

Report on  
Market Conduct Examination

of the

Transamerica Life Insurance Company  
Cedar Rapids, Iowa

by Representatives of the  
North Carolina Department of Insurance

as of

September 15, 2014

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Raleigh, North Carolina  
September 15, 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 Nick Gerhart  
Commissioner of Insurance  
Iowa Insurance Division  
Two Ruan Center  
601 Locust Street, 4<sup>th</sup> Floor  
De Moines, Iowa 50309-3438

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 target examination has been made of the market conduct activities of

**Transamerica Life Insurance Company (NAIC # 86231)**  
NAIC Exam Tracking System Exam Number: NC299-M43  
Cedar Rapids, Iowa

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 Transamerica 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 examination commenced on October 28, 2013, and covered the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through August 29, 2014. All comments made in this report reflect conditions observed during the period of the examination.

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 policyholder treatment, marketing, underwriting practices, policy rescissions, and claims 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 consumer complaints, producers who were not appointed and/or licensed; 7 percent for claims; and 10 percent for all other areas reviewed.

## EXECUTIVE SUMMARY

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

*Producer Licensing* – Terminations - Termination letters not sent within 15 days after making the notification to the Department.

*Underwriting Practices* – Individual Life Issued and Individual Life Issued Substandard: Applications signed by a producer not appointed within 15 days after the date the first

application was submitted. Individual Life Replacements: Failure to give proper notification to the replaced insurer.

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](http://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

## **POLICYHOLDER TREATMENT**

### Consumer Complaints

As a result of the Department's market surveillance activities, all consumer complaints from a population of 46 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 following table displays the type of complaints received for each year of examination:

<b>Type</b>	<b>2011</b>	<b>2012</b>
Administrative Claims	15 9	13 9
<b>Total</b>	<b>24</b>	<b>22</b>

## MARKETING

### Certificate of Compliance - Advertising

The Company provided a copy of the Certificate of Compliance – Advertising as required by the provisions of 11 NCAC 12.0431(b). The Certificates of Compliance were executed by an authorized officer of the Company attesting that the advertisements disseminated by the Company during the years 2011 and 2012 were made to comply in all respects with the provisions of the insurance laws of the State. The certificates were filed with the annual statements for 2012 and 2013.

### Certificates of Compliance - Life Illustrations

The Company provided copies of the Certificates of Compliance - Life Illustrations for the examiners' review. The illustration actuary certified that the disciplined current scale used in illustrations is in conformity with the Actuarial Standard of Practice for Compliance with the NAIC Model Regulation of Life Insurance Illustrations promulgated by the Actuarial Standards Board. The illustration actuary also certified that the illustrated scales used in insurer-authorized illustrations meet the requirements of the provisions of 11 NCAC 4.0509. A responsible officer of the Company annually certifies that illustration formats are in compliance. These certificates were filed with the annual statements for the years 2012 and 2013.

### Sales and Advertising

A review of the sales and advertising materials furnished by the Company, as well as the Company's internet site at [www.transamerica.com](http://www.transamerica.com), was conducted. The Company maintains sales and advertising files pursuant to the provisions of 11 NCAC 12.0431. No adverse trends or unfair trade practices were observed in this section of the examination.

### Producer Licensing

As a result of the Department's market surveillance activities, a random sample of 100 producer appointment files from a population of 5,034 was 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.

A random sample of 50 producer termination files from a population of 2,022 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Three producer termination files were not provided. The review was based on 47 files. Five producer termination files (10.6 percent error ratio) contained termination letters that were not sent to the producer within 15 days after the Department was notified of the termination. The Company was deemed to be in violation of the provisions of NCGS 58-33-56(d).

### **UNDERWRITING PRACTICES**

#### Individual Annuities Issued

As a result of the Department's market surveillance activities, all policy files from a population of 38 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 service time to underwrite and issue a policy was three calendar days. A chart of the service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	34	89.5
8 - 14	3	7.9
15 - 21	1	2.6
<b>Total</b>	<b>38</b>	<b>100.0</b>

#### Individual Variable Annuities Issued

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 1,269 was 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 service time to underwrite and issue a policy was one calendar day. A chart of the service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	49	98.0
8 - 14	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

#### Individual Annuity Replacements

As a result of the Department's market surveillance activities, all policy files from a population of four 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 service time from the date the application was received to the date on the notification letter to the replaced insurer was one calendar day. A chart of the service time to notify the existing insurer of replacement from the date of application until the date of notification follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	4	100.0
<b>Total</b>	<b>4</b>	<b>100.0</b>

#### Individual Variable Annuity Replacements

As a result of the Department's market surveillance activities, a random sample of 50 policy files from a population of 642 was 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 service time from the date the application was received to the date on the notification letter to the replaced insurer was one calendar day. A chart of the service time to notify the existing insurer of replacement from the date of application until the date of notification follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	50	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

#### Individual Life Issued

As a result of the Department's market surveillance activities, a random sample of 100 policy files from a population of 7,975 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Two policy files (2.0 percent error ratio) contained an application that was signed by a producer not appointed within 15 days after the date the first application was submitted. The Company was 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 29 calendar days. A chart of the average service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	15	15.0
8 - 14	16	16.0
15 - 21	12	12.0
22 - 30	22	22.0
31 - 60	25	25.0
Over 60	10	10.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

### Individual Life Issued Substandard

As a result of the Department's market surveillance activities, 50 policy files from a population of 625 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Four policy files either did not contain an Adverse Underwriting Decision (AUD) notice or contained an AUD notice that was neither filed with nor approved by the Department

One policy file (2.0 percent error ratio) contained an application that was signed by a producer not appointed within 15 days after the date the first application was submitted. The Company was 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 84 calendar days. A chart of the average service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	1	2.0
8 - 14	1	2.0
15 - 21	2	4.0
22 - 30	1	2.0
31 - 60	11	22.0
Over 60	34	68.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

### Individual Life Declined

As a result of the Department's market surveillance activities, a random sample of 50 application files from a population of 1,141 was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One application file did not contain an AUD notice that was filed with and approved by the Department.

The average service time to underwrite and decline an application was 34 calendar days. A chart of the average service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	8	16.0
8 - 14	4	8.0
15 - 21	11	22.0
22 - 30	3	6.0
31 - 60	18	36.0
Over 60	6	12.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

### Individual Life Replacements

As a result of the Department's market surveillance activities, 50 policy files from a population of 1,907 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One policy file (2.0 percent error ratio) did not contain a Notice Regarding Replacement. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2) as seven policy files (14.0 percent error ratio) contained a written notification to the existing insurer that was not sent within five business days from the date the application was received in the home office or did not contain a written notification to the existing insurer. The service time could not be calculated on four policy files as a notification was not sent. The survey reflects the remaining 46 policy files.

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

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	43	93.5
8 - 14	2	4.3
22 - 30	1	2.2
<b>Total</b>	<b>46</b>	<b>100.0</b>

## RESCISSIONS

### Individual Life Rescissions

As a result of the Department's market surveillance activities, all rescission files from a population of 35 were reviewed for accuracy, adherence to Company guidelines, and compliance with applicable North Carolina statutes and rules. No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to investigate and rescind (or modify) a policy was 181 calendar days. A chart of the service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	5	14.2
15 - 21	1	2.9
22 - 30	1	2.9
Over 60	28	80.0
<b>Total</b>	<b>35</b>	<b>100.0</b>

## CLAIMS PRACTICES

### Individual Annuity Claims Paid

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 662 was 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 service time to process a claim payment was 14 calendar days. A chart of the average service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	26	52.0
8 - 14	10	20.0
15 - 21	6	12.0
22 - 30	2	4.0
31 - 60	4	8.0
Over 60	2	4.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Individual Annuity Claims Denied

As a result of the Department's market surveillance activities, both claim files from a population of two 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 service time to process a claim denial was 91 calendar days. A chart of the service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
Over 60	2	100.0
<b>Total</b>	<b>2</b>	<b>100.0</b>

Individual Life Claims Paid

As a result of the Department's market surveillance activities, a random sample of 50 claim files from a population of 1,921 was 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 service time to process a claim payment was 16 calendar days. A chart of the average service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
1 - 7	8	16.0
8 - 14	20	40.0
15 - 21	13	26.0
22 - 30	8	16.0
Over 60	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

Individual Life Claims Denied

As a result of the Department's market surveillance activities, all claim files from a population of three 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 service time to process a claim denial was 482 calendar days. A chart of the service time follows:

<b>Service Days</b>	<b>Number of Files</b>	<b>Percentage of Total</b>
15 - 21	1	33.3
31 - 60	1	33.3
Over 60	1	33.4
<b>Total</b>	<b>3</b>	<b>100.0</b>

### **CONCLUSION**

An examination has been conducted on the market conduct affairs of Transamerica Life Insurance Company for the period January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through August 29, 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 policyholder treatment, marketing, underwriting practices, policy rescissions, and claims 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.

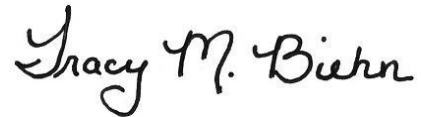
Respectfully submitted,



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.



A handwritten signature in black ink that reads "Tracy M. Biehn". The signature is written in a cursive, flowing style.

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