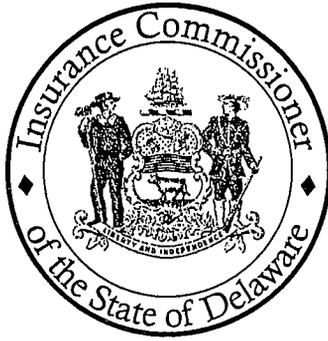


**MARKET CONDUCT**  
**REPORT ON EXAMINATION**  
**OF**  
**JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2003**

Matthew Denn  
Insurance Commissioner



Department of Insurance  
841 Silver Lake Blvd.  
Dover, DE 19904-2465  
(302) 674-7300  
(302) 739-5280 fax

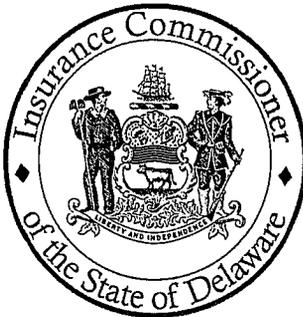
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of December 31, 2003 of the

**JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

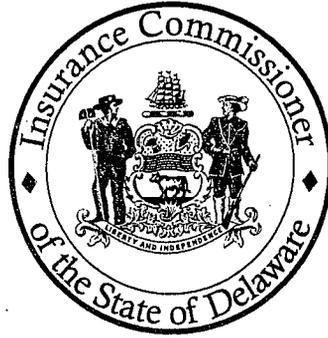
DATE: 22 MARCH 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 22ND DAY OF 2006.

*Matthew Denn*  
Insurance Commissioner

Matthew Denn  
Insurance Commissioner



Department of Insurance  
841 Silver Lake Blvd.  
Dover, DE 19904-2465  
(302) 674-7300  
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**REPORT ON MARKET CONDUCT EXAMINATION**  
**OF THE**  
**JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2003**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink that reads "Matt Denn".

---

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 22ND day of MARCH, 2006.

**TABLE OF CONTENTS**

SALUTATION ..... 1

SCOPE OF EXAMINATION..... 2

HISTORY AND PROFILE ..... 3

METHODOLOGY ..... 3

REVIEW OF PROCEDURES..... 4

*Procedure 01 - Audit (Internal and External) ..... 4*

*Procedure 02 - Anti fraud ..... 5*

*Procedure 03 - Electronic records control ..... 6*

*Procedure 04 - File backup. .... 6*

*Procedure 05 - File maintenance and content..... 6*

*Procedure 06 - Record retention ..... 7*

*Procedure 07 - Computer security..... 7*

*Procedure 08 - Access to the IS Manual ..... 7*

*Procedure 09 - Disaster recovery..... 8*

*Procedure 10 - MGA oversight..... 8*

*Procedure 11 - Policyholder privacy protection ..... 9*

*Procedure 12 - Insurance Information Management ..... 9*

*Procedure 13 - Complaint Handling ..... 10*

*Procedure 14 - Advertising, sales and marketing..... 10*

*Procedure 15 – Policy Illustrations..... 11*

*Procedure 16 – Policy Replacement..... 11*

*Procedure 17 - Producer Training ..... 11*

*Procedure 18 - Producer Selection and Appointment ..... 12*

*Procedure 19 - Producer Defalcation ..... 12*

*Procedure 20 - Policyholder Service ..... 13*

*Procedure 21 - Premium Billing..... 13*

*Procedure 22 - Policy Issuance ..... 14*

*Procedure 23 - Underwriting..... 14*

*Procedure 24 - Rating..... 14*

*Procedure 25 - Disclosures ..... 15*

*Procedure 26 - Underwriter Training ..... 15*

*Procedure 27 - Cancellation..... 16*

*Procedure 28 - Termination..... 16*

*Procedure 29 - Declination ..... 17*

*Procedure 30 - Rescission ..... 17*

*Procedure 31 – Staff Training ..... 18*

*Procedure 32 – Adjuster Training ..... 18*

*Procedure 33 – Claim Handling..... 18*

*Procedure 34 – Internal Claim Audit ..... 19*

*Procedure 35 – Vendor Oversight and Control..... 20*

*Procedure 36 – Non-forfeiture Values..... 20*

*Procedure 37 – Cash Surrender Values ..... 20*

*Procedure 38 – Depository Institutional Disclosure ..... 21*

A. COMPANY OPERATIONS/MANAGEMENT..... 21

John Hancock Variable Life Insurance Company

<i>Standard A-01</i> .....	22
<i>Standard A-02</i> .....	23
<i>Standard A-03</i> .....	23
<i>Standard A-04</i> .....	24
<i>Standard A-05</i> .....	25
<i>Standard A-06</i> .....	26
<i>Standard A-07</i> .....	26
<i>Standard A-08</i> .....	27
<i>Standard A-09</i> .....	28
<i>Standard A-10</i> .....	28
<i>Standard A-11</i> .....	29
<i>Standard A-12</i> .....	29
<i>Standard A-13</i> .....	29
<i>Standard A-14</i> .....	30
<i>Standard A-15</i> .....	31
<i>Standard A-16</i> .....	31
<i>Standard A-17</i> .....	32
B. COMPLAINTS/GRIEVANCES.....	32
<i>Standard B-01</i> .....	33
<i>Standard B-02</i> .....	33
Complaint Sample Results                      Table B2-1 .....	33
<i>Standard B-03</i> .....	34
Complaint Sample Results                      Table B3-1 .....	34
<i>Standard B-04</i> .....	34
Complaint Sample Results                      Table B4-1 .....	34
<i>Standard B-05</i> .....	35
Complaint Sample Results                      Table B5-1 .....	35
C. MARKETING AND SALES.....	35
<i>Standard C-01</i> .....	35
<i>Standard C-02</i> .....	36
<i>Standard C-03</i> .....	36
<i>Standard C-04</i> .....	37
<i>Standard C-05</i> .....	37
<i>Standard C-06</i> .....	38
<i>Standard C-07</i> .....	39
<i>Standard C-08</i> .....	39
<i>Standard C-09</i> .....	40
<i>Standard C-10</i> .....	40
D. PRODUCER LICENSING .....	41
<i>Standard D-01</i> .....	41
<i>Standard D-02</i> .....	41
<i>Standard D-03</i> .....	42
<i>Standard D-04</i> .....	43
<i>Standard D-05</i> .....	43
<i>Standard D-06</i> .....	44
E. POLICYHOLDER SERVICES .....	45

<i>Standard E-01</i> .....		45
Policyholder Service Sample Results	Table E1-1 .....	45
<i>Standard E-02</i> .....		45
Policyholder Service Sample Results	Table E2-1 .....	46
<i>Standard E-03</i> .....		46
Policyholder Service Sample Results	Table E3-1 .....	46
<i>Standard E0-4</i> .....		47
<i>Standard E-05</i> .....		47
Policyholder Service Sample Results	Table E5-1 .....	47
<i>Standard E-06</i> .....		48
Policyholder Service Sample Results	Table E6-1 .....	48
<i>Standard E-07</i> .....		48
Policyholder Service Sample Results	Table E7-1 .....	48
<i>Standard E-08</i> .....		49
Policyholder Service Sample Results	Table E8-1 .....	49
<i>Standard E-09</i> .....		49
Policyholder Service Sample Results	Table E9-1 .....	50
<i>Standard E 10</i> .....		50
Policyholder Service Sample Results	Table E10-1 .....	50
<i>Standard E-11</i> .....		51
F. UNDERWRITING AND RATING.....		51
<i>Standard F-01</i> .....		51
Underwriting Sample Results	Table F1-1 .....	52
<i>Standard F-02</i> .....		52
Underwriting Sample Results	Table F2-1 .....	52
<i>Standard F-03</i> .....		52
<i>Standard F-04</i> .....		53
<i>Standard F-05</i> .....		53
Underwriting Sample Results	Table F5-1 .....	54
<i>Standard F-06</i> .....		54
Underwriting Sample Results	Table F6-1 .....	54
<i>Standard F-07</i> .....		54
Underwriting Sample Results	Table F7-1 .....	55
<i>Standard F-08</i> .....		55
Underwriting Sample Results	Table F8-1 .....	55
<i>Standard F-09</i> .....		56
Underwriting Sample Results	Table F9-1 .....	56
<i>Standard F-10</i> .....		56
Underwriting Sample Results	Table F10-1 .....	56
<i>Standard F-11</i> .....		57
Underwriting Sample Results	Table F11-1 .....	57
<i>Standard F-12</i> .....		57
Underwriting Sample Results	Table F12-1 .....	58
<i>Standard F-13</i> .....		58
Underwriting Sample Results	Table F13-1 .....	58
<i>Standard F-14</i> .....		58

<i>Standard F-15</i> .....	59
Underwriting Sample Results                      Table F15-1 .....	59
G. CLAIMS PRACTICES .....	59
<i>Standard G-01</i> .....	59
Claims Sample Results                              Table G1-1 .....	60
<i>Standard G-02</i> .....	60
Claims Sample Results                              Table G2-1 .....	60
<i>Standard G-03</i> .....	60
Claims Sample Results                              Table G3-1 .....	61
<i>Standard G-04</i> .....	61
Claims Sample Results                              Table G4-1 .....	61
<i>Standard G-05</i> .....	62
Claims Sample Results                              Table G5-1 .....	62
<i>Standard G-06</i> .....	62
Claims Sample Results                              Table G6-1 .....	62
<i>Standard G-07</i> .....	63
Claims Sample Results                              Table G7-1 .....	63
<i>Standard G-08</i> .....	63
Claims Sample Results                              Table G8-1 .....	63
<i>Standard G-09</i> .....	64
<i>Standard G-10</i> .....	64
Claims Sample Results                              Table G10-1 .....	64
<i>Standard G-11</i> .....	64
<i>Standard G-12</i> .....	65
<i>Standard G-13</i> .....	65
SUMMARY .....	66
LIST OF RECOMMENDATIONS .....	66
CONCLUSION .....	67

John Hancock Variable Life Insurance Company

**SALUTATION**

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Denn;

In compliance with your instructions contained in Certificate of Examination Authority Number 03-702, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

**JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY**

hereinafter referred to as the "Company", "John Hancock Variable Life", or "JHVLICO." John Hancock Variable Life Insurance Company is incorporated under the laws of the Commonwealth of Massachusetts. This examination reviewed only the operations of JHVLICO as they impact residents, policyholders, and claimants residing in the State of Delaware. The on-site phase of the examination was conducted at the following location:

John Hancock Tower, 200 Clarendon St., Boston, MA 02117

Examination work was also done off premises and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

The report is as of December 31, 2003.

The report of examination thereon is respectfully submitted.

## SCOPE OF EXAMINATION

The basic business areas that were examined under this examination were:

- A. Company Operations/Management**
- B. Complaint Handling**
- C. Marketing and Sales**
- D. Producer Licensing**
- E. Policyholder Service**
- F. Underwriting and Rating**
- G. Claims**

Each business area has standards that the examination measured. Some standards have specific statutory guidance, others have specific Company guidelines, and yet others have contractual guidelines. Please note that those standards in the NAIC Market Conduct Examiners Handbook which do not have a Delaware Insurance Code basis have been omitted from this examination and from the Delaware Market Conduct Examiners Handbook. The product lines reviewed in this examination were Life insurance products.

This examination was comprehensive in scope. Review of some standards was not conducted in order to maintain an appropriate schedule for completion of the examination. Standards or tests not applied are identified in this report and were those deemed to be of minimal benefit to the overall report.

The examination did focus on the methods used by the Company to manage its operations for each of the business areas subject to this examination. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas in which the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance. Most areas are nevertheless tested to see that the Company is in compliance with Delaware statutes rules and regulations.

Since this examination was the first market conduct examination of the Company, all business areas addressed by the NAIC Market Conduct Examiners Handbook and the Delaware Market Conduct Examiners Handbook that derives from it, were tested.

This examination report is a report by test rather than a report by exception. This means that all standards tested are described and results indicated.

## **HISTORY AND PROFILE**

John Hancock Variable Life Insurance Company (JHVLICO), a stock life insurance Company chartered in 1979 under Massachusetts law, with its home office at 197 Clarendon Street, Boston, Massachusetts, 02117. JHVLICO is authorized to transact life insurance and annuity business in all States other than New York and in the District of Columbia. JHVLICO began selling variable life insurance policies in 1980.

JHVLICO is a wholly-owned subsidiary of John Hancock Life Insurance Company (“John Hancock”), a Massachusetts stock life insurance Company. On February 1, 2000, John Hancock Mutual Life Insurance Company (which was chartered in Massachusetts in 1862) converted to a stock Company by “demutualizing” and changed its name to John Hancock Life Insurance Company. As part of the demutualizing process, John Hancock became a subsidiary of John Hancock Financial Services, Inc. a newly formed publicly-traded corporation. John Hancock’s home office is at John Hancock Place, Boston, Massachusetts, 02117.

JHVLICO issues a comprehensive portfolio of life and annuity products. These products include Traditional Term, Universal, Variable and Survivorship (last-to-die) life insurance and annuity products. JHVLICO offers these products in a wide variety of markets (protection, eState and business planning, etc.) through a variety of distribution channels, including general agencies, the M Financial Group, broker/dealers and banks.

## **METHODOLOGY**

This examination is based on the Standards and Tests for a Market Conduct Examination of a Life and Annuity Insurer found in Chapter XV of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others used a combination or all of the types of review. The types of review used in this examination fall into three general categories. The types of review are: Generic, Sample, and Electronic.

A "Generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. For statistical purposes, an error tolerance of 7% was used for claims reviews and a 10% tolerance was used for other types of review. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI’s actual tolerance for deliberate error.

An "Electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Life and Annuity Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners Handbook are Stated and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. A "Result" is indicated and the examiner's "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are kept with the appropriate Standard.

## **REVIEW OF PROCEDURES**

The management of well-run companies generally have some processes that are similar in structure. While these processes vary in effectiveness from Company to Company, the absence of them or the ineffective application of them is often reflected in failure of the various Standards that follow in this section and other sections. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated and structure is designed;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution and demonstrates that the desired management intent is attained; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

### ***Procedure 01 - Audit (Internal and External)***

***Standards Affected: A1, A5, A10***

***Observations:*** John Hancock Variable Life has a written audit procedure manual. The procedure is clear, readable, organized and easy to follow. The audit procedure is reviewed on a quarterly basis with the last revision dated April 7, 2004. The procedure is compliant with applicable Delaware statutes and regulations.

## John Hancock Variable Life Insurance Company

The Company has measurement structures in place to test the functioning of the procedure. Representatives from Ernst & Young, LLP meet with the Audit Committee of John Hancock Financial Services, Inc. on a quarterly basis. Ernst & Young provides the Audit Committee with written communications that are required by Statement on Auditing Standards No. 61. The procedures were outlined and followed from beginning to end. The Audit Committee is able to measure the effectiveness of the Audit through these communications.

*Recommendations:* None

### ***Procedure 02 - Anti fraud***

*Standards Affected:* **A3, A10**

*Observations:* John Hancock Variable Life has a written anti fraud procedure manual. The procedure is clear, organized and readable. The manual is current and was last revised on December 14, 2001.

The anti fraud manual provides an overview of each area covered by the manual and outlines the major responsibilities of each area. The Special Investigative Unit (SIU) has been established to investigate all fraudulent transactions, claims, and applications with material misrepresentations regardless of the size of the claim or the policy.

The procedures are compliant with Delaware statutes and regulations. The Company has measurements in place to test the functions of the procedures. Current fraud activity statistics are compared to statistics from previous periods to detect trends in efficiency. Training effectiveness is also considered in the reviews conducted. The activities are reviewed on a yearly basis.

The Office of Business Conduct (OBC) and the chief compliance officer monitor regulatory compliance on an ongoing basis and report annually to the Ethics and Business Practices Committee of the Board of Directors. An internal control certification process related to Sarbanes-Oxley Section 404, which is performed quarterly, is utilized to monitor compliance and market conduct risk. The Audit department also reviews/audits the OBC on a regular cycle. The Company's Corporate Audit Department regularly reviews multiple compliance related departments including; claims processing, sales, underwriting loans, customer relations and licensing. The Company also has been a member of the IMSA since its inception in 1998. To maintain its status with the IMSA the Company is required to perform a self-assessment process every three years and to have that process confirmed by an independent assessor. The assessment addresses various market conduct related topics within the Company.

*Recommendations:* None

***Procedure 03 - Electronic records control***

***Standards Affected: A2, A8, A10***

***Observations:*** John Hancock Variable Life has a written electronic records control procedure manual in place. The procedure is clear, readable, organized and easy to follow. The procedure is current and was last revised on March 8, 2004. Several functions were tested in detail and no exceptions were noted. A list of all transactions processed is available the day following the transaction.

The procedure reviewed is compliant with applicable Delaware statutes and regulations. The Company has a measurement structure in place to test the functioning of the procedure. Such tests are done on a daily basis with a list of all error transactions provided prepared for the review. This procedure is reviewed and tested on a daily basis. Monthly policy exhibits are also reviewed to make sure the procedure is functioning properly.

***Recommendations:*** None

***Procedure 04 - File backup.***

***Standards Affected: A2, A4, A8, A10.***

***Observations:*** John Hancock Variable Life has a written file backup procedure. The procedure is clear, organized and readable. All servers are backed up daily between the hours of 7:00 P.M. and 7:00 A.M. The procedure was current at the time of this examination with the last revision date being October 31, 2003. The procedure is compliant with Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. All backup processes are monitored to ensure that they are completed without errors. If the backup did not run because the server was in trouble, one of the systems would be aware of it prior to the backup. An electronic e-mail is sent to both the NT Admins and the UNIX Sys Admins teams daily at 07:00 identifying any failed processes. These 2 teams and the backup team investigate the situation and discuss the issue. Each failure is examined and corrected prior to the next scheduled nightly backup. The procedures are reviewed, tested and audited on an annual basis.

***Recommendations:*** None

***Procedure 05 - File maintenance and content***

***Standards Affected: A2, A8, A10***

***Observations:*** John Hancock Variable Life currently does not have a document retention program for electronic and paper documents. See discussion in Procedure P-06.

***Recommendations:*** None

***Procedure 06 - Record retention***

*Standards Affected:* **A8, A10**

*Observations:* John Hancock Variable Life has no Company wide record retention policy in place. John Hancock Variable Life employees in individual departments are responsible for being knowledgeable about following all records retention requirements for the areas in which they function. This has the potential for an inconsistent retention of records.

The Company States that it is in the process of developing a document retention program for all electronic and paper documents. Their prime objective for this program is to ensure a consistent standard for managing Company records, with improved control and access to such information. This approach will help management and staff to gain a clearer understanding of what documents they must retain and for how long; what documents to transfer to storage for safekeeping; and what documents they need to retain

*Recommendations:* None

***Procedure 07 - Computer security***

*Standards Affected:* **A2, A10**

*Observations:* John Hancock Variable Life has a written computer security procedures manual. The procedure is clear and readable. The procedure is current with the last revision dated 2/1/04. The procedure is organized with an outline for all phases for computer security operations. Highly secured areas are limited to employees with proximity badges. Employees designated for access to these secure areas are issued special proximity badges that allow access to the areas designated for the particular employee. Card readers allow these employees to enter through Access Portals, which acts as a door releasing mechanism for the areas in which they are authorized.

Measurement structures are in place to test the functioning of the procedure. John Hancock Information Security Policies, Standards and Diagrams describe security policies and procedures for compliance review, monitoring and enforcement. The procedure is reviewed, tested and audited on an annual basis.

*Recommendations:* None

***Procedure 08 - Access to the IS Manual***

*Standards Affected:* **A2, A8, A10**

*Observations:* The Company has a Design and Development Procedure Manual that is a component of the Company's Software Product Engineering Process. The manual establishes procedures required to perform design and development activities, including the measurement

and verification of the design and development deliverables. It also describes the various Tools, Templates and Training that support the design and development of software at the Company.

The manual was revised on January 6, 2004. The manual is clear and readable for the employee to follow. The manual contains sections that describe the:

- Purpose, scope and roles/responsibilities of the employees that are affiliated with the design and development of software.
- Deliverables, which are a result of executing the design and development procedure.
- Process flow for the various activities in development and design.
- Planning, design and construction of all software at the Company and the various roles and deliverables produced during these phases.

The project manager reviews and reports the status of activities on a monthly basis in the Monthly Review Report to his/her manager. A software quality assurance group also reviews design and development activities annually and reports their findings to department management.

*Recommendations:* None

#### ***Procedure 09 - Disaster recovery***

*Standards Affected:* **A4, A10**

*Observations:* John Hancock Variable Life has a written disaster recovery procedure. The procedure is clear, organized and readable. The written procedure is current with the last revision dated February 2, 2004. The process described in the procedure manual is thorough and detailed, from the notification and assessment at the beginning of the event, through the final written report at the end of the response. The procedure is compliant with Delaware statutes and regulations.

The Company tests the functioning of the procedure monthly. For each test, written goals are defined in advance and the resulting performance measured against those goals. Testing outcomes are tracked, measured and reported. The procedures are reviewed, tested and reported.

*Recommendations:* None.

#### ***Procedure 10 - MGA oversight***

*Standards Affected:* **A5, A10**

*Observations:* John Hancock Variable Life Insurance Company does not use MGA's in its production or servicing of business in Delaware.

*Recommendations:* None

***Procedure 11 - Policyholder privacy protection***

***Standards Affected: A10, A13, A14, A15, A17***

***Observations:*** The Company has a written policyholder procedure notice for the general public and for employees to follow. The privacy notice informs the public why they are receiving it, what divisions it applies to and the information the Company collects and/or shares. The privacy policy language is clear and concise. The policy was last updated in September of 2003 to meet requirements of a California Insurance Department regulation. This regulation included divulging more examples of the information collected and disclosed, and improving the Flesch reading ease score to be greater than 50. This policy has been distributed to existing customers on an annual basis and potential customers when they are applying for services. State and Federal entities are monitored on an ongoing basis for new laws and regulations that may impact the language and content of the privacy policy. The measurement structures to test the accuracy of this procedure include additional mailing controls to ensure accurate delivery to each customer and a weekly mail quantity chart is received and checked against planned mail flows for gaps in quantities. An annual summary of system-generated pieces is also recorded and reviewed. Internal privacy principles for employees have also been developed to ensure privacy standards are maintained at a high level. The employee privacy policy was updated and revised in November 2001.

***Recommendations:*** None

***Procedure 12 - Insurance Information Management***

***Standards Affected: A2, A10, A13, A14, A15, A17***

***Observations:*** John Hancock Variable Life has a written information management procedure. The procedure is clear, organized and readable. The procedure is current with the last revision dated 11/3/02. The Company maintains a comprehensive written information security program to protect the confidentiality of nonpublic personal information. The program provides physical, administrative and technical safeguards for the Company to follow. It is augmented with a robust training and communication effort, a process for addressing suspected breaches of confidential information, and a policy for sanctioning associates who misuse nonpublic personally identifiable information. The Company's procedure is compliant with Delaware statutes and regulations.

The Company does not have measurement structures in place to test the functions of the procedure. Fortunately, incidents reported have been minor to date.

***Recommendations:*** None.

***Procedure 13 - Complaint Handling***

***Standards Affected: A10, B1, B2, B3, B4, B5***

*Observations:* John Hancock Variable Life has a written complaint handling procedure. The goal of John Hancock Variable Life and its' customer relations group, is to investigate and settle all complaints in accordance with applicable statutes, regulations and contract provisions. The procedure is clear, organized, readable and well documented. The procedure is current with the latest revision dated April 2, 2001. The procedure is in compliance with Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. John Hancock Variable Life's customer relations department has implemented a complaint handling audit process, which involves the review of sample cases in order to evaluate case handling effectiveness in such areas as timeliness of response, content and system accuracy. The results of these reviews is provided to senior management quarterly.

*Recommendations:* None

***Procedure 14 - Advertising, sales and marketing***

***Standards Affected: A10, C1, C2, C3, C4, C5***

*Observations:* The Company has a written procedure manual for Sales Material and Advertising Review. The document is clear and readable. The last major revision to the manual took place in August 2001. The procedure manual is well organized in multiple sections with clearly written detail subsections that include a sales material and advertising review process to direct the employee how to follow the appropriate guidelines and regulations. Thus the manual is intended to guide the advertising reviewers in the Office of Business Conduct in their review of sales and marketing materials to ensure compliance with the requirements of State and Federal authorities as well as the policies of the Company. The reviewers use a combination of the NAIC Advertising and Unfair Trade Practices Regulations, the State Insurance Advertising when required, as well as internal Company procedure, to determine if the advertising meets the regulatory requirements. Multiple divisions within the Company ensure compliance with State and Federal regulations review each submission of any sales or advertising material by an employee.

The process is reviewed annually by management and changes are made as needed. However the Company has not developed a measurement methodology to assure that the procedures described are working as intended.

*Recommendations:* None.

***Procedure 15 – Policy Illustrations***

*Standards Affected:* **A10, C1**

*Observations:* John Hancock Variable Life has a written policy illustrations procedure. The procedure is clear and readable. The procedure is current with the latest revision dated February 1, 2000. The procedure is organized and easy to follow. The procedure is compliant with applicable Delaware statutes and regulations. Testing of the procedure is done on an annual basis by the Illustration Actuary. These tests are required to complete an annual certification.

*Recommendations:* None.

***Procedure 16 – Policy Replacement***

*Standards Affected:* **A10, C1**

*Observations:* John Hancock Variable Life has a written policy replacement procedure. The procedure is clear, organized and readable. The procedure is current with the latest revision dated 12/1/03. The procedure contains an easy to follow and complete outline concerning policy replacement. The procedure is compliant with all applicable Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. The Business Quality Unit uses a control summary to measure effectiveness in addition to their internal audit, which assists in training. Cases are quality checked monthly for compliance with State and Company guidelines and the results are included in the quarterly report to management.

*Recommendations:* None

***Procedure 17 - Producer Training***

*Standards Affected:* **A10, C2, C4, C5, C7**

*Observations:* The Company has a written producer training manual and it is clear and readable. The last major revision to the manual took place on May 20, 2003. The manual contains sections that describe:

- Producers and users of SVU (Signator Virtual University) and includes an Introduction, Experience Levels and Tracking Credits.
- The Company Office Continuing Education Administrators and includes Continuing Education (CE) Administrator tracking.
- A worksheet to assist employees on how to manually track their Signator CE credits.

No measurement structures were described or provided to show how the Company assures itself that the procedure is working as intended.

All Signator Licensed Producers must obtain a certain level of required and optional credits each year to stay compliant with Signator. Additional meetings on an annual basis are required for

any individuals at the Company who hold a registered representative license and are registered by the NASD. At the end of each Signator year (June 30) the Office CE Administrator reviews each producer's transcript to verify compliance with the appropriate level of CE credits. If the appropriate credits have not been completed, the Office CE Administrator will pose fines on a monthly basis until those credits have been made up. The CE Office Administrator could also terminate the employment of the individual if, by the end of the calendar year those credits have not been completed. A report of these findings is then sent to the Compliance/Home office on July 1 of each year. All Delaware requirements are also followed for residents and non-residents alike.

*Recommendations:* None.

### ***Procedure 18 - Producer Selection and Appointment***

*Standards Affected:* **A10, D2, D4, D5, D6**

*Observations:* John Hancock Variable Life has a written producer selection and appointment procedure. The procedure is clear and readable. The procedure is current with the last revision dated February 9, 2004. The procedure is organized and easy to follow. It requires a satisfactory background check in order to maintain an appointment with John Hancock Variable Life. The procedure is compliant with applicable Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. Appointments processed require certain mandatory fields to be completed, specific to the State rules and regulations. If any of these fields are missing, a request for appointment will not be sent to the State until all information has been acquired. A daily report is generated indicating which appointment requests are missing mandatory information. On a monthly basis, random samples are checked for accuracy and graded based on number of errors made. This report is maintained and sent to the manager, where he/she will respond to the findings as needed.

*Recommendations:* None

### ***Procedure 19 - Producer Defalcation***

*Standards Affected:* **A3, A10, D2, D4, D5, D6**

*Observations:* The Company has a written Insurance and Securities Market Conduct Manual for Signator producers and agency management. The document is clear and readable and includes multiple sections that are clearly defined. The last major revision to the manual took place in February 2004. The information covered by the procedure manual includes policies relating to:

- Producer based anti-fraud policies;
- IMSA principles and code;
- Compliance;
- Licensing;
- Training;
- Client information;

## John Hancock Variable Life Insurance Company

- Sales practice issues;
- Anti-trust and trade;
- Sanctions;
- Supervision; and
- Record keeping.

Each employee must sign and date the manual, acknowledging they have read and understood all policies upon being hired by the Company. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations.

This information is recorded and is maintained for review/audit on an annual basis by the Office of Business Conduct (OBC). The OBC is responsible for establishing policy, monitoring compliance, oversight of delegated functions and enforcement of violations. The OBC meets quarterly with representatives around the Company to discuss various issues dealing with fraud prevention including producer defalcation. The OBC also has a surveillance unit dedicated to the monitoring of agent activities as well as a Special investigation Unit dedicated to the prevention and handling of fraudulent activities.

*Recommendations:* None

### **Procedure 20 - Policyholder Service**

*Standards Affected:* **A10, E1, E2, E3, E6, E9, E10, E11, F2, F3, F4, F9**

*Observations:* John Hancock Variable Life has a written policyholder service procedure. The procedure is clear and readable. The procedure is current with the latest version dated 01/04/04. The procedure is well organized and includes appropriate structure for processes including but not limited to the licensing process, underwriting approval, policy issuance and final claim services. The procedure is compliant with Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedures. Each area of the policyholder services has its' own methods for measuring its' effectiveness and each area is tested at least annually.

*Recommendations:* None

### **Procedure 21 - Premium Billing**

*Standards Affected:* **A10, E1, E4**

*Observations:* John Hancock Variable Life has a written premium billing procedure manual. The procedure is clear and readable. The procedure is current with the latest revision being 3/4/04. The procedure is organized and easy to follow. Outlined in the procedure is the separate automated billing system platforms, which bill the different types of products that John Hancock Variable Life sells. The timeliness of billing notice is also covered in the process. The procedure is compliant with Delaware statutes and regulations.

The Company has measurement structures in place to test the functions of the procedure. Because most of the billing processes are automated by systems, measurement takes the form of reports that are reviewed for anomalies. This is done on a monthly basis. Other tests are performed at least annually or as needed.

*Recommendations:* None

***Procedure 22 - Policy Issuance***

*Standards Affected:* **A10, E2, F9**

*Observations:* The Company has a written Policy Issuance Procedure that is clear and readable. The latest edition of the manual is dated May 2, 2002 and is revised as needed.

The procedure is a complete guide of all areas of policy issuance. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations.

The Company has measurement structures in place to test the functions of the procedure. The quarterly Sarbanes Oxley certification requirement is used to measure the effectiveness of the Company's controls as outlined in the written procedure. Testing is performed each quarter by the management within the department, including a workflow coordinator. The appropriate persons to prove that a control was exercised perform testing.

*Recommendations:* None.

***Procedure 23 - Underwriting***

*Standards Affected:* **A10, E6, F1-F13**

*Observations:* The Company has an underwriting procedure that is embedded in the underwriting program utilized by the underwriting department. The program itself is clear. The last major revision to the program took place on May 5, 2003. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations. An external auditing process reviews the underwriting process on a quarterly basis.

*Recommendations:* None

***Procedure 24 - Rating***

*Standards Affected:* **A10, F1**

*Observations:* The Company has multiple written procedures for the creation and implementation of Rates. These documents and procedures for developing and implementation of rates are clear and readable. The last revision to the Product Development and Issue Systems Manual took place on May 5, 2003. The Product Development and Issue Systems area procedure includes a flow process that describes the loading and verifying of rates from the area of Product

Development through final review. For measurement of the accuracy of this process, every 10<sup>th</sup> flat file that is created is compared to the original spreadsheet file and each policy premium on the created test policy is also verified to the policy premiums on the product development test spreadsheet for each test case. The Issue Systems team also does a high volume of negative testing and the product development area reviews a final sample before the policy is completed.

Additionally the implementation of these rates is governed by the Work Request Management Procedure, which was updated on March 1, 2004. This manual includes an outline of the roles, responsibilities and activities involved in Work Requests such as creating rates. Each procedure manual is well structured and does not appear to conflict with Delaware statutes or regulations. Each procedure is audited on a quarterly basis for compliance with Sarbanes Oxley. In addition, the Company performs an internal audit quarterly to monitor the accuracy of the underwriter's information and makes necessary corrections of any errors that may have occurred in this process.

*Recommendations:* None

#### ***Procedure 25 - Disclosures***

*Standards Affected:* **A10, A13-A15, A17, C6, C8, C9, E6, E8, E10-E11, F2-F4, F14**

*Observations:* John Hancock Variable Life has a written disclosures procedure. The procedure is clear and readable. The procedure is current with the last revision dated July 1, 2000. The procedure is organized and displays examples of each disclosure document authorized and used by the Company. The procedures comply with applicable Delaware statutes and regulations.

Although John Hancock Variable Life does not have a measurement structure in place for disclosures, the Company does not disclose any personal information to third parties for marketing purposes. Any disclosures that are made are usually limited to information to serve a business need, such as processing a claim, underwriting an insurance policy, or otherwise as is consistent with a signed authorization from the individual.

*Recommendations:* None

#### ***Procedure 26 - Underwriter Training***

*Standards Affected:* **A10, F1, F2, F3, F4, F5, F6, F7, F8**

*Observations:* The Company does not have a written procedure manual for underwriting training. They have an outline that was provided which describes the process of underwriting training. The trainee and supervising underwriter use the computer based underwriting manual and program for training purposes. The outline and computer based program are clear and readable. The last major revision to the outline and program took place on May 5, 2003. The computer manual that is used for training is simple to operate and contains the relevant information used in underwriting policies. Chief underwriters have monthly meetings with all of their underwriters to update them on any specific procedure changes, product changes, State

requirements underwriting, risk analysis or other changes that would affect the trainee's progress. The typical time for new underwriter training is six (6) months, and continues until all procedures are performed accurately. Additional training includes privacy issues, fraud protection and anti-money laundering.

No additional measurement structures were described within the outline or computer program to test the functioning of this procedure.

*Recommendations:* None

### ***Procedure 27 - Cancellation***

*Standards Affected:* **A5, A10, E9, F10**

*Observations:* The Company does not have a written cancellation procedure manual. However, due to the nature of Life Insurance, and the limited cancellations that occur, the process used when they do occur is adequate. The procedure did not include a version or creation date within the information given. The Company processes all cancellations internally for the "free look" period with security policy products. A written request is required by the policyholder or representative for a "free look" cancellation. The policy owner must return the original contract with the cancellation request. The Company then sends a conservation letter to the agency to attempt to retain the contract being cancelled. If no response is made in 10 days, the collections agency will process the policy as "not taken".

At the time of the cancellation, the policyholder is given back any premiums paid. If the policy owner does not pay any premiums, the Company will cancel the policy after 60 days. The written request for a "free look" is imaged and stored. No audit/review standards are Stated. There are no measurement structures to test the functioning of the procedure.

*Recommendations:* None

### ***Procedure 28 - Termination***

*Standards Affected:* **A5, A10, E9, F10, F11**

*Observations:* John Hancock Variable Life has a written termination procedure. The procedure is clear and readable. The procedure is current with the latest revision dated 1/1/04. The procedure is organized. Two types of reasons for terminations are considered, automatic lapse and cash surrender. The procedure is compliant with applicable Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedures. On a quarterly basis, management-level personnel in the collections area randomly audit policies to ensure that the automatic lapse was appropriately processed. At the time of the audit, the examiners check a number of claims from each month in the quarter. Because the Mainframe system processes the lapses automatically, errors are rare.

*Recommendations:* None

***Procedure 29 - Declination***

*Standards Affected:* **A5, A10, F10**

*Observations:* The procedure for declinations is embedded in the Company's computer based underwriting program. The program is clear and usable, with step-by-step instructions for the employee to follow. The last revision to the program took place on May 5, 2003. When the Company declines an application for insurance a letter is issued to the insured and the agency including a notice of summary of rights. The agency is also given the declined policy information and the reason. The file is marked as declined and any Medical Insurance Bureau (MIB) codes are reported as authorized by the applicant in the application. The application file is then processed and given a non-issue number. The non-issue file is sent to record services for document storage.

The procedure is well structured and does not appear to conflict with Delaware statutes or regulations. No measurement structures were clearly defined within the program or outline. An audit control certification process related to Sarbanes-Oxley is performed quarterly and the Company's internal audit division also reviews the applications on a quarterly basis.

*Recommendations:* None.

***Procedure 30 - Rescission***

*Standards Affected:* **A10, F12**

*Observations:* The procedure for rescissions is embedded in the Company's computer based underwriting program. The Company handles each rescission case separately and thus feels each should be evaluated on its individual merits. Other Company divisions including Special Investigations Unit and Department of Special Activities can be utilized if conditions leading to rescission warrant. The last revision to the computer program took place on May 5, 2003.

No measurement structures were clearly defined within the program or outline. A quarterly audit is performed on rescissions related to the Company's efforts to meet the needs dictated by the Sarbanes-Oxley Act. The Company's internal audit division also reviews the rescissions on a quarterly basis.

*Recommendations:* None.

***Procedure 31 – Staff Training***

***Standards Affected: A8, A10, A13-15, A17, F1-F15***

*Observations:* John Hancock Variable Life has a written staff training procedure manual. Staff training does vary by unit of the Company. The procedure manual specifies the separate areas of training. The procedure is clear and readable. The procedure was current with the last revision dated April 1, 2003. The procedure is organized by specific business areas. The procedure is compliant with applicable Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedures. John Hancock Variable Life required each business area to provide Risk Management with control procedures to ensure that extensive safeguards are in place to guard against internal and external fraud, to ensure compliance with Federal regulators and to determine whether the Company is implementing its procedures consistently and effectively. These controls also provide management in each business area with a means to measure the effectiveness of its procedures.

*Recommendations:* None

***Procedure 32 – Adjuster Training***

***Standards Affected: A10, G1-G13***

*Observations:* The Company does not utilize adjusters to evaluate life insurance claims. Claim Services employs claim “analysts” to evaluate and pay claims. The Company does not have a written manual to train new claim analysts, but uses on-the-job experience. There is no formal or structured procedure for this type of training.

Experienced analysts who perform tutorials in the approval process combined with hands-on training in the Company’s electronic claim payment systems guide new analysts. As the new analysts experience grows they are given increased responsibility. Daily audits and analysts quality reviews are also included in training which help spot trends that can be adjusted at the individual or team level. Claim Services also reviews a random sample of approximately 200 claims a month to ensure the claims were paid correctly based on State and Company policy. Management level auditors also complete an audit checklist of the claims sampled. These are returned to the analyst for any revisions or corrections needed on the claim.

*Recommendations:* None.

***Procedure 33 – Claim Handling***

***Standards Affected: A10, G1-G13***

*Observations:* Components of the Company process for claim handling are contained in a series of written procedures including:

## John Hancock Variable Life Insurance Company

- Process Flow of a Routine Death Claim
- Routine Death Claim Process Outline
- State Statutes—Quick Reference Guide
- Claim Authority Guidelines
- Review and Approval (Second Signature) Form

The Company evaluates each claim on a case-by-case basis and utilizes a general settlement process for a routine death claim. These documents appear to be adequate and contain sufficient detail to effectively manage the claim process. A step-by-step process outline directs the employee on how to process each claim from notice of Death to check processing.

A claims analyst also verifies the information in multiple stages to verify that all State guidelines are followed for the payment of the claim. Multiple signatures from management level associates are required if payments exceed \$100,000. For contestable claims, the Special Investigative Unit (SIU) is consulted to review the claim based on State statutes and code provisions. Contract provisions, State law and the merits of the claim are evaluated on an individual basis to govern the decision. These same contract provisions and applicable State statutes control the payment of any accelerated death benefits. The procedure is well structured and does not appear to conflict with Delaware statutes or regulations. This process of claim handling is audited internally on a monthly basis by the Company's audit division. The procedure covers both cycle time and accuracy of claims processed. Management then reviews this report monthly and advises on any appropriate changes.

*Recommendations:* None

### ***Procedure 34 – Internal Claim Audit***

*Standards Affected:* **A10, G1-G6, G8-G13**

*Observations:* John Hancock Variable Life has a written internal claim audit procedure. The procedure is clear and readable. The procedure is current and the last revision is dated April 7, 2004. The procedure is well organized with certain claim documents in place to verify the accuracy of life claim payments. The procedure is compliant with applicable Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. Tests performed address the cycle time for a claim as well as claim accuracy. Management personnel compile the Operational Effectiveness Report monthly, which allows Claim Services to closely monitor the effectiveness of the procedures used in the claim payment process.

*Recommendations:* None

***Procedure 35 – Vendor Oversight and Control***

*Standards Affected:* **A5-7, A10**

*Observations:* John Hancock Variable Life has a written vendor oversight and control procedure. The procedure is clear and readable. The procedure is current with the last revision dated April 14, 2003. The procedure is organized and easy to follow. It is outlined in the Corporate Strategic Sourcing guidelines. It is the responsibility of the Sourcing Agent, the Contract Manager, and the Business Unit to determine the appropriate level of acceptable supplier performance based on the contract requirements, terms, and conditions. The procedure is compliant with Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. John Hancock Variable Life's measurement is the matching exception report that provides Sourcing Agents with the number of invoices that could not be paid on first try. Reasons assigned to the matching exception, help determine if the error was by the Sourcing Agent or the supplier. The procedures are tested on an annual basis.

*Recommendations:* None

***Procedure 36 – Non-forfeiture Values***

*Standards Affected:* **A10, E6**

*Observations:* The lapse system used by the Company is completely computer generated. The workflow was reviewed and no flaws were noted. The lapse process is clear. Each week the mainframe system generates a High Priority Report which is sent to each agency within the Company listing policies that have outstanding premiums or are due to lapse within 30 days because a premium has not been received. If unpaid by the lapse date, the Company's computers automatically calculate the non-forfeiture values and send the policyholder a notice. The lapses are completed automatically by the computer system, which then processes the correct lapse code. No standards or regulations were listed within the outline that governs this process.

On a quarterly basis, management level personnel in the Collections area randomly audit the automatic lapse process to ensure proper processing. At the time of the audit, the examiners also check a number of claims from each month within the quarter.

*Recommendations:* None

***Procedure 37 – Cash Surrender Values***

*Standards Affected:* **A10, E6**

*Observations:* John Hancock Variable Life has a written Cash Surrender Values procedure. The procedure is clear and readable. The procedure is current with the latest revision dated January

1, 2003. The procedure is organized and easy to follow. The procedure is compliant with Delaware statutes and regulations.

The Company has measurement structures in place to test the functioning of the procedure. A quality review team verifies that the surrender form was signed by the policyholder, mailed to the correct address, and that the surrender effective date was correct. Any discrepancies found within the quality review are communicated to the processor. The processor then corrects any errors noted by the quality review team.

*Recommendations:* None

### ***Procedure 38 – Depository Institutional Disclosure***

*Standards Affected:* **A10, C10**

*Observations:* The Company does not have a Depository Institution Disclosure manual. Rather, the Company has developed a depository institution disclosure guide to be used when required on life insurance material that could be used in a depository institution. This information is recorded in a clear readable and well-documented form. The guidelines used for this disclosure include sales and marketing material disclosures with reference to logos, language, illustrations, and prospectuses. The version date of these guidelines is March 7, 2001. No applicable standards or regulations were listed within the procedure, nor was there any audit/review standards Stated. Additionally, no measurement structures were given that tested the functioning of the procedure.

*Recommendations:* None.

## **A. COMPANY OPERATIONS/MANAGEMENT**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to provide a view of what the Company is and how it operates. It is typically not based on sampling techniques. It is more concerned with structure. This review is not intended to duplicate financial examination review but is important in establishing an understanding of the examinee. Many troubled companies have become so because management has not been structured to adequately recognize and address the problems that can arise.

***Standard A-01***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 1.*

**The Company has an up-to-date, valid internal or external audit program.**

18 Del. C. §318(a) & §508(b)

*Comments:* This standard does not have a direct statutory requirement. A Company that has no internal audit function lacks the ready means to detect structural problems until after problems have occurred. A valid internal or external audit function and its use is a key indicator of competency of management, which the commissioner may consider in the review of an insurer. The review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company has a corporate audit department that oversees all operations of the Company, both foreign and domestic. The Company has an internal audit procedure manual that describes the scope and vision of the audit department as well as an outline on the complete audit process. The Company audit process focuses on four main topics: establishing engagement objectives, understand the business and audit strategy, performing audit procedures, and concluding the audit and accessing performance. During this process, the corporate audit department complies with the professional standards by the Institute for Internal Auditors (IIA). Additionally the Company has established career development programs to increase professionalism and to achieve professional designations within the function of internal auditing.

The main focus of the internal audit is to test the Company’s internal controls and to test the accuracy of account balances and transactions in reference to the Company’s customers. Throughout the phases of the internal audit, issues are discussed with management as soon as they are identified, and during the reporting phase, management responses to these issues are documented, as well as key improvement opportunities. After the final report is written, management has the opportunity to discuss with the audit department any further issues that may arise. Upon the completion of an internal audit, the audit department reports functionally to the Board of Directors audit committee and administratively to the Chief Financial Officer with audit findings and recommendations on a quarterly basis.

Ernst and Young perform external financial audits on an annual basis. Representatives from the Audit department and Ernst and Young meet on a quarterly basis to measure the effectiveness of the external audit. These measurements include, but are not limited to: auditor policies and responsibilities that are generally accepted in the United States, auditor judgments, fraud, accounting and financial disclosures. These issues are communicated to the Audit Department on a consolidated basis so the Company can measure the effectiveness of such external audits.

*Recommendations:* None

**Standard A-02**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 2.

**The Company has appropriate controls, safeguards and procedures for protecting the integrity of computer information.**

18 Del. C. §318(a) & §508(b)

*Comments:* This standard does not have a direct statutory requirement, however the standard is inferred by the referenced statutes. Maintaining appropriate safeguards for protecting the integrity of the computer information is a public protection issue. Appropriate controls, safeguards and procedures for protecting the integrity of computer files is an indicator of competency of management that the commissioner may consider in the review of an insurer. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* Company records controls are accurate and up to date as of March 8, 2004. Audit trails exist for any changes to software programs or job control language through use of Changeman software to effect any change. Audit controls also exist by means of clerk codes authorized by specific management to perform specific transactions. Value related transactions might also require signed forms by the policyholder before processing can be completed.

Computer security procedures for the Company include badge and pin information to access specific portals and data centers to make any specific data changes. Changes of member information and verification by member are performed by US mail. In July 2003, responsibility for information security administration and infrastructure security management was outsourced to IBM.

*Recommendations:* None

**Standard A-03**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 3.

**The Company has an antifraud plan in place.**

18 Del. C. §318(a) & §508(b) & §2408

*Comment:* This standard does not have a direct statutory requirement, however the standard is inferred by the referenced statutes. Written procedural manuals or guides and antifraud plans should provide sufficient detail to enable employees to perform their functions in accordance with the goals and direction of management. Appropriate antifraud activity is important for asset protection as well as policyholder protection and is an indicator of competency of management which the Commissioner may consider in the review of an insurer. Further, the insurer has an affirmative responsibility to report fraudulent activities of which it becomes aware. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company's anti fraud plan is outlined in the Special Investigation Unit's (SIU) fraud protection and detection handbook. The procedures are current, clear and readable. SIU is responsible for investigating all fraudulent transactions, claims, and applications with material representations.

The Company has an internal Office of Business Conduct (OBC) that investigates potentially fraudulent claims. All suspicious activity that is referred to the OBC is tracked on a monthly basis. These statistics are compared on an annual basis to determine if any anti fraud training needs to be given in specific business areas.

The Company did not outsource any antifraud activities during the examination period.

*Recommendations:* None

***Standard A-04***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 4.*

**The Company has a valid disaster recovery plan.**

18 Del. C. §318(a) & §508(b)

*Comments:* This standard does not have a direct statutory requirement, however the standard is inferred by the referenced statutes. It is essential that the Company have a formalized disaster recovery plan that will detail procedures for continuing operations in the event of any type of disaster. Appropriate disaster recovery planning is an indicator of competency of management that the Commissioner may consider in the review of an insurer. Review methodology for this standard is by "generic" review.

*Results:* **Pass**

*Observations:* Business resumption plans are prepared by the various business units, but written and maintained by Information Technology Services (ITS) and Corporate Security. These plans were updated on February 2, 2004.

This is an interactive process where the business managers are interviewed to document their business activities and determine critical support systems and services. Recovery procedures are then written to address either loss of key support systems or services including loss of IT services and/or loss of the business unit work area including any local processing capability. It is through this process that critical workload and critical support dependencies are identified and Disaster Recovery Service Level Agreements (SLA) is negotiated. Any activity necessary to the survival of the business for which no manual or other alternate workarounds are possible results in the support activity being classified as critical. The Company contracts with a disaster recovery vendor to ensure recovery of critical workloads. As part of that contract, John Hancock Variable Life also contracts for use of their local Business Recovery Facility, pre-equipped with 325 business workstations. This would be used in the event of a disaster that results in the loss of business work areas.

People would also be relocated to other John Hancock Variable Life complex sites where possible. All critical production data, regardless of platform, is backed up and stored offsite with an off-site storage service vendor. Software is used to analyze and identify the datasets and files critical for recovery of the Mainframe applications. Production applications on other platforms (such as NT and UNIX) are also fully backed up through server backup process. A complete set of all database backups for all platforms is also stored off-site. All production data is stored offsite for disaster recovery purposes, with two daily scheduled pickups and a minimum of three sets of backups for each application. Backups are generally done when batch processing has completed but online processing has not been brought up. All applications are recoverable to the last offsite backup. ITS is responsible for the disaster recovery backup and restore processes.

In the event of a data center disaster, the critical workload would be restored at the hot site of the disaster recovery vendor. A hot site is a fully equipped data center for which John Hancock Variable Life contracts for the hardware and network needed to recover the critical workload. The off-site storage vendor would ship the backup tapes to the hot site using packing and shipping instructions documented and stored at their facility. Critical workload generally includes applications needing to be recovered in less than 30 days. This list is constantly reviewed and updated as part of the business planning/project implementation process. The contract allows John Hancock Variable Life to occupy the hot site for up to 6 weeks. If it was determined that the home data center could not be re-occupied within 6 weeks, preparations would be made to move the critical workload to the cold site. A cold site is a fully conditioned facility ready to accept hardware. Once the critical workload was stable, the rest of the production environment would be restored. John Hancock Funds, Inc. and John Hancock Signature Services, Inc. would also be networked directly to the hot site disaster recovery vendor so those associates at these sites would not need to be relocated to the Business Recovery Facility in the event of a data center disaster.

In conjunction with the hot site and cold site contract, a disaster recovery workplace site is available to John Hancock Variable Life. The site is in Massachusetts and is a facility able to be networked to the hot site or the John Hancock Variable Life data center, having 325 workstations with PCs and phones. The workplace recovery site would be activated in the event of a disaster to a business department site. Seat assignment requirements are determined through the planning process according to the criticality of business functions.

*Recommendations:* None

***Standard A-05***

<i>NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 5.</i>
<b>The Company adequately monitors the activities of the MGA.</b>
18 Del. C. §318(a), §508(b), §1805.

*Comments:* This standard has a direct insurance statutory requirement. This standard is focused on the level of the oversight provided by the Company when it contracts with an external entity that assumes a business function of the Company. The particular interest is on oversight impacting records and actions considered in a market conduct examination such as but not

limited to, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* John Hancock Variable Life does not use MGA’s, GA’s, or TPA’s, in its production and servicing of business domiciled in the State of Delaware. Requests for cancellations are handled properly and efficiently. John Hancock Variable Life processes all terminations internally and does not employ any outside entities. All terminations comply with applicable law, policy provisions and Company guidelines. Variable products terminate in one of two ways, automatic lapse and cash surrender. Declinations are performed by underwriting due to various situations such as medical history or lack of complete applicant information.

*Recommendations:* None

**Standard A-06**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 5.*

**Company contracts with MGA’s comply with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §1804

*Comments:* This standard has a direct insurance statutory requirement. This standard is concerned with the contract between the Company and an external entity when the Company contracts with an external entity to assume a business function of the Company. The aim of this standard is to assure that a Company using such an external entity does so with realistic contractual provisions. The focus is on the contractual provisions impacting records and actions considered in a market conduct examination such as, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc as set forth in 18 Del.C. §1804. Review methodology for this standard is by “generic” review.

*Results:* **N/A**

*Observations:* JHVLICO does not use MGA’s or TPA’s in its production or servicing of business. The Company does use GA’s but none are domiciled in the State of Delaware.

*Recommendations:* None

**Standard A-07**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 5.*

**The Company adequately monitors the activities of vendors involved in policyholder services, underwriting, claims, or marketing.**

18 Del. C. §318(a), §508(b), §1805(c).

*Comments:* This standard has a direct insurance statutory requirement. This standard is focused on the level of the oversight provided by the Company when it contracts with an external entity that assumes a business function of the Company. The particular interest is on oversight impacting records and actions considered in a market conduct examination such as, trade

practices, claim practices, policy selection and issuance, rating, complaint handling, etc. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company uses various entities to perform various business functions. The contracts between the Company and vendors adequately specify the responsibilities of the entity assuming Company business functions. Dealings of entities assuming Company business functions with the Company are in accord with statute and contract. Contracts with the vendors specify the responsibilities of the Company in regard to conduct of audits throughout the year. Dealings of entities assuming Company business functions with the Company policyholders and insureds are in accord with statute and contract. Within John Hancock Variable Life, the individual business units are responsible for determining the oversight structure for the vendors they use. The Company evaluates vendors on a quarterly basis on their various activities.

*Recommendations:* None

**Standard A-08**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 6.*

**Records are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements.**

18 Del. C. §318(a), §508(b).

*Comments:* This standard does not have a direct statutory requirement; however the standard is inferred by the referenced statutes. This standard is intended to assure that an adequate and accessible record exists of the Company’s transactions. The focus is on the records and actions considered in a market conduct examination such as, trade practices, claim practices, policy selection and issuance, rating, complaint handling, etc. Inadequate, disorderly, inconsistent, and inaccessible records can lead to inappropriate handling of claims, inappropriate rates and other issues that can harm the public. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* At this point in time the Company does not have a corporate wide records retention policy in place. See recommendation for Procedure 06. The Company’s individual business units have the responsibility to follow all records retention requirements. John Hancock Variable Life’s Infrastructure Services outsourced file retention and backup to IBM in July, 2003. All IBM servers used in critical areas to back up files are also archived in file backup and restore process. File backup is performed on a nightly basis. All backup processes are monitored to ensure completion without errors. An electronic e-mail is sent to both the NT Administrator and the UNIX Sys Administration teams daily at 07:00 identifying any failed processes. They and/or the backup team will investigate the situation and discuss the issue. Each failure is examined and corrected prior to the next scheduled nightly backup.

*Recommendations:* None

**Standard A-09**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 7.

**The Company is licensed for the lines of business that are being written.**

18 Del. C. §318(a), §505(b), §508(b).

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company's Certificate of Authority. Review methodology for this standard is by "generic" review.

*Results:* **Pass**

*Observations:* Annual Statements were reviewed and no exceptions were noted. John Hancock Variable Life is fully licensed in all States with Certificates of Authority effective during the entire examination period. Information developed by the Company agrees with information obtained by the DDOI. The Company's product offerings are in accord with its Certificate of Authority.

*Recommendations:* None

**Standard A-10**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 9.

**The Company cooperates on a timely basis with examiners performing the examinations.**

18 Del. C. §318(a), §320(c), §508(b), §520(b)3.

*Comment:* This standard has a direct insurance statutory requirement. This standard is aimed at assuring that the Company is cooperating with the State in the completion of an open and cogent review of the Company's operations in Delaware. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost. Review methodology for this standard is based on response to all portions of the examination.

*Results:* **Pass**

*Observations:* Responses to all inquiries for information from the Company were complete and accurate. The Company has multiple written procedures and standards that are well written and available to the examiners. This fact facilitated the flow of this market conduct examination. The Company's cooperation during the examination has been professional and punctual at all times.

*Recommendations:* None.

**Standard A-11**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 11.*

**The Company has developed and implemented written policies, standards and procedures for the management of insurance information.**

18 Del. C. §318(a) & §508(b)

*Comments:* None

*Results:* **Not Tested**

*Observations:* Not Tested

*Recommendations:* None

**Standard A-12**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 10.*

**The Company has procedures for the collection, use and disclosure of information gathered in connection with insurance transactions to minimize any improper intrusion into the privacy of applicants and policyholders.**

18 Del. C. §318(a) & §508(b)

*Comments:* None

*Results:* **Not Tested**

*Observations:* Not Tested

*Recommendations:* None

**Standard A-13**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 13.*

**The Company provides privacy notices to its customers and, if applicable, to its consumers who are not customers regarding treatment of nonpublic personal financial information.**

18 Del. C. §318(a), §508(b), §535, & 18 DE Reg. 904

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection for information it holds concerning its policyholders. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company’s initial, annual and revised notices are clear, conspicuous and accurately reflect the privacy policies and practices. John Hancock Variable Life Privacy Notices reflects all of the requirements within this standard and is accordance with all statutes and regulations. The Company does not use simplified or short form privacy notices to customers or non-customers. A complete privacy notice is delivered to the Company’s

customers at or prior to the time the Company establishes a customer relationship (initial notice), and at least once in any period of twelve consecutive months or once in each calendar year thereafter (annual notice). The Company does not disclose any customer's nonpublic personal financial information to any nonaffiliated third party other than as authorized under 18 DE Reg. 904 § 9.0 or § 10.0. Individuals deemed consumers under applicable law are provided with an initial notice of the Company's privacy policy. Notice was delivered to the Company's customers via United States mail. Effectiveness of the mailing procedures is measured in two ways ; first for batched mailings confirmation emails are received and tracked, and the second for ongoing system generated mailings a weekly mail quantity chart is received and checked against planned mail flows for gaps in quantities. The Company has provided customers with clear and conspicuous initial, annual, and revised notices in a manner that allows the customer to retain the notices or obtain them later in writing or, if the customer has agreed, electronically.

The Company's notice content and notice delivery procedures comply with applicable statutes, rules and regulations regarding privacy.

*Recommendations:* None

***Standard A-14***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 14.*

**If the Company discloses information subject to an opt out right, the Company has policies and procedures in place so that nonpublic personal financial information will not be disclosed when a consumer who is not a customer has opted out, and the Company provides opt out notices to its customers and other affected consumers.**

18 Del. C. §318(a), §508(b), §535, & 18 DE Reg. 904

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection for information it holds concerning its customers and consumers.. Review methodology for this standard is by "generic" review.

*Results:* **Pass**

*Observations:* The Company does not disclose nonpublic personal information relating to customers or consumers who are not customers beyond the scope permitted under 18 DE Reg. 904 § 8.0, § 9.0 and § 10.0. Since 2002, the Company has changed their policy regarding sharing non public personal information from one in which the opt out provisions were necessary since information could be shared to one in which such information is not shared with nonaffiliated parties, thus making the opt out rights unnecessary. Accordingly the provision was not tested.

*Recommendations:* None

**Standard A-15**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 15.

**The Company's collection, use and disclosure of nonpublic personal financial information are in compliance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §535, & 18 DE Reg. 904.

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection for information it holds concerning its policyholders. Review methodology for this standard is by "generic" review.

*Results:* **Pass**

*Observations:* Since 2002, the Company's policy has been to not disclose nonpublic personal financial information of its customers or consumers who are not customers to nonaffiliated third parties for joint marketing purposes. It is the responsibility of all Company personnel that deal with vendors to ensure that third party suppliers who have access to and/or use customer health information related to specified John Hancock Variable Life business units sign contracts or contract amendments which contain language requiring protection of such information in compliance with Health Insurance Portability and Accountability Act of 1996. Company personnel are also responsible to ensure that these suppliers who have access to any customer information sign contracts or contract amendments requiring the protection of information in compliance with the consumer privacy provisions of the Gramm-Leach Bliley Act of 1999. The Company also prohibits disclosure of policy numbers or similar forms of access numbers or codes for a consumer's policy or transaction account to any nonaffiliated third party, except as permitted by applicable law or regulation regarding privacy.

*Recommendations:* None

**Standard A-16**

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 16.

**The Company has policies and procedures in place so that nonpublic personal health information will not be disclosed except as permitted by law, unless a customer or a consumer who is not a customer has authorized the disclosure.**

18 Del. C. §318(a) & §508(b)

*Comments:* None

*Results:* **Not Tested**

*Observations:* Not Tested

*Recommendations:* None

***Standard A-17***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 17.*

**Each licensee shall implement a comprehensive written information security program for the protection of nonpublic customer information.**

18 Del. C. §311, §318(a), §508(b), §535, & 18 DE Reg. 905

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company provides adequate protection for information it holds concerning its policyholders. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company has implemented a security program that includes administrative, technical, and physical safeguards that protects and secures all customer and employee information. Administrative safeguards include policies and procedures with accompanying training and documentation that establishes the proper methods for obtaining using and storing customer information. Technical safeguards include the use of technical tool policies and procedures to protect the electronic form of customer information. Finally, physical safeguards including multiple barriers inhibiting access to data have been established relative to the risk of unauthorized access to customer information. The examiners evaluation took into consideration the size and complexity of the Company; and the nature and scope of Company’s activities. The Company’s information security program is designed to:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of the information; and
- Protect against unauthorized access to or use of the information that could result in substantial harm or inconvenience to any customer.

*Recommendations:* None

**B. COMPLAINTS/GRIEVANCES**

*Comments:* The evaluation of the standards in this business area is based on a review of the Company’s responses to various information requests (IR items) and its complaint files. In this business area, "complaints" includes "grievances." 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." The Delaware definition of a complaint is: "...any written communication primarily expressing a grievance."

**Standard B-01**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 1.*

**All complaints are recorded in the required format on the Company complaint register.**  
 18 Del. C. §318(a), §508(b), §2304(17); Del. Reg. 101§2.1.7.

*Comments:* This standard has a direct insurance statutory requirement. This standard is concerned with whether the Company keeps formal track of complaints or grievances as required by statute. An insurer is required to maintain a complete record of all the complaints received. The record must indicate the total number of complaints since the last examination, the classification of each complaint by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* During the examination period the Company received three complaints all of which were recorded at the time they were received. A complete record has been maintained for the complaints received. The Company has effective procedures for complaint handling.

*Recommendations:* None

**Standard B-02**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 2.*

**The Company has adequate complaint handling procedures in place and communicates such procedures to policyholders.**  
 18 Del. C. §318(a), §508(b), §2304(17).

*Comments:* This standard has a direct insurance requirement. This standard is concerned with whether the Company has an adequate complaint handling procedure and whether the Company communicates complaint handling procedures to its members or policyholders. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observation:* Complaint files were reviewed from 2002-2003 to evaluate this standard. The review focused on the adequacy of information provided to the complainant.

<b>Complaint Sample Results</b>					<b>Table B2-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
2002-2003 Complaints	3	3	0	0	<b>100%</b>

*Recommendations:* None

**Standard B-03**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 3.*

**The Company takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.**

18 Del. C. §318(a), §508(b), §2304(17).

*Comments:* This standard does not have a direct insurance statutory requirement, however reasonable disposition is inferred by the fact that disposition information is required to be noted in the complaint log. This standard is concerned with whether the Company deals with the subject matter in a complaint/grievance. Review methodology for this standard is by “sample” review.

*Results:* **Pass**

*Observation:* Complaint files were reviewed from 2002-2003 to evaluate this standard. The review focused on the quality of the Company’s responses to subject matter in the complaints and whether issues raised were fully addressed by the responses.

<b>Complaint Sample Results</b>					<b>Table B3-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
2002-2003 Complaints	3	3	0	0	<b>100%</b>

*Recommendations:* None

**Standard B-04**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 4.*

**The time frame within which the Company responds to complaints is in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(17).

*Comments:* This standard does not have a direct insurance statutory requirement; however timeliness in responding to complaints is inferred. Delaware’s complaint handling section uses a 15 day standard for response to complaints. In the case of complaints/grievances concerning claims, direct time requirements are found in regulation. This standard is concerned with whether the Company has made timely responses to complaints/grievances. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Complaint files were reviewed from 2002-2003 to evaluate this standard. The review focused on the timing of the initial response to written complaints.

<b>Complaint Sample Results</b>					<b>Table B4-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
2002-2003 Complaints	3	3	0	0	<b>100%</b>

*Recommendations:* None

**Standard B-05**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §B, Standard 4.*

**Documentation of complaints is adequate and in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(17).

*Comments:* This standard does not have a direct insurance statutory requirement, however documentation is inferred. This standard is concerned with whether the Company has adequate documentation to demonstrate handling and disposition of the complaint. Review methodology for this standard is by “sample” review.

**Results: Pass**

*Observations:* Complaint files were reviewed from 2002-2003 to evaluate this standard. This standard requires that:

- That the documentation of the complaint file is sufficient to demonstrate that there was appropriate disposition of the complaint.

<b>Complaint Sample Results</b>					<b>Table B5-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
2001-2003 Complaints	3	3	0	0	<b>100%</b>

*Recommendations:* None

**C. MARKETING AND SALES**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to evaluate the representations made by the Company about its product(s). It is not typically based on sampling techniques but can be. The areas to be considered in this kind of review include all media (radio, television, videotape, etc.), written and verbal advertising and sales materials.

**Standard C-01**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 1.*

**All advertising and sales materials are in compliance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1), §2304(2), §2304(7).

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with all forms of media (print, radio, television, etc.). Review methodology for this standard is by “generic” review.

**Results: Pass**

*Observations:* The Company maintains sufficient training manuals and procedures for its advertising and marketing sections. Advertisements do not falsely project any connection with a government agency. All advertising and sales materials reviewed are in compliance with applicable statutes, rules and regulations.

*Recommendations:* None

***Standard C-02***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 2.*

**Company internal producer training materials are in compliance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1), §2304(2), §2304(7).

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with training or instructional representations made by the Company to its producers. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company maintains training manuals and procedures for its internal producers. Company provided instruction or materials do not lead or instruct producers to use any language or tactics that would cause any misrepresentation. All marketing and sales material, including producer prepared sales materials, must be submitted to and approved by the Company’s Office of Business Conduct Sales Material and Advertising Review (SMAR) Unit or the Agency Compliance Specialist if material is approvable at the agency level. All advertising and sales materials reviewed are in compliance with applicable statutes, rules and regulations.

*Recommendations:* None

***Standard C-03***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 3.*

**Company communications to producers are in compliance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1).

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with representations made by the Company to its producers in other than a training mode. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company sends out updates/memos to producers as soon as the updates are posted. These communications include written and electronic correspondence. Changes in rules

and regulations are revised as needed. Samples of electronic correspondence were reviewed and no exceptions were noted. Company communications to producers, including electronic, are in compliance with applicable statutes, rules and regulations.

*Recommendations:* None

***Standard C-04***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 4.*

**Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.**  
18 Del. C. §318(a), §508(b), §2304(1), §2304(20); Del. Reg. 1203; Del. Reg. 1204

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with misrepresentation occurring at replacement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Loan and surrender files were reviewed and replacement transactions were identified on applications. In addition, disclosure forms were submitted on replacement transactions. A review of underwriting files confirmed the receipt of sales material and required statements. All replacement disclosure forms were complete including applicable signatures.

*Recommendations:* None

***Standard C-05***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 4.*

**Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.**  
18 Del. C. §318(a), §508(b), §2304(1), §2304(20); Del. Reg. 1203; Del. Reg. 1204

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. It is concerned with misrepresentation occurring at replacement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Loan and surrender files were reviewed and it was determined that agents have appropriately identified replacement transactions on applications. Disclosure forms were reviewed and were submitted on replacement transactions. Appropriate signed replacement forms were found as well as confirmed receipt of sales material or required statements. Copies of approved sales material were submitted and reviewed. All appropriate signatures and information was clearly displayed and apparent on replacement forms.

*Recommendations:* None

***Standard C-06***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 6.*

**An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules, and regulations.**

18 Del. C. §318(a), §508(b), §2304(1), §2304(20), Del. Reg. 1210.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* The Company and their producers have not misrepresented any policy that has been reviewed.

The Company also has not misled the policy owner or prospective owners on the elements of their products. All Illustrations used comply with all applicable laws and statutes and the policy duration does not depict policy performance more favorable to the policy owner than that produced by the illustrated scale of the insurer whose policy is being illustrated.

All applications that required illustrations were complete. The applications do not represent that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefits, unless that is the fact. The term “vanish” or “vanishing premium,” or a similar term that implies the policy becomes paid up, to describe a plan for using non-guaranteed elements to pay a portion of future premiums was not present in any of the reviewed applications. The applications also do not use an illustration that is “lapse-supported” or use an illustration that is not “self-supporting.”

The Company has established requirements for producers to provide universal life applicants with a “Statement of Policy Information.” The Statement follows the format set forth in the NAIC Universal Life Insurance Model Regulation. John Hancock Variable Life when using direct response solicitation of universal life products provided such Statement at the time of policy delivery.

Illustrations are retained in accordance with statutes, rules, and regulations. When applicable, a copy of the illustration was submitted to the insurer and applicant at the time of policy application.

When a policy was issued other than as applied for, the Company used a revised basic illustration conforming to the policy as issued. The revised illustration was also labeled “Revised Illustration”. All illustrations were signed and dated by the applicant or policy owner and producer or other authorized representative of the insurer no later than the time the policy was delivered. A copy was also provided to the insurer and the policy owner. Diligent effort to obtain the signature was made by the Company when not able to at time of policy delivery.

*Recommendations:* None

***Standard C-07***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 7.*

**Company has suitability standards for its products when required by applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1). Del. Reg. 1203.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company requires that any product recommendation be based on sufficient knowledge of the customers’ personal and financial information to determine suitability. Underwriting guidelines and questions on the policy application help determine the total amount of insurance the applicant already owns. The Company’s manuals explain that the marketing representative must act in the policy owner’s best interest in reference to multiple sales. This responsibility includes the completion of a Policy Replacement Questionnaire, designed to assist the agent and policyholder in making an informed judgment about whether a proposed replacement is in the best interest of the policy owner. By submitting the Policy Replacement Questionnaire with the application along with written justification for replacement and completed replacement section, the agent is complying with State replacement laws and regulations.

Underwriting guidelines also take into consideration all in force policies from all companies including the amount applied for to determine a reduction of the applied policy amount or to deny the coverage to combat the creation of over insurance. This process also allows the underwriters to determine if they have a reasonable relationship to economic loss sustained in the event of an unexpected or premature death of the insured. There was no indication found that the Company is making inappropriate multiple sales to individuals of the same product.

*Recommendations:* None

***Standard C-08***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 8.*

**Pre-need Funeral Contracts or Pre-arrangement disclosures and advertisements are in compliance with statutes, rules, and regulations.**

18 Del. C. §318(a), §508(b), §2304(1).

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” review.

*Results:* **Not Applicable**

John Hancock Variable Life Insurance Company

*Observations:* John Hancock Variable Life Insurance Company does not write pre-need funeral or pre-arrangement contracts.

*Recommendations:* None

**Standard C-09**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 9.*

**Company policy forms provide required disclosure material regarding accelerated benefit provisions.**

18 Del. C. §318(a), §508(b), §2304(1).

*Comments:* This standard has a direct insurance statutory requirement. This standard is intended to assure compliance with the prohibitions on misrepresentation. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* The Company’s Accelerated Benefit Rider forms were reviewed and titles for these riders included the term “Accelerated Benefit” in bold text form. Disclosure is made to the effect that receipt of distributions from the rider may be a taxable form of income and assistance should be sought from an attorney or personal tax advisor if the policyholder has additional questions.

Description of accelerated benefit and definitions of the conditions or occurrences triggering payment of the benefits is clearly written throughout the applicable sections of the rider. Products marketed under the Accelerated Benefits regulation are not described as long-term care insurance or as providing long-term care benefits.

*Recommendations:* None

**Standard C-10**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §C, Standard 10.*

**Policy application forms used by depository institutions provide disclosure material regarding insurance sales.**

18 Del. C. §318(a), §508(b), §2304(1)

*Comments:* This standard has a direct Federal statutory requirement. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* John Hancock Variable Life’s life insurance products may be sold through bank insurance programs. The Company has developed depository institution disclosures to be used when required on life insurance material that can be used in a depository institution. Guidelines for same were reviewed and found to be satisfactory.

*Recommendations:* None

## D. PRODUCER LICENSING

*Comments:* The evaluation of standards in this business area is based on review of DDOI information and Company responses to information requests, questions, interviews, and presentations made to the examiner. This portion of the examination is designed to test the Company's compliance with Delaware producer licensing laws and rules.

### *Standard D-01*

*NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 1.*

**Company records of licensed and appointed producers agree with Delaware Insurance Department records.**

18 Del. C. §318(a), §508(b), §1703 & §1715(a).

*Comments:* This standard has a direct insurance statutory requirement. It is not file specific. This standard is aimed at assuring compliance with the requirement that producers be properly licensed and appointed. Such producers are presumed to be qualified, having met the test for such license.

18 Del. C. §1703 States: "A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter."

18 Del. C. §1715(a) States: "An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed."

Review methodology for this standard is by "electronic" and "generic" review.

*Results:* **Pass**

*Observations:* This standard was not tested electronically since the electronic data needed was not an available source. However, the samples tested in standard F-08 had a 100 percent pass rate. The Company process for assuring that all agents have appropriate licenses for producing business is effective.

*Recommendations:* None

### *Standard D-02*

*NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 2.*

**The producers are properly licensed, and if an agent appointed, for insurance solicited in Delaware.**

18 Del. C. §318(a), §508(b), §1703, §1715(a) & §1715(b).

*Comments:* This standard has a direct insurance statutory requirement. As applied in this section, it is not file specific. This standard is aimed at assuring compliance with the

requirement that producers be properly licensed and appointed for business solicited in Delaware.

18 Del. C. §1703 States: “A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter.”

18 Del. C. §1715(a) States: “An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.”

18 Del. C. §1715(b) States: “To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding Company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.”

Review methodology for this standard is by “generic” review.

**Results: Pass**

*Observations:* Also see Observations for Procedure P-18 and P-19. John Hancock Variable Life has procedures to manage producers and monitor their activity. These procedures cover all appointed, suspended, and terminated producers. John Hancock Variable Life has adequate procedures in place to appoint, terminate, and make sure all new business is issued by a licensed agent.

*Recommendations:* None

### **Standard D-03**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 3.*

**Termination of producers complies with statutes regarding notification to the producer and notification to the State of Delaware.**

18 Del. C. §318(a), §508(b), §529, §1712, & §1716.

*Comments:* This standard has a direct insurance statutory requirement. It is generally not file specific. This standard is aimed at avoiding unlicensed placements of insurance. Review methodology for this standard is by “generic” review.

**Results: Pass**

*Observations:* Commissions were not tested in this procedure for terminated agents due to the 100 percent pass rate of samples tested in standard F-08. All termination requests are date stamped and agent information is accessed on the Company’s termination database and assessed for accuracy. Upon verification of accuracy, a letter is automatically generated and sent to the agents address. Terminations for cause are processed on the same day to ensure that no further business is issued by the terminated producer. Comments are entered into the Company's database with the reason for termination. Delaware Appointment Termination forms are

John Hancock Variable Life Insurance Company

completed manually indicating “Yes” in the *For Cause* column of the form. The completed form is mailed to the State along with applicable documentation in accordance with Delaware regulations. A copy of the termination request is maintained in the State termination file. Replacement notices are also handled correctly by the Company for any terminated agents and do not conflict with applicable standards or laws.

*Recommendations:* None

***Standard D-04***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 4.*

**The Company’s policy of producer appointments and terminations do not result in unfair discrimination against policyholders.**

18 Del. C. §318(a), §508(b), §2304(15)c, & §2304(22)a, §4124 .

*Comments:* This standard has a direct insurance statutory requirement. It is generally not file specific. This standard is concerned with potential geographical discrimination through the insurer’s selection and instructions to its producers. The tests are intended to expose indicators of such practice and may not be conclusive. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedure P-18 and P-19. No unfair discrimination against policyholders was detected based on the Company’s appointment or termination of producers. No evidence was found during this examination period of under-served or over-served geographical areas in reference to producer placement.

*Recommendations:* None

***Standard D-05***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 5.*

**Records of terminated producers adequately document reasons for terminations.**

18 Del. C. §318(a), §508(b), & §1716.

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. This standard is intended to aid in the identification of producers involved in unprofessional behavior which is harmful to the public. 18 Del. C. §1716(a) provides: “Termination for cause. -- An insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Insurance Commissioner within 30 days following the effective date of the termination, using a format prescribed by the Insurance Commissioner, if the reason for termination is one of the reasons set forth in § 1712 of this title or the insurer has knowledge the producer was found by a court, government body or self-regulatory organization authorized by law to have engaged in any of the activities in § 1712. Upon the written request of the Insurance Commissioner, the insurer shall provide additional information, documents, records or other data

pertaining to the termination or activity of the producer.” Review methodology for this standard is by “generic” review.

**Results: Pass**

**Observations:** John Hancock Variable Life terminations of producers are in accordance with applicable statutes and regulations. Reasons for producer terminations are documented and archived correctly (see process for terminations in standard D4). DDOI is notified of all terminations with appropriate documentation and is in accordance with Delaware regulations. Producer defalcations and other criminal activity is properly reflected in a termination for cause and in reports required under 18 Del. C. §1716.

**Recommendations:** None

**Standard D-06**

NAIC Market Conduct Examiners Handbook - Chapter XV, §D, Standard 6.

**Producer accounts current (account balances) are in accordance with the producer’s contract with the insurer.**

18 Del. C. §318(a), §508(b), §1712(a)(4) & §1716.

**Comments:** This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is to aid in the detection of fraud or misuse of funds held by the producer in a fiduciary capacity. 18 Del. C. §1712(a)(4) States:

“(a) The Insurance Commissioner may place on probation, suspend, revoke or refuse to issue or renew an insurance producer's license or may levy a penalty in accordance with subsection (d) of this section or any combination of actions, for any 1 or more of the following causes:

(4) Improperly withholding, misappropriating or converting any moneys or properties received in the course of doing insurance business.”

Review methodology for this standard is by “generic” review.

**Results: Pass**

**Observations:** Also see Observations for Procedures P-18 and P-19. The Company agents do not exceed the producer accounts currently permitted by contract. Agents must submit initial premiums directly to the Company and are prohibited from opening any bank accounts in the name of John Hancock Variable Life or Signator. The policyholder makes subsequent payments directly to the Company. Producers are prohibited from accepting any cash or checks made payable to the producer or endorsed by the producer in connection with any policies.

**Recommendations:** None

**E. POLICYHOLDER SERVICES**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, and presentations made to the examiner and file sampling during the examination process. The policyholder service portion of the examination is designed to test a Company’s compliance with statutes regarding notice/billing, delays/no response, premium refund and coverage questions.

***Standard E-01***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 1.*

**Premium notices and billing notices are sent out with an adequate amount of advance notice.**

18 Del. C. §318(a), §508(b), §3905, §3911.

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20 and P-21. A random sample of Terminated Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Notices are in accord with Company’s procedures for handling renewals or continuation and with Delaware guidelines.

<b>Policyholder Service Sample Results</b>					<b>Table E1-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Terminated	50	50	0	0	<b>100%</b>
Totals	50	50	0	0	<b>100%</b>

*Recommendations:* None

***Standard E-02***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 2.*

**Policy issuance and insured-requested cancellations are timely and appropriate.**

18 Del. C. §318(a), §508(b), & §2712.,§3915.

*Comments:* This standard does not have a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20 and P-22. A random sample of Terminated Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Insured-requested cancellations are handled in a timely manner without excessive paperwork requirements for the insured, and in accord with contract provisions.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Terminated	50	50	0	0	<b>100%</b>
Totals	50	50	0	0	<b>100%</b>

*Recommendations:* None

**Standard E-03**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 3.*

**All correspondence directed to the Company is answered in a timely and responsive manner by the appropriate department.**

18 Del. C. §318(a), §508(b), §2304(16)b & §2304(17).

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20. A random sample of Issued, Terminated and Inforce Files as well as all Declined files were selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Response to correspondence was made by the appropriate department.
- Original question or problem was properly addressed in a timely manner.
- Company responds to inquiries from the applicant regarding the specific reason(s) for adverse underwriting decisions.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Issued	50	50	0	0	<b>100%</b>
Ind. Life Declined	21	20	0	1	<b>100%</b>
Ind. Life Terminated	50	50	0	0	<b>100%</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	171	170	0	1	<b>100%</b>

*Recommendations:* None

**Standard E0-4**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 4.*

**Reinstatement is applied consistently and in accordance with policy provisions.**

18 Del. C. §318(a), §508(b), §2304(16)b & §2304(17).

*Comments:* Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedure P-21. In the event of a policy cancellation, expiration or replacement, an applied for policy reinstatement can be made only in accordance with the Company’s Policy Reinstatement Provisions. A review of the policy files confirmed that the policy forms contained appropriate Policy Reinstatement Provisions.

*Recommendations:* None

**Standard E-05**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 5.*

**Policy transactions are processed accurately and completely.**

18 Del. C. §2304(16)b; 18 Del. C. §2304(17).

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedure P-22. A random sample of Issued, Terminated and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Beneficiary changes are properly documented.
- Policyholder requests are processed as soon as reasonable.

<b>Policyholder Service Sample Results</b>					<b>Table E5-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Issued	50	0	0	50	<b>100%</b>
Ind. Life Terminated	50	0	0	50	<b>100%</b>
Ind. Life Inforce	50	0	0	50	<b>100%</b>
Totals	150	0	0	150	<b>100%</b>

*Recommendations:* None

**Standard E-06**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 6.*

**Nonforfeiture options are communicated to the policyholder and correctly applied in accordance with the policy contract.**

18 Del. C. §318(a), §508(b), §2929.

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

**Results: Pass**

*Observations:* Also see Observations for Procedures P-20, P-25, P-36 and P-37. A random sample of Issued and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Nonforfeiture options are properly communicated and applied.

<b>Policyholder Service Sample Results</b>					<b>Table E6-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Issued	50	50	0	0	<b>100%</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	100	100	0	0	<b>100%</b>

*Recommendations:* None

**Standard E-07**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 7.*

**Reasonable attempts to locate missing policyholders or beneficiaries are made.**

18 Del. C. §318(a), §508(b), §2914.

*Comments:* Review methodology for this standard is by “generic” and “sample” review.

**Results: Pass**

*Observations:* Also see Observations for Procedures P-20, P-25, P-36 and P-37. A random sample of Issued and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Reasonable attempts be made to locate missing policyholders and beneficiaries.

<b>Policyholder Service Sample Results</b>					<b>Table E7-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Issued	50	50	0	0	<b>100%</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	100	100	0	0	<b>100%</b>

*Recommendations:* None

**Standard E-08**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 8.*

**The Company provides each policy owner with an annual report of policy values in accordance with statutes, rules, and regulations and, upon request, an in-force illustration or contract policy summary.**

18 Del. C. §318(a), §508(b), §2304(1), DE Reg 1210.

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20 and P-25. A random sample of Issued and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Annual reports of policy values be provided to policyholders.
- In-force illustrations or contract policy summary be provided on request.

**Policyholder Service Sample Results**

**Table E8-1**

Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Issued	50	50	0	0	<b>100%</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	100	100	0	0	<b>100%</b>

*Recommendations:* None

**Standard E-09**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 9.*

**Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b).

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20, P-27 and P-28. A random sample of Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- The unearned premium (short rate, pro rata or sum of digits method) is correctly calculated in accordance with policy provisions or State law.

John Hancock Variable Life Insurance Company

- Refunds provided to producers are properly distributed.
- The unearned premium was returned to the insured in a timely manner.
- The Company adheres to applicable free-look periods.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	50	50	0	0	<b>100%</b>

*Recommendations:* None

**Standard E 10**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 10.*

**Whenever the Company transfers the obligation of its contracts to another Company pursuant to an assumption reinsurance agreement, the Company has gained prior approval of the Insurance Department and the Company has sent the required notices to its' affected policyholders.**

18 Del. C. §318(a), §508(b), §2304(1).

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. The focus of this standard is Company provision to insureds with information in a timely fashion so they can make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* Also see Observations for Procedures P-20 and P-25. A random sample of Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- The class of policyholder or type of product covered by the assumption reinsurance agreement was properly determined.
- Affected policyholders received the Notice of Transfer and the Response Card and that each includes appropriate language.
- The Company appropriately handled policyholders’ right to reject the transfer.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Inforce	50	50	0	0	<b>100%</b>
Totals	50	50	0	0	<b>100%</b>

*Recommendations:* None

**Standard E-11**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §E, Standard 11.*

**Upon receipt of a request from policyholder for accelerated benefit payment, the Company must disclose to policyholder the effect of the request on the policy’s cash value, accumulation account, death benefit, premium, policy loans and liens. Company must also advise that the request may adversely affect the recipient’s eligibility for Medicaid or other government benefits or entitlements.**

18 Del. C. §318(a), §508(b), §2304(1).

*Comments:* None

*Results:* **Pass**

*Observations:* No exceptions were noted.

*Recommendations:* None

**F. UNDERWRITING AND RATING**

*Comments:* The evaluation of standards in this business area is based on review of Company responses to information requests, questions, interviews, presentations made to the examiner, and file sampling. The underwriting and rating practices portion of the examination is designed to provide a view of how the Company treats the public and whether that treatment is in compliance with applicable statutes, rules and regulations. It is typically determined by testing a random sampling of files and applying various tests to the sampled files. It is concerned with compliance issues.

**Standard F-01**

*NAIC Market Conduct Examiners Handbook - Chapter XV, F, Standard 1.*

**The rates charged for the policy coverage are in accordance with filed rates.**

18 Del. C. §318(a), §508(b), & §2517.

*Comments:* This standard has a direct insurance statutory requirement. It is file specific. It is necessary to determine if the Company is in compliance with rating systems which have been filed with and approved by DDOI. Rates should not be unfairly discriminatory. Wide-scale application of incorrect rates by a Company may raise financial solvency questions or be indicative of inadequate management oversight. Deviation from established rating plans may also indicate a Company is engaged in unfair competitive practices. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* A random sample of Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires:

- Correct use of classification and other rating factors;
- Rating information that comports with information in the application;

- Appropriate use of manual rules;
- Appropriate basis of premium;
- Correct implementation date for rates.

Underwriting Sample Results					Table F1-1
Type	Sampled	Pass	Fail	NA	% Pass
Individual Life Issued	50	50	0	0	100%
Totals	50	50	0	0	100%

Recommendations: None

**Standard F-02**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 2.*

**All mandated disclosures for individual insurance are documented and in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, & §2719.

*Comments:* This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

Results: **Pass**

*Observations:* A random sample of Issued and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. However none of the reviewed files contained conditions that are tested under this standard. A random sample of Replacement Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- All mandated offers of coverage have been disclosed.

Underwriting Sample Results					Table F2-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind Life Replacement	51	51	0	0	100%
Totals	51	51	0	0	100%

Recommendations: None

**Standard F-03**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 3.*

**All mandated disclosures for group insurance are documented and in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, & §2719.

*Comments:* This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate

disclosures, insureds find it difficult to make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

**Results: Not Applicable**

*Observations:* This Standard was not applied since the Company did not have any group life insurance writings.

*Recommendations:* None

**Standard F-04**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 4.*

**All mandated disclosures for credit insurance are documented and in accordance with applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(1)a , §2517, & §2719.

*Comments:* This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate disclosures, both mandated and reasonable. Without appropriate disclosures, insureds find it difficult to make informed decisions. Review methodology for this standard is by “generic” and “sample” review.

**Results: Not Applicable**

*Observations:* This Standard was not applied since the Company did not have any credit life insurance writings.

*Recommendations:* None

**Standard F-05**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 5.*

**Company does not permit illegal rebating, commission cutting or inducements.**

18 Del. C. §318(a), §508(b), & §2304(14).

*Comments:* This standard has a direct insurance statutory requirement. It is generally file specific. Illegal rebating, commission cutting or other illegal inducements are a form of unfair discrimination. Review methodology for this standard is by “generic” and “sample” review.

**Results: Pass**

*Observations:* A random sample of Issued, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Quotations are documented, accurate and timely as supported by data in underwriting file.
- Changes in coverage are disclosed timely.
- Changes in renewal rates are disclosed timely.
- All mandated offers of coverage have been disclosed.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Issued	50	50	0	0	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
Totals	151	151	0	0	<b>100%</b>

*Recommendations:* None

**Standard F-06**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 6.*

**All forms including contracts, riders, endorsement forms and certificates are filed with the Delaware Department of Insurance.**

18 Del. C. §318(a), §508(b), & §2304(14).

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* A random sample of Issued, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Underwriting file contains complete and signed application.
- All forms and endorsements that form part of the contract are listed on the declarations page.

<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Issued	50	50	0	0	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
Totals	151	151	0	0	<b>100%</b>

*Recommendations:* None

**Standard F-07**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 7.*

**The Company underwriting practices are not unfairly discriminatory. The Company adheres to applicable statutes, rules and regulations and Company guidelines in the selection of risks.**

18 Del. C. §318(a), §508(b), §2304(14), §2504(a), §2509, §2609, & §2615, Del. Reg. 1901

*Comments:* This standard has a direct insurance statutory requirement. It is necessary to provide insureds with appropriate protections from unfair discrimination. Inconsistent handling of rating or underwriting practices, including requests for supplemental information, even if not

intentional, can result in unfair discrimination. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

**Results: Pass**

**Observations:** A random sample of Issued, Terminated, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Underwriting decisions are supported by data in underwriting file.
- Application of underwriting criteria be consistent.
- The Company is following its underwriting guidelines.

<b>Underwriting Sample Results</b>					<b>Table F7-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Issued	50	50	0	0	<b>100%</b>
Ind Life Terminated	50	50	0	0	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
Totals	201	201	0	0	<b>100%</b>

**Recommendations:** None

**Standard F-08**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 8.*

**Producers taking an application on Delaware business are properly licensed and appointed.**

18 Del. C. §318(a), §508(b), §1713, & §1714.

**Comments:** This standard has a direct insurance statutory requirement. Review methodology for this standard is by “sample” review.

**Results: Pass**

**Observations:** A random sample of Issued, Declined, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Producer was licensed and appointed by the Company at the time of application.

<b>Underwriting Sample Results</b>					<b>Table F8-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Issued	50	50	0	0	<b>100%</b>
Individual Life Declined	21	20	0	1	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
Totals	172	171	0	1	<b>100%</b>

**Recommendations:** None

**Standard F-09**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 9.*

**Policies and riders are issued or renewed accurately, timely and completely.**  
 18 Del. C. §318(a); §508; §2304(7)a

*Comments:* This standard does not have a direct insurance statutory requirement. Review methodology for this standard is by “sample” and “electronic” review.

*Results:* **Pass**

*Observations:* A random sample of Issued, Declined, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Policies and endorsements are issued in appropriate time frames.
- Policies are issued within a reasonable time following completion of the application.

<b>Underwriting Sample Results</b>					<b>Table F9-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Issued	50	50	0	0	<b>100%</b>
Individual Life Declined	21	20	0	1	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
<b>Totals</b>	<b>172</b>	<b>171</b>	<b>0</b>	<b>1</b>	<b>100%</b>

*Recommendations:* None

**Standard F-10**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 10.*

**Rejections and declinations are not unfairly discriminatory.**  
 18 Del. C. §318(a), §508(b), §2304(25)a, & §2316.

*Comments:* This standard has a direct insurance statutory requirement. Consistent application of a Company’s underwriting rules is the primary method used to avoid unfair discrimination. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

*Results:* **Pass**

*Observations:* A sample of Declined Files and Terminated Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Rejections and declinations are not unfairly discriminatory.
- Valid reasons for rejection or declination are provided.

<b>Underwriting Sample Results</b>					<b>Table F10-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Individual Life Declined	21	20	0	1	<b>100%</b>
Ind Life Terminated	50	50	0	0	<b>100%</b>
<b>Totals</b>	<b>71</b>	<b>70</b>	<b>0</b>	<b>1</b>	<b>100%</b>

*Recommendations:* None

**Standard F-11**

*NAIC Market Conduct Examiners Handbook - Chap XV, §F, Standard 11.*

**Cancellation/non-renewal notices and practices comply with policy provisions, statutes, and Company guidelines.**

18 Del. C. §318(a), §508(b), §2304(24); & §2304(25)a.

*Comments:* This standard has a direct insurance statutory requirement. Cancellation/non-renewal notice timeframe requirements arose out of abuses that still exist. Policyholders need sufficient time in the event of a cancellation or nonrenewal to replace coverage. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

*Results:* **Pass**

*Observations:* A random sample of Terminated Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that the:

- Reason for cancellation/non-renewal was valid according to policy provisions and statute.
- Notice of cancellation includes the specific reason for cancellation where required.

<b>Underwriting Sample Results</b>					<b>Table F11-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Terminated	50	50	0	0	<b>100%</b>
Totals	50	50	0	0	<b>100%</b>

*Recommendations:* None

**Standard F-12**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 12.*

**Rescissions are not made for non-material misrepresentation.**

18 Del. C. §318(a), §508(b), & §2711.

*Comments:* This standard does not have a direct insurance statutory requirement. It is file specific. Rescissions generally occur after a claim has been filed. A large number of rescissions can reflect inadequate underwriting efforts. When rescissions are made it should not be for trivial or non-material reasons. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observations:* A random sample of Terminated Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Rescissions do not occur for trivial or non material reasons.

Underwriting Sample Results					Table F12-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Terminated	50	50	0	0	100%
Totals	50	50	0	0	100%

Recommendations: None

**Standard F-13**

<p><i>NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 13.</i></p> <p><b>Pertinent information on applications that form a part of the policy are complete and accurate.</b></p> <p style="text-align: right;">18 Del. C. §318(a), §508(b), &amp; §2304(7)a.</p>
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Comments: This standard does not have a direct insurance statutory requirement. Prompt return of unearned premiums assist insureds in replacing coverage. Review methodology for this standard is by “generic” and “sample” review.

Results: **Pass**

Observations: A sample of Issued Files and Declined Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Policies are issued as applied for.
- Application information is accurate and verified.

Underwriting Sample Results					Table F13-1
Type	Sampled	Pass	Fail	NA	% Pass
Individual Life Issued	50	50	0	0	100%
Individual Life Declined	21	20	0	1	100%
Totals	71	70	0	1	100%

Recommendations: None

**Standard F-14**

<p><i>NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 14.</i></p> <p><b>The Company complies with the specific requirements for AIDS-related concerns in accordance with statutes, rules, and regulations.</b></p> <p style="text-align: right;">18 Del. C. §318(a), §508(b), &amp; §2304(14), §2304(15), Del. Reg. 1209.</p>
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Comments: Review methodology for this standard is by “generic” and “sample” review.

Results: **Pass**

Observations: None of the files sampled contained issues tested with this standard. No exceptions were noted.

*Recommendations:* None

**Standard F-15**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §F, Standard 15.*  
**File documentation adequately supports decisions made.**  
 18 Del. C. §318(a), §508(b), & §2304(1).

*Comments:* This standard does not have a direct insurance statutory requirement. When underwriting is done with less than the required information, the likelihood of unfair discrimination increases. Review methodology for this standard is by “sample” review.

*Results:* **Pass**

*Observations:* A random sample of Issued, Declined, Terminated, Replacement and Inforce Files was selected and reviewed from the listing of Underwriting files during the examination period. This standard requires that:

- Underwriting file contains complete and signed application.
- Application contains sufficient information to identify exposure.

Type	Sampled	Pass	Fail	NA	% Pass
Individual Life Issued	50	50	0	0	<b>100%</b>
Individual Life Declined	21	20	0	1	<b>100%</b>
Ind Life Terminated	50	50	0	0	<b>100%</b>
Ind Life Replacement	51	51	0	0	<b>100%</b>
Individual Life Inforce	50	50	0	0	<b>100%</b>
Totals	222	221		1	<b>100%</b>

*Recommendations:* None

**G. CLAIMS PRACTICES**

*Comments:* The evaluation of standards in this business area is based on Company responses to information items requested by the examiner, discussions with Company staff, electronic testing of claim databases, and file sampling during the examination process. This portion of the examination is designed to provide a view of how the Company treats claimants and whether that treatment is in compliance with applicable statutes, rules and regulations.

**Standard G-01**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 1*  
**The initial contact by the Company with the claimant is within the required time frame.**  
 18 Del. C. §318(a), §508(b), §2304(16)b & DE Reg. 902§1.2.1.2

*Comments:* This standard derives directly from 18 Del. C. §2304(16)b which prohibits the "failing to acknowledge and act reasonably promptly upon communication with respect to claims arising under insurance policies." Delaware requires responses to claim communications within

15 working days of receipt of the communication. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

**Results: Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Initial contact with claimants meets required contact standards.

Claims Sample Results					Table G1-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	100%
Totals	21	21	0	0	100%

*Recommendations:* None

**Standard G-02**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 2.*

**Timely investigations are conducted.**

18 Del. C. §318(a), §508(b), §2304(16)c & DE Reg. 902§1.2.1.3.

*Comments:* This standard has a direct insurance statutory requirement. Delaware requires claim investigation within 10 working days of receipt of the notice of loss by the insurer. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

**Results: Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Initial contact with claimants meets required contact standards.
- Subsequent responses and claim handling delay notices comply with applicable statutes, rules and regulations.

Claims Sample Results					Table G2-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	100%
Totals	21	21	0	0	100%

*Recommendations:* None

**Standard G-03**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 3.*

**Claims are resolved in a timely manner.**

18 Del. C. §318(a), §508(b), §2304(16)e & DE Reg. 902§1.2.1.5.

*Comments:* This standard has a direct insurance statutory requirement. Failure to resolve claims timely can invite “bad faith” actions. In a Company setting, failure to resolve claims timely can

result in a migration of providers from the network with resultant disruption of service to members. Del. Reg. 26 §(1)(e) requires claim resolution or written explanation within 30 day of receipt of claim. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

**Results: Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Claim resolutions, i.e., liability, determinations, coverage questions and claim payment are made in accordance with Delaware claim requirements.
- Claim handling delay notices comply with applicable statutes, rules and regulations.

Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-04**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 4.*  
**The Company responds to claim correspondence in a timely manner.**  
 18 Del. C. §318(a), §508(b), §2304(16)b & DE Reg. 902§1.2.1.2.

*Comments:* This standard has a direct insurance statutory requirement. Delaware requires response to claim communications within 15 working days of receipt of the communication. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

**Results: Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Correspondence related to claims is responded to in accordance with Delaware requirements.

Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-05**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 5*

**Claim files are adequately documented.**

18 Del. C. §318(a), §320(c), §508(b), §2304(16) & DE Reg. 902§1.2.1.

*Comments:* This standard has a direct insurance statutory requirement. Without adequate documentation, the various time frames in statute and/or regulation can not be demonstrated. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- The quality of the claim documentation meets Delaware requirements.
- Claim files documentation is sufficient to support or justify the ultimate claim determination.

Claims Sample Results					Table G5-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-06**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 6.*

**Claims are properly handled in accordance with policy provisions and applicable statutes, rules and regulations.**

18 Del. C. §318(a), §508(b), §2304(16)a. §3914 & DE Reg. 902§1.2.1.1.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Claim handling meets Delaware statutes and regulations.
- Coverage was checked for proper application of deductible or appropriate exclusionary language.

Claims Sample Results					Table G6-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-07**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 7.*

**The Company claim forms are appropriate for the type of product.**  
 18 Del. C. §318(a), §508(b), §2304(16)d, §2304(16)n, & DE Reg. 902§1.2.1.11.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- The use of inappropriate forms does not occur.

Claims Sample Results					Table G7-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-08**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 8.*

**Claim files are reserved in accordance with the Company’s established procedures.**  
 18 Del. C. §318(a), §508(b), & §1103.

*Comments:* This standard has a direct insurance statutory requirement. Loss reserves must be applied in a consistent manner to avoid distortions in the Company’s financial Statements and in the development of its rate structures. Review methodology for this standard is by “generic” and “sample” review.

*Results:* **Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- individual reserves are evaluated and posted.
- reserve adjustments are made when appropriate.
- reserves are not excessive or inadequate.
- reserves are adjusted if a redundancy is apparent.

Claims Sample Results					Table G8-1
Type	Sampled	Pass	Fail	NA	% Pass
Ind. Life Claims Paid	21	21	0	0	<b>100%</b>
Total	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-09**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 9.*

**Denied and closed-without-payment claims are handled in accordance with policy provisions and Delaware law.**  
 18 Del. C. §318(a); §508(b); §2304(16)d; §2304(16)n; & DE Reg. 902§1.2.1.4; DE Reg. 902§1.2.1.13.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic”, “sample” and “electronic” review.

*Results:* **Pass**

*Observation:* The Company did not have any denied or closed-without payment claims.

*Recommendations:* None

**Standard G-10**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 10.*

**Cancelled benefit checks reflect appropriate claim handling practices.**  
 18 Del. C. §318(a), §508(b), §2304(16), & DE Reg. 902§1.2.1.

*Comments:* Review methodology for this standard is by “sample” and “electronic” review.

*Results:* **Pass**

*Observation:* A sample of Claims Paid files was selected and reviewed from the listing of Claim files during the examination period. This standard requires that:

- Cancelled checks include the correct payee and are for the correct amount.
- Payment checks do not indicate the payment is “final” when such is not the case.
- Checks or drafts do not purport to release the insurer from total liability when such is not the case.

<b>Claims Sample Results</b>					<b>Table G10-1</b>
<b>Type</b>	<b>Sampled</b>	<b>Pass</b>	<b>Fail</b>	<b>NA</b>	<b>% Pass</b>
Ind. Life Paid	21	21	0	0	<b>100%</b>
Totals	21	21	0	0	<b>100%</b>

*Recommendations:* None

**Standard G-11**

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 11.*

**Claim handling practices do not compel claimants to institute litigation, in cases of clear liability and coverage, to recover amounts due under policies by offering substantially less than is due under the policy.**  
 18 Del. C. §318(a), §508(b), §520(b)2, §2304(16)g, & DE Reg. 902§1.2.1.7.

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “sample” review.

*Results:* **Pass**

*Observation:* There were no litigated claims during the examination period. No exceptions were noted.

*Recommendations:* None

***Standard G-12***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 12.*

**Company provides the required disclosure material to policyholders at the time an accelerated benefit payment is requested.**

18 Del. C. §318(a), §508(b), §2304(1), & DE. Reg 1210.

*Comments:* Review methodology for this standard is by “generic” review. This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic”, review.

*Results:* **Pass**

*Observation:* No files were noted that contained conditions tested with this standard. No exceptions were noted.

*Recommendations:* None

***Standard G-13***

*NAIC Market Conduct Examiners Handbook - Chapter XV, §G, Standard 13.*

**The Company does not discriminate among insured with differing qualifying events covered under the policy or among insured with similar qualifying events covered under the policy.**

18 Del. C. §318(a), §508(b), §2304(1), §2304(13), §2304(15).

*Comments:* This standard has a direct insurance statutory requirement. Review methodology for this standard is by “generic” review.

*Results:* **Pass**

*Observation:* No files were noted that contained conditions tested with this standard. No exceptions were noted.

*Recommendations:* None

## **SUMMARY**

John Hancock Variable Life Insurance Company is a life insurer writing a major market share of life insurance in the State of Delaware.

The examination was a part of a series of examinations of the major writers of life insurance in the State of Delaware. Business areas reviewed and tested include: Company Operations /Management; Complaint Handling; Marketing/Sales; Policyholder Service, Underwriting and Claims.

There were no significant issues arising during the course of the examination however some improvement should be considered in the area of written procedures. The controls and measurements used to determine that the procedures are working are either passive or do not exist in the following areas:

- Insurance Information Management
- Advertising, Sales and Marketing
- Producer training
- Underwriter Training
- Declinations
- Rescissions, and
- Depository Institution Disclosures

In addition there is no formal written procedure for the following areas:

- Record Retention
- Cancellation, and
- Adjuster Training (Claims Analysts)

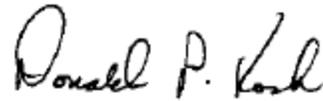
Most written procedures were well prepared and proactive which fact was supported by the notable absence of errors found in the files sampled.

## **LIST OF RECOMMENDATIONS**

No recommendations were made during the course of this examination.

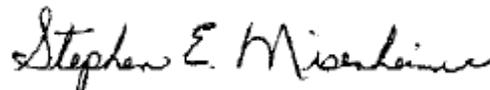
**CONCLUSION**

The examination was conducted by Donald P. Koch, Steve E. Misenheimer, and Sean Connolly and is respectfully submitted,



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Donald P. Koch, CIE  
Supervising Market Conduct Examiner  
Insurance Department  
State of Delaware



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Stephen E. Misenheimer, AIE  
Market Conduct Examiner-in-Charge  
Insurance Department  
State of Delaware