

LONG TERM CARE EXAMINATION

OF

TRANSAMERICA OCCIDENTAL LIFE INSURANCE COMPANY

AS OF

NOVEMBER 30, 2005

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of NOVEMBER 30, 2005 of the

TRANSAMERICA OCCIDENTAL LIFE INSURANCE COMPANY

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

ATTEST BY: *Antoinette Handy*

DATE: 16 APRIL 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF APRIL 2007.



Matthew Denn
Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
TRANSAMERICA OCCIDENTAL LIFE INSURANCE COMPANY
AS OF
NOVEMBER 30, 2005

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, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 16TH day of APRIL, 2007.

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SALUTATION

April 4, 2006

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

Dear Commissioner Denn;

In compliance with the instructions contained in Certificate of Examination Authority Number 05.791, and pursuant to the statutory authority provided by 18 Del.C. §318-322, a target market conduct examination has been conducted of the affairs and practices of:

Transamerica Occidental Life Insurance Company

hereinafter referred to as the "Company" or "Transamerica". Transamerica is incorporated under the laws of the State of Iowa. This examination reviewed only the operations of Transamerica 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:

- 2795 Brown Trail, Bedford, Texas 76021

The examination is as of November 30, 2005.

Examination work was also conducted off-site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI."

This report of the examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination was limited in scope. The examination conducted a review of long term care insurance subject to Delaware jurisdiction as issued by Transamerica. The specific focus of the examination was whether the Company provided and complied with the cost disclosure notice required by Delaware Regulation 1404 §6.1.4. A determination of compliance was made by reviewing contract language and premium rates on renewal of the Delaware policies.

This examination was conducted under the extraterritorial jurisdiction granted the State of Delaware over long term care insurance issued to citizens of this State by 18 Del.C. Chapter 71.

This examination report is a report by test.

Controls and management processes were not reviewed.

HISTORY AND PROFILE

The Company was originally incorporated as Occidental Life Insurance Company per the Code of the State of California on June 30, 1906, and began operating August 14, 1906. The name was changed to Transamerica Occidental Life Insurance Company in 1981. AEGON N.V. acquired the Company on July 21, 1999 adding it to the AEGON Insurance Group. The Company was re-domesticated and reincorporated to the State of Iowa on December 31, 2000, and is now an Iowa domiciled insurer.

As of November 30, 2005, the Company's common stock is owned by Transamerica Service Company, a Delaware corporation, and the Company's preferred stock is owned by Scottish Equitable Finance Limited. Transamerica Service Company is wholly-owned by Transamerica International Holdings, Inc., a Delaware corporation. Transamerica International Holdings, Inc. is wholly-owned by AEGON USA, Inc., an Iowa corporation. The common stock of AEGON USA, Inc. is owned by AEGON U.S. Corporation, an Iowa corporation, and the preferred stock of AEGON USA, Inc. is owned by AEGON U.S. Holding Corporation. The common stock of AEGON U.S. Holding Corporation is owned by Transamerica Corporation, a Delaware corporation, and the preferred stock of AEGON U.S. Holding Corporation is owned by Scottish Equitable Finance Limited. Transamerica Corporation is wholly-owned by The AEGON Trust, domiciled in Delaware. The AEGON Trust is a subsidiary of AEGON International N.V., a Netherlands corporation, which is wholly-owned by AEGON N.V., a Netherlands corporation.

The Company stated that it ceased marketing long term care products in Delaware on January 1, 2005; however, there is no indication that the Company has surrendered its license to do business in the State of Delaware. Therefore, all subsequent recommendations and remedial actions are stated in this report as if the Company could re-enter the long term care market in Delaware with policy forms and practices it currently has in place. It is noted that the Company had ninety-four (94) policies in force in Delaware with an annualized premium of One Hundred Eighty-Four Thousand Seven Hundred Three Dollars (\$184,703) as of December 31, 2004.

METHODOLOGY

As noted in the SCOPE, this examination is based on the requirement in Delaware Regulation 1404 §6.1.4. This section of the regulation demands mandatory compliance with an expressed premium rate increase limitation required on the face page of all long term care policies. The premium rate limitation is determined as a percentage of the prior year's modal premium. The amount of the percentage limitation on the annual increase is determined by the issuing insurance company, however, once a policy is issued, the company is bound not to exceed this expressed percentage unless the insured voluntarily elects additional benefits. The scope of the examination involved testing premium rate increases between the years 2000 to 2005 in order to determine if the premium increases complied with the percentage increase limitation expressed by the mandatory disclosure language required on all contracts subject to Delaware jurisdiction. The test involved reviewing the percentage increases in premium, and determining whether or not increases exceeding the expressed limitation were permitted under Delaware law.

STANDARDS FOR REVIEW

The evaluation of issues subject to this examination is based on a review of Company responses to information requests, questions, interviews, and presentations made to the examiner. A standard has been designed and applied to address the concerns of this examination. The standard appears below with comment and examination results.

Standard 1

Contracts contain appropriate cost disclosure on the cover page of the contract, or certificate of coverage and on the Outline of Coverage associated with the contract. The Company adhered to the disclosure during the period under review.

18 Del. C. §318(a); 18 Del. C. §508(b); 18 Del. C. §7101 et seq.; 18 DE Reg 1404 §6.1.4

A review was conducted of the policies, applications, Outlines of Coverage and certificates utilized to provide Delaware residents with Long Term Care Coverage. Additional information sufficient to provide context was reviewed to support assertions made by the Company and observations and conclusions made by the examiners.

The basis for this Standard is found in Delaware Regulation 1404 §§6.1.4.1 and 6.1.4.2.

Regulation 1404 §6.1.4.1 states: "The following cost disclosure information shall appear in bold print on the cover page of every individual policy and Outline of Coverage issued or delivered in this state: 'This policy provides only the following price protection, and no more. Your premiums may not increase by more than X% during any given calendar year and your benefits may not decrease. Any representations that these increases will not take place are unauthorized and shall not be relied upon.'" **This section applies to individual long term care policies.**

Regulation 1404 §6.1.4.2 states: “The following cost disclosure information shall appear in bold print on the cover page of every certificate and Outline of Coverage issued or delivered in this state: ‘This policy provides only the following price protection, and no more. Your premiums are guaranteed to remain the same for the first three (3) years this policy is in force. Your premiums may not increase by more than X% during any three year rating period. Insurers will be allowed a carry forward of the initially disclosed maximum premium increase, but said carry forward is lost within twenty-four (24) months if not utilized.’” **This section applies to insurance issued under a group long term care policy.**

Results: **Pass.**

Observations: The language required by the Regulation imposes through contract law a limitation on the percentage increase the Company can impose annually. The Company is permitted to place any percentage increase amount on the policy form, however, once the form is purchased, the Company is bound by the percentage limitation stated.

The Company provided its rate history from 2000 through November 2005 for policies or group contracts subject to Delaware jurisdiction. The rates were reviewed for each insured to determine whether there were any increases exceeding the expressed contract percentage limitation increase. All exceptions (i.e., price changes between years exceeding the expressed percentage amount) were reviewed to determine whether the insured voluntarily increased benefit levels, thereby nullifying the percentage limitation through novation. Price changes were reviewed, and all specific policies affected by price change were determined to have changed in accordance with statute and contractual terms.

Recommendations: None.

SUMMARY

Transamerica Occidental Life Insurance Company (“Transamerica”) is incorporated under the laws of the State of Iowa. This examination reviewed the compliance of Transamerica’s long term care business with Delaware Regulation 1404 §§6.1.4.1 and 6.1.4.2

The Company stated that it ceased marketing long term care products in Delaware on January 1, 2005. However, there is no indication that the Company has surrendered its license to do business in the State of Delaware. Therefore, all subsequent recommendations and remedial actions are stated in this report as if the Company could re-enter the long term care market in Delaware with policy forms and practices it currently has in place. It is noted that the Company had ninety-four (94) policies in force in Delaware with an annualized premium of One Hundred Eighty-Four Thousand Seven Hundred Three Dollars (\$184,703) as of December 31, 2004.

LIST OF RECOMMENDATIONS

No recommendations made.

CONCLUSION

The examination conducted by Peter K. Schaeffer, Jr., Esq., CFE and Keith S. Perry, CIE, AFE, CISA, AES, is respectfully submitted,



Peter K. Schaeffer, Jr., Esq., CFE
Market Conduct Examiner-in-Charge.
Insurance Department
State of Delaware



Keith S. Perry, CIE, AFE, CISA, AES
Market Conduct Examiner
Insurance Department
State of Delaware