

MARKET CONDUCT EXAMINATION

OF

**METROPOLITAN TOWER LIFE
INSURANCE COMPANY**

AS OF

JUNE 15, 2006

NAIC Code 97136

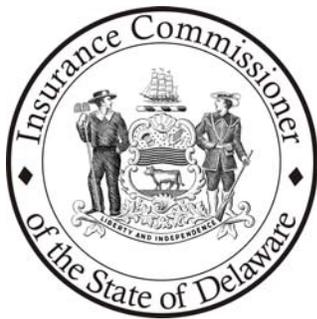
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of June 15, 2006 on

Metropolitan Tower Life Insurance Company.

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

Attest By: *And Shw*

Date: 24 November 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 24th day of November 2010.

[Handwritten signature]

*Karen Weldin Stewart, CIR-ML
Insurance Commissioner*

REPORT ON EXAMINATION
OF THE
Metropolitan Tower Life Insurance Company.
AS OF
JUNE 15, 2006

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

Consideration has been duly 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.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 24th day of November 2010

TABLE OF CONTENTS

SALUTATION 1

SCOPE OF EXAMINATION..... 2

HISTORY AND PROFILE..... 2

METHODOLOGY 3

COMPANY OPERATIONS/MANAGEMENT..... 4

Standard A 07..... 4

Standard A 09..... 4

A. COMPLAINTS/GRIEVANCES..... 5

REVIEW OF PROCEDURES..... 6

Procedure 44 – Claim Audit..... 6

CONCLUSION 8

SALUTATION

September 19, 2009

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 06.713, and pursuant to statutory provisions including Delaware statutes 18 Del. C. §318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

Metropolitan Tower Life Insurance Company

hereinafter referred to as the "Company" and/or "Metropolitan Tower". The examination was performed as of June 15, 2006 and reviewed the operations of the Company. Metropolitan Tower Life Insurance Company is incorporated under the laws of the State of Delaware. This examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following location:

27-01 Queens Plaza North,
Long Island City, NY 11101

The off-site examination phase work was also conducted at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI" and other suitable locations.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. Rather, this review is aimed at determining if there is a detectable pattern to the complaints the Company has received from all sources.

The second component is an analysis of the management of the various business areas subject to a market conduct examination through a review of the written procedures of the Company. 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 its 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 directed on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed, to some extent, by one or more of the procedures reviewed, thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by exception rather than a report by test. This means that only those areas where recommendations are suggested are described and results indicated.

HISTORY AND PROFILE

As of December 31, 2003, Metropolitan Tower was licensed to transact the business of insurance in all states, except Hawaii. The Company is authorized as a stock insurer to transact the business of life insurance, including annuities, variable life insurance, variable annuities, and credit health insurance as defined in 18 Del. C. §902 and 903.

The Company was originally established for the purpose of issuing non-participating variable life insurance products for which its then parent, MLIC, being then a mutual company, was not licensed to market. Activities of the Company had been predominantly in the variable universal life insurance market. Since 1990, MLIC has been issuing its own non-participating policies. At this time, the Company is not writing any new business and is managing its existing book of business which primarily consists of universal life policies and variable universal life policies issued in the 1980's.

Services Agreement MetLife Group Inc. – Effective January 1, 2003

MetLife Group Inc. provides personnel, on an as needed basis, qualified to perform services including the following: legal, communications, human resources, broker-dealer, general management, controller, investment management, actuarial, treasury, benefits management, information systems and technology, claims, underwriting and policyholder services.

Management and Control

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholder and shall consist of not less than five members. Directors are elected annually and shall hold office until the first annual meeting of stockholders or until their successors have been elected and qualified. A majority of the Board of Directors shall constitute a quorum for the transaction of business.

METHODOLOGY

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

The types of reviews used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review is conducted 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 is conducted through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Conduct Examiners' Handbook*. The sampling techniques used are based on a ninety-five percent 95% confidence level. This means that there is a ninety-five percent 95% confidence level that the error percentages shown in the various standards tested are representative of the entire set of records from which it was drawn.

An "electronic" review is conducted through the use of a computer program or routine applied to

a download of computer records of the examinee. This type of review typically evaluates 100% of the records of a particular type.

The complaints pattern review is conducted using all three methodologies described above. The non-complaint procedures are reviewed using a "generic" analysis methodology.

The Introduction to the Review of Procedures section of this report describes the basis for the analysis methodology. Each procedure reviewed is described and the result of the review is provided under the appropriate procedure. Each procedure is supported by Delaware statute 18 Del. C. §318(a) and Delaware statute 18 Del. C. §508(b). The reference source for each procedure found in the *NAIC's Market Conduct Examiners' Handbook (NAIC MCEH Reference)* is noted.

COMPANY OPERATIONS/MANAGEMENT

As stated above, this examination report is not designed to be a pass/fail report except for the following two criteria. Standards A7 and A9 read as follows:

- 1 "The Company is licensed for the lines of business that are being written."
- 2 "The Company cooperates on a timely basis with examiners performing the examination."

Standard A 07

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

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

Delaware statutes 18 Del. C. §318(a), §505(b)

Comments: The review methodology for this standard is "generic." This Standard has a direct insurance statutory requirement. This Standard determines whether the Company's operations are in conformance with the Company's Certificate of Authority.

Results: **Pass**

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company's Delaware Certificate of Authority.

Recommendations: None

Standard A 09

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

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

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

The review methodology for this Standard is "generic." This Standard has a direct insurance

statutory requirement. This Standard determines whether the Company is cooperating with the state in the completion of an open and cogent review of the Company's operations. 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 manner thereby minimizing cost.

Results: Pass

Observations: During the course of the examination the Company was provided with numerous information requests and memoranda. The Company's communication with the examiners was responsive.

Recommendations: None

A. COMPLAINTS/GRIEVANCES

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IR items) and complaint files at the Company. Delaware statute 18 Del. C. §2304 (17) requires all insurers to maintain complaint-handling procedures. Companies are also required to maintain a complete record of all the complaints that it has received since the date of its last examination. The complaint record should include 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. For purposes of this examination, "complaint" shall mean any communication primarily expressing a grievance.

Observations: In the complaint procedure manuals, the Company defines a complaint in these words:

“[A complaint is] a communication, in whatever form, primarily expressing grievance or dissatisfaction with the Enterprise, its products, or its associates in which the customer is expecting a response from the Enterprise.”

Testing of Complaint Files and Complaint Trends

The Company provided a listing of all complaints filed with Metropolitan Tower Life Insurance Company. The Company stated that the list included not only complaints to Metropolitan Tower on policies issued by the Company, but also complaints received by Metropolitan Tower on policies issued by Metropolitan Insurance and Annuity Company (MIAC).

In addition, on October 8, 2004 the Company merged with Metropolitan Insurance and Annuity Company (MIAC) being the surviving Company. The Company included in the inventory of complaints provided for Metropolitan Tower, the MIAC complaints recorded by Metropolitan Tower. The Company stated that most of the current 400,000 inforce Metropolitan Tower policies were originally MIAC issued universal life and variable life policies and likewise most of the complaints recorded by Metropolitan Tower are on policies issued by MIAC.

The Company was asked to provide documentation that supported the resolution/decision in the complaint. The examiners also sought documentation that related to statements made by the Company relative to the complaint. Some documents are necessary and essential in order to adequately respond to the issues raised in the complaint. These documents are required to be located in the reviewed file in order to satisfy the requirements of the Standard. The examiners found no issues in the review of Metropolitan Tower complaint files.

Recommendations: None.

REVIEW OF PROCEDURES

The management of well-run companies generally requires the establishment of some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of these procedures or the ineffective application of them is often reflected in the failure of the various Standards that follow this review.

The processes at issue usually include:

- 1 A planning function where direction, policy, objectives and goals are formulated;
- 2 An execution or implementation of the planning function elements;
- 3 A measurement function that considers the results of the planning and execution; and
- 4 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 absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the lack of a means to measure the results of the application of procedures and to determine that the process is performing as intended.

The reviews in this section of the report are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues. The examiners note that because Metropolitan Tower is a run-off company most of the procedure reviews were not applicable to this insurer.

Procedure 44 – Claim Audit

Observations: The Company stated that it does not have a formal procedure for Internal Claim Audit. In response to the examiners' request for a description of the claim audit process, the Company stated simply:

“Internal Audit, Life Claim Administration and Claims Advisory conduct a random sampling of claims for Quality Audit.”

Simple process “maps” were provided as part of the Company’s Quality Audit (QA) Program. These maps contained language that lacked specificity, indicating the need for actions such as “analyze root causes,” and “test check according to procedures.” The examiners were informed that the Company does not have a formal procedure for this process. The Company stated further:

“The QA consultant is looking for trends and patterns as errors are analyzed and tracked. In searching for a “root cause,” the consultant looks beyond the individual error to see if there is anything in the system, procedures or their documentation, which gave rise to such an error.”

The Company noted that it is working on a third level of this process map that will contain additional detail.

The Company stated that it “*can reasonably guard against procedural deficiencies or any possible lack of understanding [with its QA Program]*”. However a program that is not defined in written language may increase the potential for misunderstandings rather than serve as an effective tool. The protection that the Program is intended to provide may also be at risk, due to the lack of a written procedure. The Company stated, “*Errors are reported for their educational value.*” Educational value may be increased with the guidance of a written Company procedure for addressing the errors. The examiners were provided information about the genesis of this process but found it difficult to follow.

The Company stated the following;

“The QA program has been in effect for 6 years. Updates to the program were made to comply with SOX (Sarbanes-Oxley) requirements in tracking critical error resolution in 2005.”

The examiners were informed that there was no formal procedure; however, if the “process” was updated to comply with Sarbanes-Oxley it would appear to require these updates be contained in a written procedure. The Company would logically require some form of written procedure for “tracking critical error resolution”; however, this was not in evidence.

The spreadsheet used by QA is tabbed by month and includes a full year summary based on these tabs. The Company indicated that this spreadsheet report is submitted to management on a monthly basis. The sample spreadsheet itself assigns points to categories within the claims handling process. Each category is represented by a point value. If an error is found in that category, the total points for that category are said to be deducted.

Recommendations: It is recommended that the Company formulate, adopt and implement a written Internal Claim Audit procedure. It is also recommended that the procedure address:

- Revision and audit history of the process adopted.
- Adequate training for persons affected by the procedure.
- Management exercise of oversight and control of the process addressed by the written procedure.
- Formulation and use of measurement structures to assure the Company that the procedure is working as intended.
- Utilization of the measurement structures to revise the procedure when indicated.

Subsequent Event: The Company has reported that upon the completion of this examination they reduced the above noted Internal Claim Audit procedures to writing.

CONCLUSION

The examination was conducted by Roger L. Fournier and is respectfully submitted,



Roger Fournier, AIRC, CIE
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware