the first name "Kim" and last name "King" clearly legible.

Kim D. King, HIA, MHP, PAHM
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.

A handwritten signature in black ink, appearing to read "Tracy M. Biehn". The signature is cursive and elegant, with the first name "Tracy" and last name "Biehn" clearly legible.

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