

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

METROPOLITAN LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 1993

EXAMINER:

FRANK LA MONICA

REPORT DATED:

APRIL 15, 1997

REPORT ON ASSOCIATION EXAMINATION
OF THE
METROPOLITAN LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 1993
BY THE INSURANCE DEPARTMENTS OF
NEW YORK
MISSISSIPPI
NEVADA
OKLAHOMA

REPORT DATED:

APRIL 15, 1997

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

April 15, 1997

Honorable Neil D. Levin
Acting Superintendent of Insurance
State of New York
Albany, New York

Dear Sir:

In accordance with instructions contained in Appointment Number 20954, dated November 18, 1993, and annexed hereto, an examination has been made of the Metropolitan Life Insurance Company, hereinafter referred to as "MetLife" or "the Company", at its home office, located at One Madison Avenue, New York, New York 10010.

Wherever the term "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of the examination is respectfully submitted.



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Honorable John Oxendine
Commissioner of Insurance
State of Georgia
Secretary, Southeastern Zone
Atlanta, Ga.

Honorable Therese Vaughan
Commissioner of Insurance
State of Iowa
Secretary, Midwestern Zone
Des Moines, Iowa

Honorable Kerry Barnett
Commissioner of Insurance
State of Oregon
Secretary, Western Zone
Salem, Oregon

Honorable Neil D. Levin
Acting Superintendent of Insurance
State of New York
Albany, New York

Dear Sir/Madam:

In accordance with instructions and pursuant to the provisions of statute, we have made an examination of the affairs and condition of the Metropolitan Life Insurance Company, hereinafter referred to as "MetLife" or "the Company", at its statutory home office located at One Madison Avenue, New York, New York 10010-3690.

Wherever the term "Department" appears in this report, it refers to the State of New York Insurance Department.

The examination was conducted by the New York Insurance Department with participation from the States of Nevada representing the Western Zone, Mississippi representing the Southeastern Zone and Oklahoma representing the Midwestern Zone of the NAIC.

The report on examination is herewith respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 1993 filed annual statement. [see item 5 of this report]

During the period under review the Company experienced significant problems in its advertising and sales practices. A special investigation was prompted by allegations that various agents of the Company had sold whole life policies nationwide, to nurses and others, as savings or retirement plans without adequate disclosure that the product involved was life insurance. The investigation found the sales material used in conjunction with this program by the Company to be misleading and unapproved by the home office in many instances. Thus, the Company's misleading advertising occurred despite internal controls designed to preclude such practices and to uncover their occurrence. These findings resulted in the Company paying more than \$20 million in fines in 1994 to a number of states, including New York, and offering restitution to many policyholders. With respect to New York, the Company was alleged to have violated Sections 2403 & 4226 of the New York Insurance Law, as well as Department Regulation No. 34-A. As a consequence, the Company entered into a Stipulation with the Department and paid a fine. As set forth in the body of this report, the examiners found that the Company failed to maintain a complete advertising file, improperly emphasized tax or investment features in some of its advertisements used in marketing programs (other than the nurses program and generally lacked overall control over its advertising operations. These findings were, to a substantial degree, embraced by the Stipulation. However, the examiners found significant additional problem areas related to the Company's advertising material and its compliance with Department Regulation No. 34A, such as the Company's use of actors without disclosure and the use in its advertising of certain impermissible terms. [see item 6A and 6D of this report]

Relative to the Company's issuance of replacement policies, the examiners found a number of violations of Department Regulation No. 60, especially involving the Company's failure to obtain disclosure statements. In addition, the examiners found that the Company could have utilized its operational monitoring system to detect such violations of Regulation No. 60 but was not fully effective in doing so. [see item 6A of this report]

The Company failed to file and/or obtain approval for several policy forms. This resulted in various violations of Section 3201(b)(1) and (2) of the New York Insurance Law. In addition, information obtained on an unapproved policy application may have been used to discriminate against certain applicants, in violation of Section 4224(a) of the New York Insurance Law. [see item 6B of this report]

The Company's determination of reasonable and customary charges had the effect of allowing different participants possibly receiving different benefit payments for the same treatment in the same locality at the same time. [see item 6C of this report]

The Company violated Section 4228(g)(1) and (2) of the New York Insurance Law by paying bonuses and compensation to its agents based upon the volume of new business and the aggregate number of policies written. However, certain of these bonus and compensation plans were the subject of a fine imposed by the Department in 1991. Additionally, the Company violated Sections 4228(d)(5), 4216(e) and 4235 (1), and (2) of the New York Insurance Law when it failed to file agent compensation plans and amendments thereto for approval by the Superintendent. [see item 7 of this report]

2. SCOPE OF EXAMINATION

This examination covers the five year period from January 1, 1989 through December 31, 1993. Where appropriate, transactions subsequent to December 31, 1993 were reviewed.

The examination comprised a verification of assets and liabilities as of December 31, 1993, a review of income and disbursements to the extent deemed necessary to accomplish such verification. The examiner utilized the National Association of Insurance Commissioners Examiners Handbook or such other examination procedures as deemed appropriate in such verification and in the review or audit of the following items:

- Company history
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Officers', employees', and agents welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiners determined that the Company had taken all appropriate actions relative to comments contained in the immediately preceding report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which require an explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Metropolitan Life Insurance Company was incorporated under the laws of the state of New York on March 24, 1868 and commenced business on March 25, 1868. Originally, it was organized as a stock company and in 1915, it was mutualized.

B. Holding Company

As a mutual insurer, the Company is not part of a holding company system subject to the provisions of Article 15 of the New York Insurance Law. However, it maintains a multi-tiered downstream holding company system through which its subsidiary operations are conducted. In the 1980's, the Company significantly increased its investments in subsidiaries. The non-insurance subsidiaries provide real estate brokerage services, investment management and advisory services, health care management and advisory services, commercial finance services, mortgage banking services and funding operations. During the examination period, the Company reduced the number of subsidiaries in its holding company by selling, merging, dissolving or otherwise disposing of some subsidiaries.

The Company has insurance subsidiaries and branch operations that market insurance and investment products and services in the United States, Canada, the United Kingdom, Spain, Portugal, Taiwan, Mexico and South Korea. In 1989, the Company entered into a joint venture with the Kolon Group to sell insurance and retirement savings products in South Korea.

In 1990, the Company formed MetLife Holdings Luxembourg and MetLife Holdings Netherlands to participate in future European ventures. In 1992, the Company acquired 24.5% of a Mexican company which sells life and health insurance and pension products in Mexico. During the examination period, the Company expanded its insurance operations in Spain by acquiring two companies through a corporate joint venture with a Spanish bank. One sells insurance and pension products in Spain and Portugal and the other sells homeowners insurance and reinsures business in Spain.

The following is a brief description of several subsidiaries acquired by the Company during the period under examination.

1. Kolon-MetLife Insurance

In 1989, the Company entered into a corporate joint venture with the Kolon Group to form Kolon MetLife Insurance which sells life insurance and retirement products and reinsures business in South Korea. The Company is 51% owned by Metropolitan Life.

2. Seguros Genesis, S.A.

In 1992, the Company acquired directly and indirectly through subsidiaries, 24.5% of Seguros Genesis. Seguros Genesis is a Mexican insurance company which sells life, health and pension products.

3. GFM International Investors

GFM International Investors is an international investment advisor located in London, England. It provides investment services to the general and separate accounts of Metropolitan Life and others.

4. MetLife Group Administrator, Inc.

MetLife Group Administrator, Inc., located in Ireland, was formed in 1989 as a third party administrator with the intent of processing medical expense claims for Metropolitan Life. Additionally, it provides data entry services for the Company.

C. Management

The charter provides that the board of directors shall consist of not less than thirteen nor more than thirty directors. There were sixteen directors as of December 31, 1993. The board meets on a monthly basis. The following is a list of the members of the board of directors as of December 31, 1993 showing their residence, principal business affiliation and the year first elected to the Board.

<u>NAME AND ADDRESS</u>	<u>PRINCIPAL BUSINESS AFFILIATION</u>	<u>YEAR OF ELECTION</u>
Theodossios Athanassiades Princeton, NJ	President and Chief Operating Officer Metropolitan Life Insurance Company	1993
Joan Ganz Cooney New York, NY	Chairman, Executive Committee Children's Television Workshop	1980
John Joseph Creedon * Larchmont, NY	Retired President and Chief Executive Officer Metropolitan Life Insurance Company	1980
Antonio Luis Ferre * Guaynabo, Puerto Rico	President El Nuevo Dia	1987
James Richardson Houghton Corning, NY	Chairman of the Board and Chief Executive Officer Corning Incorporated	1975
Harry Paul Kamen New York, NY	President, Chairman of the Board and Chief Executive Officer Metropolitan Life Insurance Company	1992
Helene Lois Kaplan New York, NY	Counsel Skadden, Arps, Slate, Meager & Flom	1987
George Matthew Keller * San Mateo, CA	Retired Chairman of the Board Chevron Corporation	1988
Melvin Robert Laird * Alexandria, VA	Senior Counselor for National and International Affairs Reader's Digest	1974

<u>NAME AND ADDRESS</u>	<u>PRINCIPAL BUSINESS AFFILIATION</u>	<u>YEAR OF ELECTION</u>
Richard John Mahoney St. Louis, MO	Chairman of the Board and Chief Executive Officer Monsanto Company	1981
Allen Edward Murray Syosset, NY	Retired Chairman of the Board and Chief Executive Officer Mobil Corporation	1983
John Joseph Phelan, Jr. New York, NY	Retired Chairman and Chief Executive Officer New York Stock Exchange, Inc.	1985
John Bassett Moore Place San Francisco, CA	Former Chairman of the Board Crocker National Corporation	1973
Robert George Schwartz Princeton, NJ	Retired Chairman, President and Chief Executive Officer Metropolitan Life Insurance Company	1980
William Scott Sneath Riverside, CT	Retired Chairman of the Board Union Carbide Corporation	1975
John Rogers Stafford * Essex Falls, NJ	Chairman of the Board and Chief Executive Officer American Home Products Corporation	1987

As of December 31, 1996, the directors indicated above with an asterisk were no longer serving on the board. The following new directors served on the board as of December 31, 1996: Curtis Handley Barnette, Burton Andrew Dole, Jr, Charles Milton Leighton, Hugh Bernard Price and Ruth Jean Simmons. In early 1997, Theodossios Athanassiades became Vice-Chairman of the Board although he resigned his position as President and Chief Operating Officer of the Company.

A review of the minutes of the board of directors and the various committees revealed that all the meetings were well attended and that each director had an acceptable attendance record.

The following is a list of the principal officers of the Company and their titles as of December 31, 1993:

<u>Name</u>	<u>Title</u>
Harry Paul Kamen	Chairman of the Board and Chief Executive Officer
Theodossios Athanassiades	President and Chief Operating Officer
Stewart Gordon Nagler	Senior Executive Vice President and Chief Financial Officer
Gerald Clark	Executive Vice President and Chief Investment Officer
Robert John Crimmins *	Executive Vice President
John Daniel Moynahan, Jr.	Executive Vice President
William George Poortvlie *	Executive Vice President
Catherine Amelia Rein	Executive Vice President
Frederick Paul Hauser	Senior Vice President and Controller
David Alan Levene	Senior Vice President and Chief Actuary
Arthur Gail Typermass	Senior Vice President and Treasurer
Joseph Anthony Reali *	Vice President and Secretary

The above officers indicated by an asterisk (*) were no longer officers of the Company as of December 31, 1996. Following is a list of the new officers as of December 31, 1996:

Gary A. Beller	Executive V.P. and General Counsel
Robert H. Benmosche	Executive V.P.
Carl R. Henrikson	Executive V.P.
Jeffrey J. Hodgman	Executive V.P.
William J. Toppeta	Executive V.P.
John H. Tweedie	Executive V.P.
Judy Weiss	Sr. V.P. and Chief Actuary
Louis J. Ragusa	V.P. and Secretary

Polly Wittenberg, Vice President, was designated Consumer Services Officer per Section 216.4 (c) of Department Regulation No. 64.

Additionally and as noted above, early in 1997, Mr. Athanassiades resigned his position as an officer of the Company. Mr. Kamen assumed the position of President.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law and engages in all lines of business as set forth in these paragraphs. The Company is licensed to write business in all fifty states, the District of Columbia, Puerto Rico, the United States Virgin Islands and Canada.

The agency operations are conducted on a branch office basis. As of the examination date, 6,326 sales representatives were eligible to receive training allowances. Sales representatives are considered employees and are eligible participants in the Company's retirement and benefit plans.

Brokers are independent contractors that are licensed with other insurers. As of the examination date, the Company maintained licenses for 8,496 brokers who may solicit applications of insurance.

At December 31, 1993 the Company maintained 1,017 branch offices and 41 group sales offices.

E. Reinsurance

As of December 31, 1993, the Company had ceding reinsurance treaties in effect with 49 reinsurers. Such treaties, issued on either an automatic or facultative basis, covered both ordinary and group life insurance. Included in the above is a supplemental reinsurance program with fifteen reinsurers. The supplemental reinsurance program, approved by the Department, allows the Company to cede 100% of a policy up to 1.5% of its total new life insurance business written in any given year. The program was developed to allow the Company to insure highly rated cases, i.e., substandard risks, where another insurer might offer a more favorable rating on the risk.

The Company also participates in the Federal Employees' Group Life Insurance (FEGLI) and the Serviceman's Group Life Insurance Conversion (SGLI) reinsurance programs.

The Company's current maximum retention limit is \$25,000,000 graded by age and classification.

The face amount of life insurance reinsured and the percentage to the total-in-force is as follows for each of the years under review:

Individual Life (Including Industrial)
(in thousands)

<u>Year</u>	<u>Face Amount Ceded</u>	<u>Percentage of In-Force</u>
1989	\$ 427,253	0.27%
1990	\$ 627,515	0.33%
1991	\$ 1,325,362	0.58%
1992	\$10,122,122	3.76%
1993	\$ 8,264,889	2.67%

Group Life (in thousands)

<u>Year</u>	<u>Face Amount Ceded</u>	<u>Percentage of In-Force</u>
1989	\$11,486,791	2.03%
1990	\$10,031,937	1.58%
1991	\$10,070,507	1.41%
1992	\$12,909,724	1.65%
1993	\$15,856,133	1.88%

The substantial increase in the amount of individual life insurance ceded during 1992 and 1993 was due to a new agreement enacted with European General Life Insurance Company which covered a large block of ordinary life policies previously issued.

The total face amount of reinsurance ceded with unauthorized companies totaled \$3,289,642,861 as of December 31, 1993; however, almost all of the amount ceded was collateralized so that the liability for unauthorized reinsurance was immaterial.

During the period under review, the Company assumed business under three new reinsurance treaties with affiliates.

<u>DATE</u>	<u>TYPE OF ASSUMPTION</u>
January 1, 1989	Assumed 80% of flexible premium whole life and annuity business from Metropolitan Insurance and Annuity Company (MIAC).
December 31, 1989	Assumed 65% of all universal plus policies from Metropolitan Life Insurance Company of Canada on a coinsurance basis
January 1, 1991	Assumed issues of Texas Life Insurance Company on a facultative basis.

The total face amount of all insurance assumed as of December 31, 1993 was \$25,455,249,554.

4. SIGNIFICANT OPERATING RESULTS

The following table indicates the Company's financial growth during the period under review:

	December 31, <u>1988</u>	December 31, <u>1993</u>	Increase <u>(Decrease)</u>
Admitted assets	<u>\$94,231,996,003</u>	<u>\$128,225,203,911</u>	<u>\$33,993,207,908</u>
Liabilities	<u>\$90,755,377,364</u>	<u>\$121,819,418,504</u>	<u>\$31,064,041,140</u>
Group life contingency reserve for epidemics, etc.	427,810,000	630,810,000	203,000,000
Surplus notes	0	700,000,000	700,000,000
Contingency reserve for aviation reinsurance	200,000,000	0	(200,000,000)
Special contingent reserve fund for separate account business	750,000	750,000	0
General contingency reserve	2,848,058,639	0	(2,848,058,639)
Unassigned surplus	<u>0</u>	<u>5,074,225,407</u>	<u>5,074,225,407</u>
Total surplus	<u>\$3,476,618,639</u>	<u>\$6,405,785,407</u>	<u>\$2,929,166,768</u>
Total liabilities and surplus	<u>\$94,231,996,003</u>	<u>\$128,225,203,911</u>	<u>\$33,993,207,908</u>

The Company's admitted assets as of December 31, 1993, were mainly invested in bonds (49.1%) and mortgage loans on real estate (12.1%).

The following indicates, for each of the years listed below, the amount of life insurance issued and in force, by type (excluding FEGLI/SGLI and industrial business and in thousands of dollars):

Year	<u>Whole Life and Endowment</u>		<u>Term</u>		<u>Group</u>		<u>Credit Life</u>	
	<u>Issued</u>	<u>In-Force</u>	<u>Issued</u>	<u>In-Force</u>	<u>Issued</u>	<u>In-Force*</u>	<u>Issued</u>	<u>In-Force</u>
1989	\$21,955,938	\$112,361,798	\$ 9,420,436	\$46,630,314	\$64,279,437	\$500,225,062	\$12,451	\$269,231
1990	\$28,735,605	\$129,892,836	\$16,062,137	\$61,835,962	\$49,629,073	\$549,562,289	\$ 0	\$223,403
1991	\$32,232,854	\$155,153,654	\$20,419,627	\$74,465,158	\$77,712,257	\$593,909,390	\$ 0	\$ 95,096
1992	\$33,184,820	\$180,992,957	\$23,134,217	\$87,948,095	\$43,905,953	\$635,767,352	\$ 0	\$ 27,038
1993	\$46,114,677	\$211,146,061	\$20,280,659	\$97,923,969	\$94,539,639	\$649,395,307	\$ 0	\$ 7,563

* Excludes industrial and FEGLI/SGLI business

The above chart shows that there have been no significant shifts in business emphasis but there were general increases in volume in all classes of business throughout the examination period.

The ordinary lapse ratio remained stable throughout the examination period as follows: 5.7% in 1989, 5.9% in 1990, 5.8% in 1991, 5.9% in 1992 and 7.9% in 1993.

The Company showed a significant steady increase in its annuity business throughout the examination period. The following chart shows the number of individual annuity contracts issued and outstanding during the period under review:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Outstanding at end of previous year	499,559	506,166	524,335	552,303	593,573
Issued during year	66,085	72,885	83,784	100,061	174,105
Other net changes during the year	<u>(59,478)</u>	<u>(54,716)</u>	<u>(55,816)</u>	<u>(58,791)</u>	<u>(81,899)</u>
Outstanding at end of current year	<u>506,166</u>	<u>524,335</u>	<u>552,303</u>	<u>593,573</u>	<u>685,779</u>

The following table gives a breakdown of the net gain or (loss) from operations by line of business for each of the years under review (in thousands of dollars):

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Industrial	\$ <u>78,334</u>	\$ <u>78,871</u>	\$ <u>73,555</u>	\$ <u>62,963</u>	\$ <u>82,935</u>
Ordinary:					
Life insurance	\$ <u>(136,535)</u>	\$ <u>(149,291)</u>	\$ <u>(142,576)</u>	\$ <u>(171,945)</u>	\$ <u>(75,775)</u>
Individual annuities	<u>31,456</u>	<u>29,501</u>	<u>12,638</u>	<u>16,834</u>	<u>102,837</u>
Supplementary contracts	<u>9,189</u>	<u>13,458</u>	<u>(2,501)</u>	<u>10,599</u>	<u>3,590</u>
Total ordinary	\$ <u>(95,890)</u>	\$ <u>(106,332)</u>	\$ <u>(132,439)</u>	\$ <u>(144,512)</u>	\$ <u>30,652</u>
Credit life	\$ <u>(184)</u>	\$ <u>1,397</u>	\$ <u>480</u>	\$ <u>214</u>	\$ <u>224</u>
Group:					
Life insurance	\$ <u>85,906</u>	\$ <u>88,956</u>	\$ <u>62,241</u>	\$ <u>53,160</u>	\$ <u>89,214</u>
Annuities	<u>147,927</u>	<u>182,054</u>	<u>58,342</u>	<u>108,334</u>	<u>95,686</u>
Total group	\$ <u>233,833</u>	\$ <u>271,010</u>	\$ <u>120,583</u>	\$ <u>161,494</u>	\$ <u>184,900</u>
Accident and health:					
Group	\$ <u>(29,171)</u>	\$ <u>(38,900)</u>	\$ <u>(5,953)</u>	\$ <u>54,193</u>	\$ <u>(45,125)</u>
Credit	<u>(328)</u>	<u>211</u>	<u>602</u>	<u>292</u>	<u>1,093</u>
Other	<u>(5,784)</u>	<u>(8,610)</u>	<u>(3,463)</u>	<u>(4,489)</u>	<u>4,623</u>
Total accident and health	\$ <u>(35,283)</u>	\$ <u>(47,299)</u>	\$ <u>(8,814)</u>	\$ <u>49,996</u>	\$ <u>(39,409)</u>
Aviation reinsurance	\$ <u>2,794</u>	\$ <u>20,924</u>	\$ <u>10,293</u>	\$ <u>8,467</u>	\$ <u>5,793</u>
Net gains from operations	\$ <u>183,604</u>	\$ <u>218,571</u>	\$ <u>63,658</u>	\$ <u>138,622</u>	\$ <u>265,095</u>

5. FINANCIAL STATEMENTS

The following statement shows the Admitted assets, liabilities and special surplus funds as of December 31, 1993, as shown in the Company's filed 1993 annual statement. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 1993 filed annual statement.

Admitted Assets:

Bonds	\$62,953,521,075
Preferred stocks	768,941,232
Common stocks	2,421,660,627
Mortgage loans on real estate	15,460,362,470
Real estate:	
Properties occupied by the company	348,627,722
Properties acquired in satisfaction of debt	873,118,874
Investment real estate	9,443,826,381
Policy loans	3,628,220,435
Cash on hand and on deposit	201,704,736
Short-term investments	1,169,995,289
Other invested assets	2,497,815,254
Reinsurance group pool funds	763,025
Financial options and futures	711,269
Deposits in connection with investments	4,713,716
Reinsurance ceded:	
Amounts recoverable from reinsurers	31,239,160
Commissions and expense allowances due	128,906
Experience rating and other refunds due	18,309,732
Electronic data processing equipment	59,366,800
Life insurance premiums and annuity considerations deferred and uncollected	1,064,374,803
Accident & health premiums due & unpaid	265,859,080
Investment income due and accrued	1,397,409,211
Receivable from parent, subsidiaries and affiliates	37,164,135
Amounts receivable relating to uninsured accident and health plans	27,621,177
Receivable for investments sold	57,798,139
Prepaid real estate taxes	23,454,363
Administrative service agreement fees due and unpaid	11,938,994
Assessments recoverable from state insurance guaranty funds	44,602,218
Recoverable from group contractholders	19,218,410
Receivable from reinsurers	11,739,322
Other assets	6,109,250
Total assets excluding Separate Accounts business	\$102,850,315,805
From Separate Accounts Statement	<u>25,374,888,106</u>
 Total admitted assets	 <u>\$ 128,225,203,911</u>

Liabilities, Surplus and Other Funds:

Aggregate reserve for life policies and contracts	\$ 68,601,350,955
Aggregate reserve for accident and health policies	1,658,789,429
Supplementary contracts without life contingencies	1,979,818,399
Policy and contract claims: Life	862,130,158
Accident and health	181,559,164
Policyholders' dividend accumulations	894,114,078
Policyholders' dividends due and unpaid	153,402,314
Provisions for policyholders' dividends payable in following calendar year:	
Dividends apportioned to next December 31	1,168,144,232
Dividends not yet apportioned	201,259,754
Premium and annuity considerations received in advance	154,311,638
Liability for premium and other deposit funds:	
Guaranteed interest contracts	14,262,185,832
Other contract deposits	458,057,022
Policy and contract liabilities not included elsewhere:	
Other amounts payable on reinsurance assumed	42,818,863
Interest on policy or contract funds	896,512,640
Commissions to agents due and accrued	67,539,172
Commissions and expense allowances on reinsurance assumed	15,085
General expenses due or accrued	325,408,928
Transfers to Separate Accounts due or accrued	(97,072,006)
Taxes, licenses and fees due or accrued	156,227,793
Federal income taxes due or accrued	253,250,621
Unearned investment income	18,795,618
Amounts withheld or retained by Company as agent or trustee	157,644,101
Amounts held for agents' account	72,064,097
Remittances and items not allocated	36,270,604
Net adjustment in assets and liabilities due to foreign exchange rates	116,400,000
Liability for benefits for employees and agents	36,828,014
Borrowed money and interest thereon	103,826,232
Asset valuation reserve	1,550,581,955
Reinsurance in unauthorized companies	1,797,308
Funds held under reinsurance treaties with unauthorized reinsurers	235,103
Payable to parent, subsidiaries and affiliates	396,562
Held for deferred benefits and special risks assumed under group policies and for morbidity fluctuations on accident and health policies	2,034,073,000
Voluntary investment reserve	123,963,024
Contingency reserve for Federal Employees Group Life	50,003,680
Reserve for AIDS claims	25,000,000
Amounts held to comply with minimum reserve requirements of certain states	10,513,263
Miscellaneous losses- contingent	55,350,000
Interest on policy or contract funds	11,083,180
Other liabilities	95,226,188
Total liabilities excluding Separate Accounts business	\$ 96,719,876,000
From Separate Accounts Statement	25,099,542,504
Total liabilities	\$121,819,418,504
Surplus notes	\$ 700,000,000
Special surplus funds:	
Group Life Insurance Contingency Reserve for epidemics, etc.	630,810,000
Special contingent reserve fund for Separate Accounts Business	750,000
Unassigned funds (surplus)	5,074,225,407
Surplus total	\$ 6,405,785,407
Total liabilities and surplus	\$128,225,203,911

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders and claimants encompassed within the meaning of the term "market conduct", to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The Company's advertising and sales activities were the subject of a Stipulation which the Company entered into with the Department on May 6, 1994, pursuant to which the Company paid a fine to New York of \$2,672,331. This fine was part of a settlement with an NAIC Task Force pursuant to which the Company paid total fines of more than \$20 million to various states, and was required to offer restitution to a large number of policyholders. During this examination, which covered advertising and sales activities covered by the Stipulation as well as subsequent advertising and sales activities, the examiners extensively reviewed the Company's advertising files and the sales activities of its agency force (including trade practices, solicitation and the replacement of insurance policies). Following are the findings of the examination review:

Advertising

The investigation that led up to the Stipulation was prompted by allegations that various agents of the Company had sold whole life policies nationwide to nurses and others as savings or retirement plans, without adequate disclosure that the product involved was life insurance. In the Fall of 1993, in connection with that investigation, all branch offices were required by the Company to submit to the home office all sales and training material being used by the sales force, along with a certification stating that all sales material currently in use or intended to be used had been submitted. The investigation revealed that from 1989 through 1993 various agents of the Company were using sales material which was misleading and that had not been approved by management at the Company's home office. Specifically, agents in Florida and other states used locally produced pre-approach letters directed to nurses and others which disguised whole life insurance policies as, among other things, a "Nurses Retirement Savings Plan" and which referred to agents as "nursing representatives" and to life insurance premiums as "deposits". The

use of this material occurred despite the Company's internal controls designed specifically to preclude that use or at the least to detect such use rapidly.

The Company was alleged to have violated Sections 2403 and 4226 of the New York Insurance Law as well as Department Regulation No. 34A. As a consequence, the Company entered into the Stipulation and paid the fine to New York referred to above.

Because of this occurrence, the examiners emphasized this aspect of the examination and performed an extensive review of the Company's advertising material including (but not limited to) advertising material reviewed during the investigation leading to the Stipulation. Following are the findings emanating from that extensive review:

a. Department Regulation No. 34A, Section 219.5(a) states in part:

"Each insurer shall maintain at its home office a **complete** file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this State, with a notation indicating the manner and extent of distribution..." (emphasis added)

As the investigation found, the Company did not maintain a complete file of its advertising. A large number of advertisements were submitted by the Company's branch managers in October 1993 which had not been found by the examiners in the Company's advertising file. Most of the Company's sales offices in New York submitted advertisements that were not on file at the home office.

In addition, the Company did not maintain a notation indicating the manner and extent of distribution of direct mail prospecting letters, descriptive literature, such as pamphlets and brochures, and mass media advertising such as television, newspaper and magazine ads. Since the Company did not maintain a notation indicating the manner and extent of distribution, the examiners were unable to determine where certain advertisements were used.

b. Department Regulation No. 34A sets forth detailed statutory rules regarding insurers' advertising practices. In defining advertising material, the regulation makes clear that letters used to prospect for customers come within the purview of the standards set forth therein. The pertinent parts of the regulation which are relevant to the Stipulation and to the examiners' findings are:

Section 219.4(a)(1) which states in part:

"Advertisements shall be truthful and not misleading in fact or in implication. The format and content of an advertisement of a life insurance policy or an annuity contract shall be sufficiently complete and clear so that it is neither misleading nor deceptive nor has the capacity or tendency to mislead or deceive..." and

“...Statements made should not cloud or mislead the consideration of the purchaser...”

Section 291.4(c) which states in part:

“The use of the terms...’deposit’...or words of similar import, or phrases which include such words, may in the context used, be deemed to be misleading and capable of being deceptive.”

Section 219.4(p), which states in part:

“...An advertisement shall prominently describe the type of policy advertised. If a specific policy or policy series is being advertised, the form or series number or other appropriate description shall be shown...” and,

Section 219.4(x) which states:

“An advertisement shall not emphasize investment or tax features and omit or minimize insurance features.”

The examiners reviewed a random sample of 300 prospecting letters emanating from 200 branch offices nationwide and noted that these letters:

- (i) improperly referred to whole life policies as retirement savings and/or investment plans;
- (ii) failed to accurately describe the offered products as life insurance but emphasized the tax deferral features of the products;
- (iii) improperly emphasized the investment features of the products without reference to the fact that said products were indeed life insurance products; and,
- (iv) contained improper references to “deposits”, “monthly savings” and/or “contributions” rather than denoting the consideration for the products as “premiums”.

Moreover, in several instances (approximately 13% of the sample), agents misrepresented themselves as various specialists and representatives from occupations, counties or divisions of the Company. This misrepresentation appears to have not been sanctioned or authorized by Company management but nevertheless occurred.

c. Also, in March 1993 the Company developed the “Tax Advantaged Bonus Plan” brochure and the “Tax Advantaged Retirement Plan for Nurses” brochure, both of which describe plans that contain a life insurance policy as a funding vehicle. Brochures were printed and distributed to agents without the review or approval of the Company’s legal department. In

mid-1993, when the legal department discovered that these brochures used substantially the same language as the letter to nurses (i.e., they emphasized investment and tax features but failed to mention life insurance and “premiums” were referred to as “contributions”), the Company discontinued distribution of these brochures and recalled the “Tax Advantaged Retirement Plan for Nurses” brochure. The “Tax Advantaged Bonus Plan” brochure was recalled by the home office in December 1993.

Additionally, the examiners found that several locally produced direct mail letters associated with these programs and with substantially similar language were used by agents to advertise these products. Due to the lack of record keeping, the extent of the distribution of the brochures could not be determined.

Department Regulation No. 34A, Section 219.2(b) states in part:

“Every insurer shall establish and at all times maintain a system of control over the content, form and method of dissemination of all advertisements of its policies. All such advertisements, regardless of by whom written,...shall be the responsibility of the insurer whose policies are so advertised.”

Although a system of control over its advertising was established, it was inadequate and not maintained or enforced properly as evidenced by the large volume of advertisements which were neither approved by the Company nor in conformity with applicable New York State Law and Regulations. Accordingly, the examiners conclude that the Company substantially violated both the spirit and the letter of Department Regulation No. 34A in the conduct of its advertising programs.

As a result of these advertising problems, some members of the Company’s management were released or resigned. In late 1993, the Company began implementing a new system of control over its advertising and has filed a copy of its compliance program with the New York State Insurance Department, in accordance with Department Circular Letter No. 2, dated January 31, 1994. [See additional comments under “Response to Department Circular Letter No. 2, (1994)”.]

As noted above, the Company entered into the Stipulation with the Department on May 6, 1994 and paid a fine to New York. The sales practices discussed above were, to a substantial degree, embraced by the Stipulation. However, as part of this examination, the examiners found that certain additional advertising materials of the Company were not in compliance with Department Regulation No. 34A.

- a. Department Regulation No. 34A, Section 219.4(b)(4) states:

“When actors and models are used in presenting testimonials and endorsements, this fact must be disclosed clearly.”

Further, Section 219.4(b)(2) states:

“If the individual giving a testimonial or endorsement...receives any benefit directly or indirectly other than union scale wages where it is required that they be paid, such fact shall be disclosed in the advertisement... .”

The examiners noted that in several videotaped advertisements, actors gave testimonials and endorsements. The Company failed to disclose that they were actors. In addition, the Company could not provide supporting documentation for the actor’s wages.

- b. Department Regulation No. 34A, Section 219.4(h) states in part:

“Any insurer using the phrase ‘low cost’...to characterize...a particular policy form shall, upon request of the Superintendent, submit to the Superintendent such evidence as it may have to substantiate such use.”

The Company used the term “low cost” to characterize policies in fourteen direct mail prospecting letters and two telephone scripts. The examiners required evidence used by the Company to substantiate the use of this term. The Company did not provide supporting documentation and indicated that it did not know if it maintained supporting evidence for advertisements that use the term “low cost”.

- c. Department Regulation No. 34A, Section 219.4(m) states in part:

“In the event an advertisement uses...’no medical examination required’, or similar terms where issue is not guaranteed, such terms shall be accompanied, in each instance, by a disclosure of equal prominence and in juxtaposition thereto to the effect that issuance of the policy or payment of benefits may depend upon the answers given in the application and the truthfulness thereof.”

The Company used the terms “no medical exams” and “minimal underwriting” in two non-guaranteed issue product advertisements, without making reference to the answers given in the application.

- d. Department Regulation No. 34, Section 215.9(c) states:

“The source of any statistics used in an advertisement shall be identified in such advertisement.”

The Company used statistics in three advertisements and did not identify the source of the statistics in the advertisements.

Sales Activities

Department Regulation No. 60, Section 51.5(a) states:

“(a) Each insurer shall:

- (1) Inform its agents of the requirements of this Regulation;
- (2) Require with or as a part of each application for life insurance a statement signed by the applicant as to whether such insurance will replace existing life insurance;
- (3) Require with or as a part of each application for life insurance a complete list of all the applicant’s existing life insurance;
- (4) Require with or as a part of each application for life insurance a statement signed by the agent as to whether, to the best of his knowledge, replacement is involved in the transaction;
- (5) Where a replacement is involved:
 - (i) require with or as a part of each application a list prepared by the agent representing to the best of his knowledge all of the existing life insurance policies to be replaced;
 - (ii) obtain a copy of each proposal used, including sales material, the completed ‘Disclosure Statement’ and proof of the receipt by the applicant of the ‘Notice to Applicants Regarding Replacement of Life Insurance’;...
 - (iii) examine any proposal used, including the sales material and the completed ‘Disclosure Statement’ and ascertain that they meet the requirements of statute and this Regulation;
 - (iv) maintain copies of any proposal and other sales material used, the completed ‘Disclosure Statement’, proof of receipt by the applicant of the ‘Notice to Applicants Regarding Replacement of Life Insurance’, and the applicant’s and agent’s signed statements with respect to replacement, in its home office for at least three years or until the conclusion of the next succeeding regular examination by the Insurance Department of its State of domicile, whichever is later.”

During the examination period, the Company had policies and procedures in place whereby the manager of each branch office was to monitor the sales of his/her agents to ensure that newly issued policies were not financed by funds of existing policies without the approval and the understanding of the transaction by the policyholder. To assist the sales managers (and the Company) in monitoring the sales activities in their offices, a report titled “Newly Placed Policies Apparently Financed by Present Policy Values” (“FIP Report”) was to be employed to help identify those sales representatives who may have replaced business without proper disclosure as a method of selling. The FIP Report provided a list of recently issued new MetLife

policies in households where there was also some outflow of values under an existing MetLife insurance policy in the same household six months prior or up to twelve months subsequent to the new policy. In 1993, the FIP Report listed in excess of 13,000 policies.

MetLife's "Manual of Instructions for Sales Management" cautioned managers that "an important part of your managerial responsibility is to control 'piggybacking'." It alerted each manager that "in recognition of this responsibility, significant weight is given to "FIP" results . . . in determining your compensation." It then indicated alternative ways in which managers were expected to determine whether policy transactions included in the FIP Report were proper. They could review the transactions with the field representative to be sure he or she fully understood the Company's position that replacement without proper disclosure should not be a method of sale to generate new business. They could also review new applications and, if it were determined that present policy values or premium were being used to finance the new business, interview the applicants to ascertain whether they understood the implications of the proposed transaction, before submitting the application for new business to the Company.

The examiners selected a random sample of 123 newly issued policies in New York State from the 1993 FIP Report and reviewed the underlying files. The examiners found that approximately 37% of the sample files reviewed did not contain either the "Disclosure Statement" or the "Notice to Applicants Regarding Replacement of Life Insurance" required by Regulation No. 60

The examiners selected and reviewed a random sample of 39 internal audit reports chosen from various regions and years under examination. In 15 of these reports (approximately 38% of the sample) the internal auditors found indications that branch managers were not using the FIP Report according to Company rules and that agents had employed several methods to circumvent the FIP Report and the Company's rewritten business rules. These situations were noted in the 1991, 1992 and 1993 Auditing Department Activity Summary. In addition, the auditors raised the question of whether or not the branch managers should be given the task of investigating agents in their branch for "churning" or "piggybacking" since their own additional incentive compensation could be affected by the outcome of the investigation creating a conflict of interest. "Churning" or "piggybacking" are terms often used to describe the funding of new life insurance policies or annuity contracts with cash values from existing policies by either a cash surrender (full or partial), a loan, or a dividend withdrawal from the existing policy or policies.

The examiners conclude that the Company was not fully effective in overseeing its internal policies regarding compliance with Department Regulation No. 60. As a result, the Company failed to curb, detect and correct various violations of the regulation during the examination period and, in fact, effectively allowed violations of Regulation No. 60 to occur.

In 1994, in an effort to eliminate these situations, the Company instituted an enhanced compliance program. This program included the establishment of both a Corporate Ethics and Compliance Department (CECD) and a quality assurance program which was designed to contact most customers who purchased individual life insurance policies within 45 days after their policies were issued, to confirm the policyholder's understanding of the policy purchased, including payment terms, and to identify replacement issues. It is recommended that the Company diligently oversee this enhanced monitoring program to ensure the meeting of the program's goals, i.e., the curtailment of violations of Department Regulation No. 60.

B. Underwriting and Policy Forms

The examiners reviewed a sample of new files, both issued and declined, to determine if the treatment of applicants was in accordance with the Company's underwriting rules and practices and that the applicable policy forms were filed in accordance with Section 3201 of the New York Insurance Law. Following are descriptions of the examiners' findings in these areas.

Underwriting

Form 036K-16 is an application form used primarily by the Company in underwriting its ordinary insurance business, with certain exceptions. This application is a 16 page form originally approved in November 1986. Whenever the form has been revised, only certain pages are filed with the Department for approval. It has been the Company's position that certain of these pages are not part of the policy and do not require approval for their use. In reviewing various policy application forms it was noted that this application was revised and that a number of pages were not submitted for approval. The form was first changed in January 1990 and again in July 1993. In the later edition, the Company changed Page 5, "Authorization and Acknowledgment". The change involved a paragraph dealing with the HIV virus. The new paragraph reads as follows:

"... information concerning myself, including HIV results, AIDS, HIV related illnesses and serious communicable diseases may also affect the insurability of my spouse and children. To the extent Metropolitan may be considering applications on other family members, I consent to the use of such information to determine their insurability."

All pages of the application are used by the Company in its underwriting and should have been filed for approval under Section 3201(b)(1) of the New York Insurance Law.

In addition, Section 4224 (a) of the Insurance Law states in part:

“ No life insurance company doing business in this state... shall (1) make or permit any unfair discrimination between individuals of the same class and of equal expectation of life, in the amount or payment or return of premiums, or rates charged for policies of life insurance or annuity contracts, or in the dividends or other benefits payable thereon or in any of the terms and conditions thereof;”

With regard to the actual issuance of policies, the information obtained by the Company may be used to discriminate against spouses and children of HIV positive applicants, in violation of Section 4224(a) of the New York Insurance Law.

Policy Forms

1. Section 3201 (b)(1) of the New York Insurance Law states in part:

"No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law."

From January 1, 1991 through December 31, 1995, the Company issued, through its Mass Merchandising Unit, "metromatic" whole life policies to New York City employees in bargaining units represented by the Policemen's Benevolent Association. These policies had an "Application For Life Insurance," form # 036-AM1, and a "Receipt and Temporary Insurance Agreement," form # 036-AM1R, which were part of the policy. These forms were approved by the Department under four conditions, one of which was as follows:

"The insurer must file the schedule of any commissions, service fees, expense allowances and any other compensation or fees or allowances to be paid to agents, brokers, enrollers or any other parties, such as the union or third party administrators."

The Company did not file the compensation plans for its mass merchandising sales force, as required by the above condition and consequently violated Section 3201(b)(1) of New York Insurance Law.

2. Form 036-M1 is an application used with the Company's individual life metromatic policy. The Company replaced its July 1985 version of this form with a new version dated July

1989; however, the replacement form was never utilized by the Company. The Company subsequently replaced the July 1989 version with a version dated February 1991. That version was approved by the Department on July 9, 1991. Department approval was predicated on the Company's discontinued use of previously approved forms. The examiners reviewed applications dated in the months of September 1991, August 1992 and September 1992 and found that many of the files reflected the continued use of the July 1985 version of form 036-M1.

Additionally, the examiners noted that the Company used a Form 036-BRO-1-NY which was approved by the Department for use in New York in connection with the issuance of 4 and 7 year term policies. In reviewing various individual life insurance policy applications it was noted that the Company's subsidiary, Metropolitan Insurance and Annuity Company (MIAC), was also using this form. This form was not approved for use by MIAC in the issuance of its policies. The form lists both companies and requires the agent to check the appropriate company that will be issuing the policy. It is recommended that the dual use of this form be discontinued or that the form be appropriately filed and approved for use by MIAC.

3. Section 3201(b)(2) of the New York Insurance Law states:

"No policy form shall be issued by a domestic insurer for delivery outside this state unless it has been filed with the superintendent."

A review of the Company's practices at the Canadian home office indicated that the Company had not filed various policy forms as required by the above section of Law. The failure to file its policy forms covered the life insurance, group insurance, and pension lines of business, and extended throughout the examination period.

Thus, the Company violated Section 3201 of the New York Insurance Law. It is recommended that the Company implement procedures which will preclude the further occurrence of the use of unfiled policy forms.

C. Treatment of Policyholders

Based upon a random sample selected by the examiners, a review of a substantial number of various types of claims, surrenders, changes and lapses was made to determine whether the policyholder, beneficiary, or claimant was treated fairly and in accordance with policy provisions and Company rules. The examiners also reviewed the various internal controls involved, checked the accuracy of computations and traced accounting data to the books of account.

Section 3214(c) of the New York Insurance Law states in part:

“If no action has been commenced, interest upon the principal sum paid to the beneficiary...shall be computed daily at the rate of interest currently paid by the insurer on proceeds left under the interest settlement option, from the date of the death of an insured...to the date of payment and shall be added to and be a part of the total sum paid.”

In reviewing group life death claims, the examiners noted that the Company’s policy is to pay death claims inclusive of interest from the date of death until the “proposed” date of payment. However, the examiners found that, in certain instances, death benefits were paid without interest. Upon further investigation, the examiners found that in many of these instances the interest was withheld due to the lack of receipt by the Company of appropriate documentation, such as tax waivers. In cases where the documentation was ultimately received, the examiners noted that the Company then paid the interest as originally calculated but that it did not recalculate interest to account for the additional delay. In most of these instances the amounts involved were relatively small. Therefore, it is recommended that the Company implement procedures which will ensure that proper interest calculations are made with reference to future death benefit claims.

Also, a number of claims were noted where the original calculation of interest due did not use the actual date of payment. These claims involved the processing of claims for payment on one date and not actually paying the claims until a later date. These cases resulted in the underpayment of several days interest to the beneficiaries. Again, the amounts involved were relatively small; however, it is recommended that the Company implement procedures which allow for the correct calculations of interest relative to all death benefit claims.

Section 3221(a)(2) of the New York Insurance Law states in part:

“No agent has authority to change the policy...and that no change in the policy shall be valid unless approved by an officer of the insurer and evidenced by endorsement on the policy, or by amendment to the policy signed by the policyholder and the insurer.”

The Company’s Group Policy form #G2150-S, Section 17 states in part:

“Changes in the Policy - No change in this policy will be valid unless it is approved by an authorized officer of Metropolitan.

Each such change must be evidenced by an amendment signed by both the Employer and by Metropolitan... .” (emphasis added)

The examiners found that the Company had a number of group policy amendments and applications which were unsigned by the policyholder.

A review of benefits listed in policy booklets and the Company’s computerized claims payment systems revealed a number of inconsistencies. In addition inconsistencies occurred between the Group Policies, the Plan Masters (used to pay claims), the Plan Medias (customer service references) and the Summary Plan Descriptions (sent to insureds). It is recommended that the Company take steps to ensure that accurate and consistent descriptions of actual policy benefits be maintained in all policy-related materials.

It appears that the Company may have effected policy changes in violation of the requirements of Section 3221(a)(2) of the New York Insurance Law

The Company establishes reasonable and customary charges (“R&C”) for use in the payment of its health claims. R&C is defined by Met in its General Information Booklet as follows:

“Reasonable and Customary Charge means the lowest of:

- (I) the actual charge for a service or supply; or
- (ii) the usual charge by the doctor or other provider for the same or similar service or supply; or
- (iii) the usual charge of other doctors or other providers of similar training or experience in the same or similar geographic area for the same or similar service or supply.”

R&C values are determined by MetLife primarily through the use of its own paid claims database. This database contains in excess of fifty million charges. The charges are coded using the American Medical Association’s standardized Physicians Current Procedural Terminology (CPT) coding structure. The country is divided into 282 geographic areas, each covering a number of zip codes. In determining the R&C values, the Company develops a “hard” dollar value or a “soft” dollar value. A “hard” dollar value uses as its basis at least 25 charges for a procedure in a specific area. A “soft” dollar value is developed when insufficient charge data (i.e. less than 25 charges) are available. The “soft” dollar value is calculated by applying an area value to a procedure value. Most R&C charges are based on “hard” dollar values. The R&C amount

used by the Company is set at the 90th percentile for those codes having sufficient charge data. The 90th percentile represents an amount greater than or equal to 90% of all the charges for a particular code. In instances where "soft" dollar values are being used, the Company has developed separate area values for surgery, anesthesia, office visits, radiology and certain laboratory services. In certain instances the Company will also utilize Health Insurance Association of America (HIAA) data in determining its R&C values. The Company compiles its data from September through August for update in January of the following calendar year.

In addition to determining the R&C values as mentioned above, the Company maintains individual provider experience, referred to as a provider profile. The provider profile is a doctor's usual charge for a surgical procedure and it is customarily maintained for one year. If the profile is different from the determined R&C for that procedure, the Company will only pay the claims based upon the lesser amount.

If a doctor's usual charge for a surgical procedure is less than the calculated R&C allowance for the area, the Company's R&C reimbursement for that doctor's charges would be the doctor's usual charge (i.e., the profile). If the doctor raises his fees during the year, the Company will not increase the allowed R&C reimbursement, but will continue to reimburse on the basis of his profile charges. This practice results in the claimant paying all of the increase in the doctor's charge, also, the methodology of determining R&C values allows that where two doctors in the same geographic area charge the same amount for the same surgical procedure, the R&C reimbursement to patients using each of the two doctors will be different if the doctors' profiles are different.

The examiners also conducted a review of the reasonable and customary charges developed by the Company. The examiners reviewed the documentation supporting a number of R&C hard and soft dollar value determinations. One sample encompassed twenty-nine procedure codes each covering three specific areas. Another sample covered forty-four procedure codes covering fifteen areas. This sample included several codes that were utilized in the payment of actual claims.

The examiners found that the Company does not always use, as the customary charge, the R&C values determined from its own documentation. It was noted that the Company, although able to document what the 90th percentile charge would be, chose not to use this value in several instances. In some instances, the Company used a different percentile or a discretionary amount.

Throughout the examination the Company indicated that it did not have written guidelines for deviating from the R&C, and that the changes were often done to lessen year to year variations in certain fees. Such changes to R&C values could reflect a lack of control and ultimately, unfair treatment to all claimants involved. Subsequent to the examination, the Company was able to produce written guidelines which were in effect during the examination period. The lack of timely production of such guidelines was explained as due to the Company's basic exit from the health insurance market and the movement of personnel.

D. Response to Department Circular Letter No. 2 (1994)

The Company's response to Circular Letter No. 2 (1994) was filed in a timely manner and was appropriately attested to by the President/Chief Operating Officer. The response indicated that existing problems relating to the Company's compliance with Department Regulation No. 34A were being addressed and that new compliance programs, as well as additional controls, had been implemented. Subsequent to the Company's implementation of its new compliance programs, a number of advertisements were found to have been distributed in foreign language newspapers. These advertisements represented whole life insurance as "High Interest Rate Life Insurance", and "Tax Deferred Plan Insurance".

Department Regulation No. 34A Section 219.4(a)(1), states, in part:

"Advertisements shall be truthful and not misleading in fact or in implication. The format and content of an advertisement or a life insurance policy or an annuity contract shall be sufficiently complete and clear so that it is neither misleading nor deceptive nor has the capacity or tendency to mislead or deceive..."

Section 219.4(x) of the Regulation states:

"An advertisement shall not emphasize investment or tax features and omit or minimize insurance features."

The Company's use of the above described advertisements violate the provisions of Department Regulation No. 34A in that they tend to be misleading and emphasize investments, taxes and savings rather than the insurance being offered.

7. AGENCY OPERATIONS

A. Agency Conferences

Sections 4228(g) of the Insurance Law states in part:

"(1) no such company, nor any person, firm or corporation on its behalf or under any agreement with it, shall pay or allow, or permit to be paid or allowed, any bonus, prize or reward or any increased or additional commissions or compensation of any kind whatsoever based upon the volume of any new business or the aggregate number of policies written or paid for.

(2) This subsection shall not prohibit institution of contests or competitions among agents, and the recognition of success in such competitions by awarding of ribbon decorations, medals, pins, buttons or other tokens having small intrinsic value, given not as compensation but as bona fide recognition of merit."

A review of the Company's MidAmerica Territory's Leaders Conferences revealed that, during the examination period, qualifying agents who placed 100 or more life policies during the qualifying year ("Centurion Qualifiers") were "invited to check in one day early" at the conference sites at the Company's expense. There were no business meetings scheduled on that day. The same situation existed in the Company's Southern Territory's Leaders Conferences regarding its PLI 100+ qualifiers.

A review of the MetLife Resources Leaders Conferences revealed that the Company paid for the rooms, meals and travel expenses of the spouses and guests of the sales representatives that accompanied them to their leaders conferences from 1990 through 1993 inclusive. In addition, the Company paid a Special Travel and Recognition (STAR) Award to high producing FSRs. These awards were reimbursements for the travel expenses of the spouses and guests that accompanied the sales representatives to their agency conferences each year. The Company did provide information establishing that, in some instances where the Company did not charge the sales representatives for rooms provided for their spouses/guests, the rate charged to the Company for the hotel room was the same whether occupied by one or two people.

A review of the President's Conferences revealed that the recognition awards given to the sales force during the examination period ranged in value from \$580 to \$5,330 each. This is well in excess of token gifts "having small intrinsic value" as stated in the above section of law.

The Company paid all group leaders, except for Regional Directors, a net amount of \$1,000 as a Special Travel and Recognition (STAR) Award. According to the memorandum sent to the Company Payroll Department from the Group Compensation & Recognition Department,

"the net amount of each check should be \$1,000, therefore the gross amount should be grossed up to take this into account." Thus, the Company paid whatever amount necessary to ensure that the recipient of the award would receive \$1,000 net after taxes. Although there was no Group Leaders Conference held during 1994 for 1993's qualifiers, the STAR Award was paid to all the qualifiers in February 1994. The total amount paid by the Company for STAR Awards from 1989 to 1994 was \$494,939.

During the examination period the Company also paid a prize entitled "Chance of a Lifetime" and assumed the taxes incurred by the winner of the prize. According to the information provided by the Company, the group leaders who were not in a management position at the time of the raffle were eligible to participate in the "Chance of a Lifetime" drawing at the group leaders conference. According to the circular, the prize consisted of:

" 2 First Class round-trip tickets to anywhere in the world all expenses paid for accommodations in a First Class hotel for up to 10 days \$ 2,000 for meals and other expense. Limousine service from home to the airport and background transfers from the airport to the hotel and back.

...An allowance to help defray prize taxes will also be awarded."

The total expenses paid by the Company for the "Chance of a Lifetime" trips from 1989 through 1993 was \$151,572. The Company has since informed the Department that it has already discontinued both the STAR and Chance of a Lifetime programs.

The Company also paid special recognition awards to its group sales force for each of the years during the examination period. These awards ranged from \$1,000 to \$25,000 per year per recipient. This additional compensation plan paid to members of the group sales force was not filed with the Department.

Under a Sponsorship Program effective since 1986, if a candidate referred by a representative was appointed, the representative was designated the candidate's sponsor and was eligible to receive additional compensation provided the newly appointed sales representative met the minimum production requirements of the Financing Plan. The sponsor received 4% of the candidate's First Year Commissions for the first four quarters. In addition, if the candidate qualified for a conference (Leaders' Conference, President's Conference or Presidents Council), the sponsor received additional remuneration. Effective April 17, 1995, a new sponsorship

program replaced the 1986 plan. Neither of these Sponsorship Programs were filed with or approved by the New York Insurance Department.

The above examples constitute additional compensation and prizes paid to the Company's agency force based upon the volume of new business and violate the provisions of Sections 4228 (g) (1) and (2) of New York Insurance Law.

Department Regulation No. 93, Section 30.1(a)(3), which was effective during the examination period, states in part:

"The maximum average cost of the conference for all agents, general agents, agency managers, and supervisors shall not exceed 10 percent of the first year commissions needed to qualify the agent to attend the conference. If the basis for qualification is other than commissions, such basis shall be converted to commissions for purposes of this calculation. A qualification period shall not be less than 12 months, and no production during a qualifying period shall be used in qualifying for a subsequent conference ..."

A review of the Company's personal and group agency conferences (President's Conferences, President's Councils, and Leaders' Conferences) was conducted for the years 1989 through 1993. It was noted that during this time period the maximum average cost of the President's Conferences and the Group Leader's Conferences exceeded 10 percent of the first year commissions needed to qualify an agent to attend the conferences. The following charts depict this finding:

President's Conferences

	1989	1990	1991	1992	1993
Expenses per attendee	\$ 5,106	\$ 6,346	\$ 9,526	\$12,374	\$ 9,879
10% Limit per Reg. 93	\$ 4,500	\$ 5,000	\$ 6,000	\$ 6,500	\$ 7,000
Excess Expenses	\$ 606	\$ 1,346	\$ 3,526	\$ 5,874	\$ 2,879

* Excluding airfare (Company could not provide this information)

Group Leader's Conferences

	1989	1990	1991	1992	1993
Expenses per attendee	\$9,326	\$12,420	\$8,201	\$10,977	\$10,009
10% limit per Reg. 93	\$3,000	\$ 3,000	\$3,000	\$ 3,000	\$ 3,286
Excess Expenses	\$6,326	\$ 9,420	\$5,201	\$ 7,977	\$ 6,723

Further, Department Regulation No. 93 Section 30.1(a)(6) states:

"The company shall maintain in the files, through the statutory examination covering the period of the conference, all records pertaining to the conference."

A review of the Company's files disclosed that the Company did not maintain in its files all records pertaining to the conferences (i.e. hotel bills, agendas, reimbursements from agents, invoices etc.). Company personnel indicated to the examiners that certain requested information had been lost, purged from the system, destroyed, "copies not kept" or they "were unable to locate" the information.

Also, Department Regulation No. 93 Section 30.1 (a) (7) states:

"Attendance by members of the home office staff shall be limited to those who are essential to the conduct of the conference."

A review of the Company's Group Leaders Conferences from 1989 through 1993 revealed that an inordinate number of Company officers attended the conferences each year. The following chart depicts the number of Company officers who attended the conferences each year, the number of officers who participated in the programs, and the number of qualifiers for that year:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Number of Officers	49	49	45	42	45
Number of participating Officers *	10	13	11	13	10
Number of Qualifiers	81	83	115	88	75
Percent of Officers/Attendees	38%	38%	29%	33%	38%

*Officers that gave lectures or conducted business sessions.

In addition, a review of the Pension Leaders Conferences was also conducted.

The following chart was provided by the Company:

	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>
Number of Officers	11	16	19	22	26
Number of Qualifiers	17	17	20	27	18
Percent of Officers/attendees	39.2%	48.5%	48.7%	44.9%	59.1%

Additionally, Department Regulation No. 93 Section 30.1(a)(8) states :

"A Company may not pay any of the expenses of any person who accompanies an agent to the conferences."

The Presidents Conference agenda for 1992 contained the following:

"MetLife will provide breakfast for qualifiers, family members and guests each day from Monday through Thursday. In addition, President's Conference qualifiers, family members and guests are invited to the welcoming reception and dinner on Sunday evening, the refreshments and desert buffet at MetLife's Wonders of Life Pavilion in EPCOT Center on Monday evening, and the barbecue beach party on Tuesday evening."

Other Company conferences' agendas, both Leaders and Management Conferences as well as the President's Councils, had similar statements regarding meals for spouses, family members (children) and guests provided by the Company.

In addition, the Company paid for the "Spouse Breakfast and Program" held during the Group Leaders Conferences from 1989 through 1993. According to the Group Marketing Department, this is a separate program set up for the spouses of attendees. It usually consists of breakfast and a presentation given by a guest speaker. The total estimated expenses paid by the Company for the spouse programs held during the Group Leaders Conferences from 1990 to 1993 was \$43,500.

In conclusion, the Company essentially failed to comply with the provisions of Regulation No. 93.

B. Compensation

Section 4228 (d)(5) of the New York Insurance Law states:

"No such plan of compensation shall be made effective until the plan, including the basis of allocation, has been submitted to the superintendent and approved by him and he may prescribe the method of reporting such compensation."

A Financing Plan for the Financial Services Representative has been in effect since 1990. It was filed with the Department on April 8, 1992 and thereafter disapproved. Notwithstanding the express Department disapproval, the Company continued to use this plan.

The Company initiated a special compensation plan for its Mass Merchandising (MM) sales personnel in 1991. During 1991, 1992, and 1993, the MM unit sold individual whole life

and universal life products. The plan was revised both in 1992 and again in 1993. The compensation plan and the revisions made to it were never filed with nor approved by the Department.

Based on the above findings, the Company violated Section 4228(d)(5) of the New York Insurance Law.

Section 2114(a)(1) of the Insurance Law states, in part:

“No insurer...doing business in this state shall pay any commission or other compensation to any person, firm or corporation, for any services in obtaining in this state any new contract of life insurance or any new annuity contract, except to a licensed life insurance agent of the insurer...”

During 1991, 1992, and 1993 the Mass Merchandising (MM) unit sold individual whole life and universal life products. The sales personnel were licensed agents in New York State or in the state in which they sold the insurance products.

The compensation plan for MM sales personnel consisted of a base salary and an incentive compensation portion based on a percentage of first year pooled premiums of the entire unit's annual production, subject to a cap on each sales representative's base salary.

The first year pooled premiums included premiums collected for business sold within and without New York State. Premiums collected in New York State were contributed to the premium pool and a percentage of this pool was then divided among all the sales personnel in the MM unit, as per the compensation plan. Under this payment procedure, commissions or incentive compensation on New York business was paid to sales personnel not licensed in New York State. Thus, the Company violated Section 2114(a)(1) of the New York Insurance Law.

Section 4216(e) of the Insurance Law states, in part:

"Each domestic insurer...doing business in this state shall file with the superintendent its schedule of rates of commissions, compensation and other fees or allowances to agents pertaining to the solicitation or sale of group life insurance and of fees or allowances, exclusive of amounts payable to persons who are in the regular employ of the insurer other than as agent, to any individuals, firms or corporations pertaining to the service or administration of group life insurance, whether transacted within or without this state. An insurer may revise such schedules from time to time, and shall file such revised schedules with the superintendent..."

In addition, Section 4235(h)(1) and (2) of the New York Insurance Law states, in part:

"(1) Each domestic insurer...doing business in this state shall file with the superintendent...in connection with the issuance of its policies of group accident, group health or group accident and health insurance, and of its rates of commissions, compensation or other fees or allowances to agents and brokers pertaining to the solicitation or sale of such insurance and of such fees or allowances, exclusive of amounts payable to persons who are in the regular employ of the insurer, other than as agent or broker to any individuals, firms or corporations pertaining to such class of business, whether transacted within or without the state.

"(2) An insurer may revise such schedules from time to time, and shall file such revised schedules with the superintendent..."

A review of the Company's group compensation plans in use during the examination period revealed that the Company did not file its group incentive compensation plans or the changes made to those plans with the Insurance Department. Thus, the Company violated Sections 4216(e) and 4235(h)(1), and (2) of the New York Insurance Law.

C. Group Licensing

Section 2112(a) and (d) of the New York Insurance Law states, in part:

"(a) Every insurer ... doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer ...

(d) Every insurer ... doing business in this state shall, upon termination of the certificate of appointment of any insurance agent licensed in this state, forthwith file with the superintendent a statement, in such form as the superintendent may prescribe, of the facts relative to such termination and the cause thereof..."

A review of group agency licensing revealed that the Company did not file with the Department a certificate of appointment for a number of its group agents. A review of group agents terminated during the examination period indicated that the Company had not filed the required termination notices with the Department. Accordingly, the Company violated Section 2112(a) and (d) of New York Insurance Law.

8. FINANCIAL COMMENTS

A. Bonds and Stocks

The examiners noted that unsettled security trades are not reflected in the Company's annual statement. At year-end 1993, the Company had in excess of \$1 billion in unsettled trades. It is recommended that in the future these trades be reflected in the filed annual statements of the Company.

Broker's advices were maintained by the Company in such a manner so as to render them unusable in the verification of trades. The examiners were able to confirm trades through an on-line system with the Company's banks. This system only retained data for a period up to 18 months, rendering securities trades effected during a significant portion of the examination period unverifiable. It is recommended that the Company maintain its brokers advices until an examination report covering the period during which the trades were effected has been filed.

As of December 31, 1993, the Company maintained a deposit of securities in a separate account with one bank having a statement value in excess of \$45 million. The Company did not have a custodial agreement with that bank. It is recommended that the Company take steps to effectuate a custodial agreement with the bank.

B. Electronic Data Processing Equipment

Section 1301 (a) of the New York Insurance Law states, in part:

"...there may be allowed as admitted assets...only the following assets owned by such insurer:...

... (18) Electronic data processing apparatus and related equipment constituting a data processing, record keeping, or accounting system if the cost of each such system is fifty thousand dollars or more and provided that such cost shall be amortized in full over a period not to exceed ten years."

A review of the Company's admitted asset for Electronic Data Processing Equipment indicated that individual personal computers (PCs) were included in the reported admitted asset. Since these PCs are stand alone items and did not cost in excess of \$50,000 each, for statutory reporting purposes they should have been expensed rather than capitalized and depreciated. No examination change is reflected in the balance sheet shown in this report (see item 5) due to the relative immateriality of the amounts involved. However, it is recommended that the Company take the necessary steps to correct its reporting of an admitted asset for EDP equipment in its

filed financial statements in order to comply with the provisions of Section 1301(a)(18) of the New York Insurance Law.

C. Policy Loans

In reviewing policy loans initiated at the Canadian home office, the examiners requested original documentation to support a selected number of loans. The Company informed the examiners that original documentation was maintained in the field offices for only thirteen (13) months. The Company was unable to obtain approximately 22% of the original documents requested by the examiners.

It is recommended that, in the future, policy loan source documentation be retained until a report on examination covering the period during which the loans were originated has been filed.

9. SUMMARY AND CONCLUSIONS

This report contains the following comments and recommendations:

<u>Item</u>	<u>Description</u>	<u>Page No.</u>
A.	The examiners determined that the Company had taken all appropriate actions relative to comments in the immediately preceding report	4
B.	The Company acquired several new subsidiaries during the examination period.	6
C.	Various changes were made to the Company's board of directors and its officers subsequent to the examination date.	8-9
D.	The examiners found that the Company's financial condition as set forth in its filed annual statement as of the examination date was accurate.	15-16
E.	The Company was fined more than \$20 million for misleading advertising and sales related activities involving a particular program directed at nurses and others nation-wide.	17
F.	The Company, in numerous instances, substantially violated Department Regulation No. 34A regarding its advertising practices. As a result of these problems, several members of the Company's management were released or resigned.	17-22
G.	The Company was lax in implementing and overseeing its internal policies regarding compliance with Department Regulation No. 60 which deals with policy replacement standards.	22-24
H.	It is recommended that the Company diligently oversee its enhanced monitoring system to ensure the curtailment of violations of Department Regulation No. 60.	24
I.	The Company did not accurately file changes to a policy application form in order to fully comply with the provisions of Section 3201(b)(1) of the New York Insurance Law.	25-26
J.	The Company violated Section 4224 of the New York Insurance Law relative to information obtained from HIV positive applicants as regards said applicants' spouses and children.	25
K.	Relative to its mass merchandising sales force, the Company violated the provisions of Section 3201(b)(1) of the New York Insurance Law.	25

- L. It is recommended that the dual use of a form by the Company and its subsidiary (Metropolitan Insurance and Annuity Company) cease or that the form be appropriately filed with the Department. 26
- M. Relative to forms used at its Canadian Home Office, the Company violated the provisions of Section 3201 of the New York Insurance Law. 26
- N. It is recommended that the Company implement procedures which will ensure that proper interest calculations are made with reference to future death benefit claims. 27
- O. It is recommended that the Company take steps to ensure that accurate and consistent descriptions of actual policy benefits be maintained in all policy related materials. 28
- P. It appears that the Company may have effected policy changes in violation of the requirements of Section 3221(a)(2) of the New York Insurance Law. 28
- Q. Comments concerning the establishment of reasonable and customary charges used in the payment of health insurance claims. 28-30
- R. The Company used advertisements which were in violation of Department regulation No. 34A 30
- S. The Company violated Section 4228 of the New York Insurance Law by paying additional compensation and prizes to its agency force based on the volume of new business. 33
- T. The Company essentially ignored the provisions of then effective Department Regulation No. 93 during the examination period regarding agency conferences. 33-36
- U. The Company violated Section 4228(d)(5) of the New York Insurance Law relative to the filing and approval of agents' compensation plans. 37
- V. The Company violated Section 2114(a)(1) of the New York Insurance law. 37
- W. The Company violated Sections 4216(e) and 4235(h)(1) and (2) of the New York Insurance Law regarding its group compensation plans. 37-38
- X. The Company violated Section 2112(a) and (d) of the New York Insurance Law by not filing certificates of appointment for a number of its agents. 38

- Y. It is recommended that the Company take steps to effectuate a custodial agreement with a bank in which it maintained deposits of securities in excess of \$45 million. 39
- Z. It is recommended that the Company take the necessary steps to correct its reporting of an admitted asset for electronic data processing equipment to comport to the requirements of Section 1301(a)(18) of the New York Insurance Law. 39
- AA. It is recommended that, in the future, policy loan source documentation be retained until a report on examination covering the period during which the loans were originated has been filed 40

APPOINTMENT NO. 20954

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, SALVATORE R. CURIALE, Superintendent of Insurance of the

State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Frank LaMonica

as proper person to examine into the affairs of the

Metropolitan Life Insurance Company

and to make a report to me in writing of the condition of the said

Company

with such other information as he/she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of this Department,
at the City of New York,

this 18th day of November 1993

SALVATORE R. CURIALE

Superintendent of Insurance

Wandy E. Cooper
(by) Deputy Superintendent

