



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON TARGET EXAMINATION
OF THE
JOHN HANCOCK LIFE INSURANCE COMPANY

CONDITION:

JUNE 9, 2005

DATE OF REPORT:

JUNE 28, 2006

STATE OF NEW YORK INSURANCE DEPARTMENT

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OF THE

JOHN HANCOCK LIFE INSURANCE COMPANY

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EXAMINER:

JO ANN LOEBER

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

George E. Pataki
Governor

Howard Mills
Superintendent

June 28, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22383, dated June 1, 2005 and annexed hereto, a target examination has been made into the condition and affairs of the John Hancock Life Insurance Company, hereinafter referred to as "the Company" or "John Hancock," at its home office located at 200 Clarendon Street, Boston, Massachusetts, 02117.

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

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

1. EXECUTIVE SUMMARY

The review revealed that many life and annuity replacements sampled contained a material error or omission which violated Department Regulation No. 60 and did not provide full and clear information to prospective policy and contract holders. (See item 3 of this report)

The Company has agreed to implement a remediation plan acceptable to the Department to address the deficiencies noted and provide relief to policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts. (See item 3 of this report)

The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee. (See item 3 of this report)

The Company violated Sections 51.6(b)(2), (3) and (9) of Department Regulation No. 60 in the cases where:

1. it failed to examine the Disclosure Statements to determine their accuracy and that they met the requirements of the Regulation;
2. it failed to retain a copy of the completed Disclosure Statement;
3. it failed to require proof of receipt by the applicant of the Important Notice and the completed Disclosure Statements;
4. it failed to have the agent complete and submit a revised Disclosure Statement, any revised or additional sales material used and an acknowledgement by the applicant of receipt of such revised material, when the life insurance policy issued differed from the life insurance policy applied for. (See item 3 of this report)

The Company violated Section 51.6(b)(7) of Department Regulation No. 60, in the cases where the required forms did not meet the requirements of the Regulation or were not accurate, and the Company failed to, within ten days from the date of receipt of the application, either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore. (See item 3 of this report)

The Company violated Sections 243.2(b)(1) and (8) of Department Regulation No. 152 in the cases where it failed to maintain the information used to complete the “Disclosure Statement” that was received from the company being replaced. (See item 3 of this report)

The Company violated Section 51.6(e) of Department Regulation No. 60 in the cases where it failed to date-stamp all applications and Disclosure Statements upon receipt, and by not implementing procedures, that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60. (See item 3 of this report)

The Company violated Section 51.6(b)(4) of Department Regulation No. 60 in the cases where it failed to furnish the insurer whose coverage was being replaced, within ten days of receipt of the application, a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement. (See item 3 of this report)

2. SCOPE OF EXAMINATION

The examiner conducted a target examination of the Company's policies and procedures with respect to the internal and external replacement of annuity contracts and life insurance policies processed during the period from September 30, 2003 through June 9, 2005. The objective of the examination was to determine whether the Company satisfied and complied with applicable New York Insurance Law and Department regulations and circular letters, the operating rules of the Company, and internal control standards deemed adequate by the Department.

This report on examination is confined to comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. EXAMINATION PROCEDURES AND FINDINGS

The examiner reviewed various elements of the Company's replacement activities to determine compliance with applicable statutes and regulations, the operating rules of the Company, and internal control standards deemed adequate by the Department. The review included an evaluation of the practices utilized by the Company's agents in the sales and marketing of replacement annuity and life insurance products, and the strength of the Company's internal controls over the management and processing of replacement insurance.

Section 51.5 of Department Regulation No. 60 states, in part:

"Each agent and broker shall . . .

(c) Where a replacement has occurred or is likely to occur . . .

(2) Notify the insurer whose policy or contract is being replaced and the insurer replacing the life insurance policy or annuity contract of the proposed replacement. Submit to the insurer whose policy or contract is being replaced a list of all life insurance policies or annuity contracts proposed to be replaced, as well as the policy or contract number for such policies or contracts, together with the proper authorization from the applicant, and request the information necessary to complete the "Disclosure Statement" with respect to the life insurance policy or annuity contract proposed to be replaced. In the event the insurer whose coverage is being replaced fails to provide the information in the prescribed time, the agent or broker replacing the life insurance policy or annuity contract may use, and the insurer replacing the life insurance policy or annuity contract shall review and may accept, good faith approximations based on the information available . . ."

Section 51.6 of Department Regulation No. 60 states, in part:

“ . . . (b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .

(2) Require with or as part of each application a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and proof of receipt by the applicant of the "IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" and the completed "Disclosure Statement;"

(3) Examine any proposal used, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the "Disclosure Statement," and ascertain that they are accurate and meet the requirements of the Insurance Law and this Part;

(4) Within ten days of receipt of the application furnish to the insurer whose coverage is being replaced a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed "Disclosure Statement" . . .

(7) Where the required forms are not received with the application, or if the forms do not meet the requirements of this Part or are not accurate, within ten days from the date of receipt of the application either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore. In such cases, the insurer shall maintain any material used in the proposed sale, in accordance with the guidelines of Section 51.6(b)(6) herein . . .

(9) In the event the life insurance policy or annuity contract issued differs from the life insurance policy or annuity contract applied for, ensure that the requirements of this Part are met with respect to the information relating to the life insurance policy or annuity contract as issued, including but not limited to the revised "Disclosure Statement," any revised or additional sales material used and acknowledgement by the applicant of receipt of such revised material. . .

(e) Both the insurer whose life insurance policy or annuity contract is being replaced and the insurer replacing the life insurance policy or annuity contract shall establish and implement procedures to ensure compliance with the requirements of this Part. These procedures shall include a requirement that all material be dated upon receipt. Such insurers shall also designate a principal officer specifically responsible for the monitoring and enforcement of these procedures. All insurers covered under this Part shall furnish the Superintendent of Insurance with these procedures and the name and title of the designated principal officer by the effective date of this Part. Any changes in these procedures or the designated principal officer shall be furnished to the Superintendent of Insurance within thirty days of such change.”

Section 243.2(b) of Department Regulation No. 152 states, in part:

“Except as otherwise required by law or regulation, an insurer shall maintain:

(1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report

on examination in which the record was subject to review, whichever is longer. . .

A policy record shall include . . .

(iv) Other information necessary for reconstructing the solicitation, rating, and underwriting of the contract or policy . . .

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

In response to the examiner’s request for an inventory of replacements in order to review the Company’s compliance with Department Regulation No. 60, the Company provided three data files which reportedly contained all of the replacement transactions that occurred during the period of September 30, 2003 through June 9, 2005. The first data file contained 102 external annuity replacements; the second data file contained 100 internal annuity replacements; and the third data file contained 1010 external and 821 internal individual life replacements. The examiners selected a sample of 14 external annuity, 15 internal annuity, 52 external life and 42 internal life replacements from the data files provided by the Company.

The review revealed that 37 of the 94 life replacement cases and 25 of the 29 annuity replacement cases reviewed contained a material error or omission which violated Department Regulation No. 60 and did not provide full and clear information to prospective policy and contract holders..

The errors and omissions discovered during the review were as follows:

1) In many cases the information on the Disclosure Statements was incomplete or inaccurate, as described below:

- a) In nine life and six annuity replacements information critical to ensuring that a prospective policyholder was able to make an informed decision, such as policy and contract values or surrender charges, was not complete or was inaccurate on the Disclosure Statement;
- b) Seven life Disclosure Statements and three annuity Disclosure Statements contained blank responses in the agent’s statement section or responses which were noted as ‘not applicable’ or ‘none’. In all of these cases a more appropriate answer existed;
- c) Four life and two annuity replacement files contained an illustration for the replaced policy which did not match the information provided on the Disclosure Statement;
- d) One life and five annuity replacements involved multiple policies being replaced, but a composite comparison was not completed as part of the Disclosure Statement. The

instructions for completing Disclosure Statements which relate to replacement transactions involving multiple policies, located at the bottom of Appendix 10A and Appendix 10B of Department Regulation No. 60, indicate that, “. . . a composite comparison shall be completed of all existing life insurance policies or annuity contracts to all proposed life insurance policies and annuity contracts.”;

- e) In ten life and three annuity replacements other information such as interest rates, the amount of cash released from the replaced policy, the contestability periods, the indication of whether or not sales materials were used or an indication of whether or not estimates were used was not completed on the Disclosure Statement;
- f) In 19 life and 26 annuity replacements the “as of date” on the Disclosure Statement was not completed; and
- g) In the limited number of cases where the Company noted that a Disclosure Statement was incorrect and an attempt was made to obtain a corrected Disclosure Statement, one life Disclosure Statement was not corrected within the required 10 days and two other life cases with deficiencies noted do not appear to have ever been corrected.

Based on the missing and inaccurate information it appears that the Company needs to make a more comprehensive effort to ensure that the Disclosure Statements are completed accurately and in accordance with the requirements of the Regulation.

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 in the cases where it failed to examine the Disclosure Statements to ascertain that they were accurate and met the requirements of the Regulation. The Company also violated Section 51.6(b)(7) of Department Regulation No. 60, because where the required forms did not meet the requirements of the Regulation or were not accurate, the Company failed to, within ten days from the date of receipt of the application, either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore. In addition, in many of the cases noted above where information on the Disclosure Statement was not accurate or complete, the Company violated Section 51.6(b)(2) of Department Regulation No. 60 by not requiring a copy of the completed Disclosure Statement.

2) In the following cases the replacement files did not contain an illustration or any other information from the Company in lieu of an illustration to validate the values on the Disclosure Statement for the John Hancock policies and contracts:

- a) Three external life replacement files did not contain an illustration for the proposed policy;
- b) Nine external annuity replacement files did not have an illustration for the proposed contract;
- c) Eight internal life replacement files did not contain an illustration for the replaced policy;
- d) Seven internal annuity replacement files did not contain an illustration for the proposed contract, and;
- e) Five internal annuity replacement files did not contain an illustration for either the replaced or the proposed contract.

In addition, in the following external replacement cases the replacement files did not contain an illustration for the replaced policy or contract, or any other information from the company being replaced that could have been used to complete the Disclosure Statement:

- f) Three external life replacement files did not contain an illustration for the replaced policy, and it was indicated that estimates were not used in these cases, and;
- g) Four external annuity replacement files did not contain an illustration for the replaced contract, and it was indicated that estimates were not used in these cases.

The Company was given the opportunity to provide documentation supporting the information for the proposed and replaced policies and contracts noted above, but ultimately the Company failed to provide such information. Without having a copy of an illustration or any other information from the Company to validate the values for the John Hancock policies in lieu of an illustration, or any information from the companies being replaced to validate the values for the external policies, the examiner was unable to verify the accuracy of the information presented on the Disclosure Statements. It was therefore unclear as to whether or not the policy or contract owner was given accurate information in order to make an informed decision regarding the appropriateness of the replacement transaction. Also, by not maintaining the illustrations or other source documentation it is unclear how the Company verified the accuracy of the information on the Disclosure Statement in accordance with Section 51.6(b)(3) of Department Regulation No. 60.

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 in the cases where it failed to examine the Disclosure Statement to ascertain that they were accurate and met the requirements of the New York Insurance Law and the Regulation. The Company also

violated Sections 243.2(b)(1) and (8) of Department Regulation No. 152 in the cases where it failed to maintain the information used to complete the "Disclosure Statement" that was received from the company being replaced.

3) Six external life replacement cases did not contain any documentation to support the estimates used on the Disclosure Statement.

Without having any information to support the estimates used on the Disclosure Statements, the examiner was unable to determine whether or not the policy owner was given suitable information in order to make an informed decision regarding the appropriateness of the replacement transaction and how the Company verified the accuracy of the information on the Disclosure Statement in accordance with Section 51.6(b)(3) of Department Regulation No. 60.

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to examine the Disclosure Statements to ascertain that they were accurate and met the requirements of the New York Insurance Law and the Regulation.

4) 16 replaced life policies were not issued as applied for and a revised Disclosure Statement was not completed and signed by the applicant as acknowledgment of receipt of such revised material.

The Company violated Section 51.6(b)(9) of Department Regulation No. 60 in the cases where it failed to have the agent complete and submit a revised Disclosure Statement, any revised or additional sales material used and an acknowledgement by the applicant of receipt of such revised material, when the life insurance policy issued differed from the life insurance policy applied for.

5) In a number of cases documentation in the replacement file was not date-stamped as follows:

- a) In 17 annuity cases neither the application nor the Disclosure Statement contained a date-stamp to indicate when the application and Disclosure Statement were received by the Company;
- b) Five external annuity cases and one life case did not contain a date-stamped letter or any other date-stamped correspondence from the company being replaced indicating when the information necessary to complete the Disclosure Statement was received from the other insurer.

Without evidence of when the information was sent to the replaced insurer, or evidence of when the information from the replaced insurer was received by the Company, the examiner was unable to determine the number of days it took for the company being replaced to respond to the Company.

The Company violated Section 51.6(e) of Department Regulation No. 60 in the cases where it failed to date-stamp all applications and Disclosure Statements upon receipt, and by not implementing procedures, such as a requirement that all material be dated upon receipt, that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60 which allows an agent to use good faith approximations on the Disclosure Statement, based on the information available, in the event the insurer whose coverage is being replaced fails to provide the information in the prescribed time.

6) Two external life and one external annuity replacement files did not contain a completed authorization form to request information from the company being replaced.

The Company violated Section 51.6(e) of Department Regulation No. 60 by not implementing procedures that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60 which requires an agent to submit to the insurer whose policy or contract is being replaced a proper authorization from the applicant and a request for the information necessary to complete the Disclosure Statement with respect to the life insurance policy or annuity contract proposed to be replaced.

7) One life replacement file did not contain a Disclosure Statement.

The Company violated Section 51.6(b)(2) of Department Regulation No. 60 in the cases where it failed to require proof of receipt by the applicant of the completed Disclosure Statements.

8) Two external life replacements and all of the external annuity replacements did not contain a notification letter to the Company being replaced notifying them that the contract was being replaced (“10-day letter”), five life replacement files contained a 10-day letter which was not sent within 10 days and three files contained a 10-day letter which did not have a Disclosure Statement attached.

The Company violated Section 51.6(b)(4) of Department Regulation No. 60 in the cases where it failed to furnish the insurer whose coverage was being replaced, within ten days of

receipt of the application, a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement.

9) In 30 of the life replacements and 22 of the annuity replacements reviewed all of the replacement forms were dated the same day; i.e. the Definition of Replacement was dated on the same date as the Important Notice, the Disclosure Statement and the application. Normally, the Definition of Replacement is signed prior to the other replacement forms since the replacing insurer generally needs time to contact the replaced insurer for information. The appropriate timing of the events and the receipt of replacement documentation, which occur prior to the ultimate replacement of a policy, are crucial to the assurance that an applicant is able to make an informed decision prior to their signing an application. The Company has explained that this situation has been remedied and that current procedures requiring the definition of replacement to be signed prior to the other replacement forms are being adhered to.

The Company has agreed to implement a remediation plan acceptable to the Department to address the deficiencies noted above and provide relief to policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts.

The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee.

4. SUMMARY AND CONCLUSIONS

The following violations and recommendations are contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 in the cases where it failed to examine the Disclosure Statements to ascertain that they were accurate and met the requirements of the Regulation in various instances where the Disclosure Statement was incomplete or inaccurate.	6-7
B	The Company violated Section 51.6(b)(7) of Department Regulation No. 60, because in the cases where the required forms did not meet the requirements of the Regulation or were not accurate, the Company failed to, within ten days from the date of receipt of the application, either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore.	6-7
C	The Company violated Section 51.6(b)(2) of Department Regulation No. 60 in the cases where it failed to require a copy of the completed Disclosure Statement.	7
D	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 in the cases where it failed to examine the Disclosure Statement to ascertain that they were accurate and met the requirements of the New York Insurance Law and the Regulation in the cases where the replacement files did not contain an illustration or any other information in lieu of an illustration to validate the values presented on the Disclosure Statement.	7-9
E	The Company violated Sections 243.2(b)(1) and (8) of Department Regulation No. 152 in the cases where it failed to maintain the information used to complete the "Disclosure Statement" that was received from the company being replaced.	7-9
F	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 in the cases where it failed to examine the Disclosure Statement to ascertain that they were accurate and met the requirements of the New York Insurance Law and the Regulation in the cases that did not contain any documentation to support the estimates used on the Disclosure Statements.	9

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The Company violated Section 51.6(b)(9) of Department Regulation No. 60 in the cases where it failed to have the agent complete and submit a revised Disclosure Statement, any revised or additional sales material used and an acknowledgement by the applicant of receipt of such revised material, when the life insurance policy issued differed from the life insurance policy applied for.	9
H	The Company violated Section 51.6(e) of Department Regulation No. 60 in the cases where it failed to date-stamp all applications and Disclosure Statements upon receipt, and by not implementing procedures, such as a requirement that all material be dated upon receipt, that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60 which allows an agent to use good faith approximations on the Disclosure Statement, based on the information available, in the event the insurer whose coverage is being replaced fails to provide the information in the prescribed time.	9-10
I	The Company violated Section 51.6(e) of Department Regulation No. 60 by not implementing procedures that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60 which requires an agent to submit to the insurer whose policy or contract is being replaced a proper authorization from the applicant and a request for the information necessary to complete the Disclosure Statement with respect to the life insurance policy or annuity contract proposed to be replaced.	10
J	The Company violated Section 51.6(b)(2) of Department Regulation No. 60 in the cases where it failed to require proof of receipt by the applicant of the Important Notice and the completed Disclosure Statements.	10
K	The Company violated Section 51.6(b)(4) of Department Regulation No. 60 in the cases where it failed to furnish the insurer whose coverage was being replaced, within ten days of receipt of the application, a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement.	10-11
L	The Company has agreed to implement a remediation plan acceptable to the Department to address the deficiencies noted above and provide relief to policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts.	11

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
M	The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee.	11

APPOINTMENT NO. 22383

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JO ANN LOEBER

as a proper person to examine into the affairs of the

JOHN HANCOCK LIFE INSURANCE COMPANY

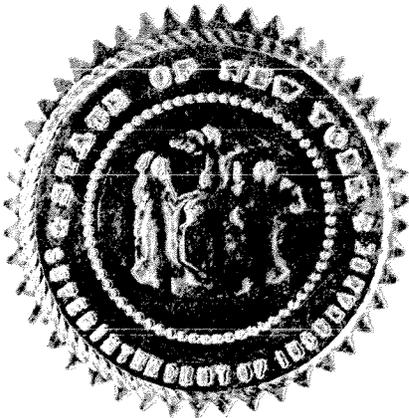
and to make a report to me in writing of the condition of the said

COMPANY

with such other information as she shall deem requisite.

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

this 1st day of June, 2005



HOWARD MILLS

Superintendent of Insurance

A handwritten signature in cursive script, appearing to read "Howard Mills", written over a horizontal line.

Superintendent