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**TARGETED MARKET CONDUCT REPORT ON EXAMINATION**

**OF THE**

**PRINCIPAL LIFE INSURANCE COMPANY**

**AS OF DECEMBER 31, 2020**

**EXAMINER:**

**ASHOK REDDY**

**DATE OF REPORT:**

**MAY 27, 2022**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

January 23, 2023

Honorable Adrienne A. Harris  
Superintendent of Financial Services  
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32310, dated October 1, 2021, and annexed hereto, an examination has been made into the condition and affairs of Principal Life Insurance Company, hereinafter referred to as "the Company". The Company's home office is located at 711 High Street, Des Moines, IA 50392. The examination was conducted remotely because of the COVID-19 pandemic.

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

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

## 1. EXECUTIVE SUMMARY

The material findings and violations contained in this report are summarized below.

- The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require an accurate and complete Disclosure Statement prior to the delivery of a life insurance policy, where a replacement has occurred or is likely to occur. (See item 4A-1 of this report.)
- The Company violated Section 243.2(b) of 11 NYCRR 243 (Insurance Regulation 152) by failing to maintain a policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer. (See item 4A-1 of this report.)
- The Company violated Section 3201(b)(1) of the New York Insurance Law by using an application form that was not filed with and approved by the superintendent, and by using a policy form in a manner that was not approved by the superintendent. (See item 4A-2 of this report.)
- The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly disclose in universal life illustrations that a charge continues to be required and that, depending on actual results, the premium payer may need to continue or resume premium outlays; and by failing to alert the policyholder to the fact that the policy is not paid up. These disclosures should be proximate to the Tabular Detail depicting the stoppage of premiums when the planned annual premium for some or all years is zero. (See item 4B-1 of this report.)
- The Company violated Section 53-3.3(b)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a statement in the Narrative Summary Section of universal life basic illustrations that “[t]his illustration assumes that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown”. (See item 4B-2 of this report.)
- The Company violated Section 53-3.3(c)(1)(d) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the year that coverage would terminate prior to maturity for each

of the three bases in basic illustrations of universal life policy forms. (See item 4B-2 of this report.)

- The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in universal life basic illustrations. (See item 4B-2 of this report.)
- The Company violated Section 53-2.1(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the generic name of the policy in the preliminary information for non-illustrated universal life policy forms. (See item 4B-3 of this report.)
- The Company violated Section 53-2.2(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the home or administrative office address of the Company in the Policy Summary for non-illustrated universal life policy forms. (See item 4B-3 of this report.)
- The Company violated Section 3209(b)(1)(B) of the New York Insurance Law by failing to provide a policy summary upon delivery of the policy. (See item 4B-3 of this report.)
- The Company violated Sections 3209(b)(1)(A) and (B) of the New York Insurance Law by failing to provide preliminary information and policy summary benefit statements to variable universal life policyholders that conform to Sections 53-2.1 and 53-2.2 of 11 NYCRR 53 (Insurance Regulation 74). (See item 4B-4 of this report.)
- The Company violated Section 3209(l) of the New York Insurance Law by its overall failure to comply with applicable sections of Insurance Regulation 74 because the Company used a non-conforming illustration to market the policies. (See item 4B-4 of this report.)
- The Company violated Section 53-3.2(a) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly label the illustrations used for policy forms SF 837 NY B Rev 2013 and SF 851 NY A. (See item 4B-4 of this report.)
- The Company violated Section 53-3.3(a)(7) of 11 NYCRR 53 (Insurance Regulation 74) by failing to label non-guaranteed elements as “non-guaranteed” in the Numeric Summary and Tabular Detail sections of the illustration for variable universal life policy forms SF 837 NY B Rev 2013 and SF 851 NY A. (See item 4B-4 of this report.)
- The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a disclosure in variable universal life illustrations when there is a suspension of planned premium that a charge continues to be required and reduces the

policy values; and depending on actual results, the premium payer may need to continue or resume premium outlays; and that the policy is not paid up. (See item 4B-4 of this report.)

- The Company violated Section 53-3.3(c)(1)(iii) by failing to provide the annual premium outlay, benefits and values using a median assumed rate of return and median policy cost assumptions. (See item 4B-4 of this report.)
- The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in the basic illustrations of variable universal life policy forms. (See item 4B-4 of this report.)
- The Company violated Section 4221(a)(7) of the New York Insurance Law by failing to specify the loan value available to the policyholder under the policy in the annual report. (See item 4B-5 of this report.)

## 2. SCOPE OF EXAMINATION

For the review of the market conduct activities, this examination covers the period from January 1, 2018, to December 31, 2020, for item 4A and covers the period from January 1, 2018, to December 31, 2019, for item 4B.

The examination comprised a review of targeted market conduct activities. The market conduct activities reviewed include the Company's electronic application process and related market conduct activities and the Department's review of the Company's filed annual illustration certifications in relation to compliance with 11 NYCRR 53 (Insurance Regulation 74) and other statutory requirements.

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

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated on June 24, 1879, as an assessment life insurance company under the name of Bankers Life Association and was licensed to transact business in New York on February 25, 1883. On October 27, 1911, the Company was transformed into a mutual legal reserve life insurance company and the name was changed to Bankers Life Insurance Company. In 1986, Bankers Life Insurance Company changed its name to Principal Mutual Life Insurance Company.

Effective July 1, 1998, Principal Mutual Life Insurance Company formed a mutual holding company—Principal Mutual Holding Company—and converted to a stock life insurance company, the Company's present form. All the Company's shares were issued to Principal Mutual Holding Company and are owned through two newly formed intermediate holding companies, Principal Financial Group, Inc. and its direct subsidiary Principal Financial Services, Inc.

Effective October 26, 2001, the Company's ultimate parent, Principal Mutual Holding Company, converted to a stock company and merged into Principal Financial Services, Inc. The Company is now a wholly owned subsidiary of Principal Financial Services, Inc., which, in turn, is a wholly owned subsidiary of Principal Financial Group, Inc.

#### B. 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.

The Company is licensed to transact business in all 50 states, the District of Columbia, and the territory of Puerto Rico. In 2020, 14.8% of the life premiums, 9.1% of the annuity considerations, 3.8% of the accident and health premiums, and 6.7% of the deposit type funds were received from New York.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2020:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	14.8%	Maryland	17.0%
California	10.3	New York	9.1
Texas	7.0	California	8.3
Florida	6.0	Tennessee	6.4
Minnesota	<u>5.7</u>	Pennsylvania	<u>5.9</u>
Subtotal	43.8%	Subtotal	46.7%
All others	<u>56.2</u>	All others	<u>53.3</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>
<u>Accident and Health Insurance Premiums</u>		<u>Deposit Type Funds</u>	
California	13.0%	Iowa	43.7%
Texas	8.7	New York	6.7
Florida	6.1	California	4.5
Illinois	5.4	Michigan	2.9
Ohio	<u>4.4</u>	Tennessee	<u>2.7</u>
Subtotal	37.6%	Subtotal	60.5%
All others	<u>62.4</u>	All others	<u>39.5</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

The Company writes individual and group life, individual annuity, individual and group disability and group dental and vision insurance. The Company targets owners and executives of small and medium-sized businesses with fewer than 1,000 employees, and other individuals keen on building savings for retirement.

The Company sells its major products primarily through career agents, independent brokers and general agents. Banks and other contracted third-party entities sell the Company's fixed annuity products through their contracted employees or registered representatives. As of December 31, 2020, the Company had 40 career agents, 11,118 independent brokers and 40 general agents.

#### 4. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders to determine compliance with applicable statutes and regulations and the operating rules of the Company.

##### A. Electronic Application Process

The examiner reviewed various elements of the Company's electronic application processes for life insurance and annuities to determine compliance with applicable statutes and regulations and the operating rules of the Company.

##### 1. Advertising and Sales Activities

The examiner reviewed a sample of the Company's sales activities, solicitation and the replacement of insurance policies as part of the Company's electronic application process review.

Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) states:

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

(3) prior to the delivery of the life insurance policy or annuity contract, require an accurate and complete ‘Disclosure Statement’ signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to this Part, including the primary reason or reasons for recommending the new life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the applicant’s objectives;”

Section 243.2(b) of 11 NYCRR 243 (Insurance Regulation 152) states, in part:

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

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.”

The examiner’s review of a sample of 44 life insurance replacements revealed that for one policy (2.27%), the Disclosure Statement was not included in the policy file.

The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require an accurate and complete Disclosure Statement prior to the delivery of a life insurance policy, where a replacement has occurred or is likely to occur.

The Company also violated Section 243.2(b) of 11 NYCRR 243 (Insurance Regulation 152) by failing to maintain 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.

## 2. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms as part of the Company’s electronic application process review.

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. . . .”

The examiner’s review of a sample of 50 declined, withdrawn, incomplete applications and all policies issued but not taken out and a sample of 60 individual annuities issued during the year revealed that policy form AA 4936 CA-1 was used electronically and this form was not filed with and approved by the superintendent.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using an application form that was not filed with and approved by the superintendent, and by using a policy form in a manner that was not approved by the superintendent.

### 3. Option to Opt-Out

The examiner verified that the applicants had an opportunity to opt out of the electronic process as required by Section 309 of the New York State Technology Law.

## B. Annual Illustration Certifications

The examiner reviewed the marketing, illustration and annual reporting of universal life and variable universal life insurance policy forms that were sold during 2018 and 2019, and policy forms with policies in-force. Some of the violations occurred prior to 2018, dating back to when the policy form was initially opened to sales. The violations and the corrective action as proposed by the Company, where applicable, are summarized herein.

### 1. In-force Illustrations for Universal Life Policies

Section 53-3.6(c) of 11 NYCRR 53 (Insurance Regulation 74) states:

“Upon the request of the policyowner, the insurer shall furnish an in-force illustration of current and future benefits and values based on the insurer's present illustrated scale. This illustration shall comply with the requirements of Sections 53-3.2(a), 53-3.3(a) and 53-3.3(e) of this Subpart. No signature or other acknowledgment of receipt of this illustration shall be required.”

Section 53-3.2(a) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“An illustration used in the sale of a life insurance policy and subject to this Subpart shall satisfy the applicable requirements of this Subpart, be clearly labeled ‘life insurance illustration’ and contain the following basic information: . . .

(5) Generic name of policy, the company product name, if different, and form number;

Section 53-3.3(a) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“Format. A basic illustration shall conform with the following requirements: . . .

(11) Illustrations may show policy benefits and values in graphic or chart form in addition to the tabular form.

(12) Any illustration of non-guaranteed elements shall be accompanied by a statement indicating that:

(i) the benefits and values are not guaranteed;

(ii) the assumptions on which they are based are subject to change by the insurer; and

(iii) actual results may be more or less favorable.

(13) If the illustration shows that the premium payer may have the option to allow policy charges to be paid using non-guaranteed values, the illustration must clearly

disclose that a charge continues to be required and that, depending on actual results, the premium payer may need to continue or resume premium outlays. Similar disclosure shall be made for premium outlay of lesser amounts or shorter durations than the contract premium. If a contract premium is due, the premium outlay display shall not be left blank or show zero unless accompanied by an asterisk or similar mark to draw attention to the fact that the policy is not paid up. . .”

The examiner reviewed in-force illustrations for policy forms SF 725 NY, SF 725 NY U, SF 762 NY, SF 762 NY A U, SF 762 NY A, SF 762 NY A U, SF 791 NY, SF 791 NY U, SF 802 NY, SF 802 NY U, SF 802 NY A, SF 802 NY A U, SF 862 NY, SF 862 NY A U, SF 889 NY, SF 889 NY U, and SF 910 NY. The in-force illustrations did not contain the correct policy form number. In all cases, the “NY” suffix was omitted. As an example, for policy form SF 762 NY A U, the bottom left-hand corner of the in-force illustration showed “Reference Number SF762”. The suffix “NY A U” was not included. Similar findings were noted in the review of the in-force illustration of policy form SF 762 NY A.

The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in in-force illustrations of universal life policies.

The examiner recommended that the Company implement the necessary system programming changes to its illustration software so that the correct number of the approved form is printed on basic and in-force illustrations going forward.

The Company agreed to update its illustration software to reference the correct approved form number on all illustrations going forward.

With respect to the in-force illustration reviewed for policy form SF 725 NY, the policy was issued in February 2004 and the in-force illustration was prepared in February 2019, so the policy was in its 15th year. The tabular detail indicated a planned premium outlay equal to \$3,600 in year 16, with a reduction in the death benefit from \$430,833 to \$200,000 and no further premiums paid in years 17 and later. The tabular detail ends at attained age 69. Other examples of in-force illustrations that showed zero annual planned premium outlay were policy forms SF 762, SF 802 NY U, SF 889 NY, SF 889 NY U, and SF 910. There was no disclosure in the illustration with respect to the years in which there is no planned premium to alert the consumer to the fact that a charge continues to be required and that, depending on actual results, the premium

payer may need to continue or resume premium outlays. There also was no asterisk or similar denotation that the policy was paid up.

The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly disclose in universal life illustrations that a charge continues to be required and that, depending on actual results, the premium payer may need to continue or resume premium outlays; and by failing to alert the policyholder to the fact that the policy is not paid up. These disclosures should be proximate to the Tabular Detail depicting the stoppage of premiums when the planned annual premium for some or all years is zero.

The examiner recommended that the Company conduct a study of its illustration software, for both new issues and in-force, and identify all affected policy forms in which the illustration software does not include the important disclosure if there is a suspension in premium.

The Company completed a study of its illustration software, for both new issues and in-force and identified that all New York policy forms designated as illustrated products were impacted. The Company agreed to modify the Numeric Summary section of the illustrations, both basic and in-force, to include the disclosures pursuant to Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74), when appropriate. The total number of affected policies in-force on June 30, 2020 was 10,420.

## 2. Basic Illustrations

The examiner also reviewed basic illustrations of universal life policy forms SF 913 NY, SF 914 NY, and SF 978 NY.

Section 53-3.3(a) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“(a) An illustration used in the sale of a life insurance policy and subject to this Subpart shall satisfy the applicable requirements of this Subpart, be clearly labeled ‘life insurance illustration’ and contain the following basic information: . . .

(5) Generic name of policy, the company product name, if different, and form number; . . . ”

Section 53-3.3(b) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“Narrative summary. A basic illustration shall include the following: . . .

(5) a statement containing in substance the following: ‘This illustration assumes that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown. . . . ’”

Section 53-3.3 of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“(c) Numeric summary.

(1) Following the narrative summary, a basic illustration shall include a numeric summary of the death benefits and values and the premium outlay and contract premium, as applicable. For a policy that provides for a contract premium, the guaranteed death benefits and values shall be based on the contract premium. Except as provided in subdivision (g) of this Section, this summary shall be shown for at least policy years 5, 10 and 20 and at age 70, if applicable, on the three bases shown below. For multiple life policies the summary shall show policy years 5, 10, 20 and 30. The three bases are as follows:

(i) Policy guarantees;

(ii) Insurer's illustrated scale;

(iii) Insurer's illustrated scale used but with the non-guaranteed elements reduced as follows: .

(d) If coverage would cease prior to policy maturity or age 100, the year in which coverage ceases shall be identified for each of the three bases.”

Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) states:

“The numeric summary for a policy subject to Section 4232(b) of the Insurance Law and a cash value policy providing three basic components consisting of a base policy, a paid-up additions element and a term insurance element shall show, in addition to the policy durations set forth in subdivision (c) of this section, policy duration at age 85 and age 90 of the insured.”

Similar to the findings for the in-force illustrations covered in the previous section above, the basic illustrations for these policy forms also did not contain the correct policy form number. The basic illustration also refers to the policy form number as the “Reference Number”.

The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in in-force illustrations of universal life policy forms SF 913 NY, SF 914 NY, and SF 978 NY.

The Company agreed to correct both basic and in-force illustrations going forward to include the correct policy form number.

The examiner was not able to locate the required statement concerning non-guaranteed elements in the Narrative Summary section of the basic illustration, as required. A similar type of disclosure is required in close proximity to the illustration of non-guaranteed elements pursuant to Section 53-3.3(a)(12) of 11 NYCRR 53 (Insurance Regulation 74) and was printed on the bottom of the pages containing the Numeric Summary (or “Plan Summary”) and the Tabular Detail (or “Policy Illustration”).

The Company violated Section 53-3.3(b)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a statement in the Narrative Summary Section of universal life basic illustrations that “[t]his illustration assumes that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown”.

The Company agreed to add the statement addressing the illustrated non-guaranteed elements to the Narrative Summary (Features and Benefits) section of the basic illustration for the affected policy forms and all new policy forms approved for use in New York going forward.

The Numeric Summary (or “Plan Summary”) did not contain the premium, benefits and values for the insured at ages 85 and 90, as required. The Numeric Summary also did not include the year in which coverage ceases on each of the three bases.

The Company violated Section 53-3.3(c)(1)(d) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the year that coverage would terminate prior to maturity for each of the three bases in basic illustrations of universal life policy forms.

The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in universal life basic illustrations.

The Company agreed to add years in which coverage would terminate on a guaranteed, mid-point and current basis to the Numeric Summary in the basic illustration.

The Company also agreed to add the values that correspond with the required durations at age 85 and 90 to the Numeric Summary of the basic illustration.

Through June 30, 2020, the Company accepted 2,015 applications for the affected policy forms, SF 913 NY, SF 914 NY, and SF 978 NY.

### 3. Non-illustrated Universal Life Policy Forms – Actively Marketed in 2019 and 2020

Section 53-2.1(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“(a) The preliminary information shall be in writing and include, to the extent applicable, the following: . . .

(3) the date of the preliminary information and the generic name of the policy, the initial amount of insurance and the initial annual premium for the base policy and each rider, if applicable;”

Section 53-2.2(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“(a) A policy summary shall include the following: . . .

(3) the full name and home office, administrative office or branch or agency office address of the insurer in whose name the life insurance policy is to be or has been written;”

For policy forms SF 889 NY, SF 889 NY U, SF 910 NY, SF 910 NY U, SF 999 NY SF 999 NYU, SF 1002 NY, and SF 1002 NY U, while the preliminary information for these policy forms and their unisex versions include the marketing name (for example, Survivorship Universal Life Protector II), the policy forms did not include the generic name.

The Company violated Section 53-2.1(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the generic name of the policy in the preliminary information for non-illustrated universal life policy forms.

The Company agreed to add the generic product name to both the Preliminary Information and the cover page of the Policy Summary (Statement of Policy Cost and Benefit Information) for the affected policy forms.

In addition, the Policy Summary or Statement of Policy Cost and Benefit Information for these policy forms did not show the home office or administrative office of the insurer, the policy forms included the name of the Company, city and state only. Also, the pagination of the policy summary was incorrect.

The Company violated Section 53-2.2(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the home or administrative office address of the Company in the Policy Summary for non-illustrated universal life policy forms.

The Company agreed to add the Company’s home office address (as a footer) to the Preliminary Information and the Policy Summary going forward.

As of June 30, 2020, the Company received 8,658 applications and issued 5,057 policies for the affected policy forms.

Section 3209(b)(1)(B) of the New York Insurance Law states, in part:

“No policy of life insurance shall be delivered or issued for delivery in this state after the applicable effective date, as set forth in subsection (n) of this section, unless the prospective purchaser has been provided with the following: . . .

(B) a policy summary upon delivery of the policy.”

For policy forms SF 999 NY and SF 1002 NY, the Company did not provide a policy summary example for either policy form in the June 30, 2020, response. The examiner inquired

about the omission and the Company explained that the policy summaries were not delivered with the policy at issue in error. The Company did not generate and deliver the policy summary to the affected New York policyholders until June 16, 2020, and July 14, 2020, respectively.

The Company violated Section 3209(b)(1)(B) of the New York Insurance Law by failing to provide a policy summary upon delivery of the policy.

When implementing the two products during 2019, the policy summaries were inadvertently omitted from the list of documents to be produced with the policy packet. The Company corrected the system programming effective June 6, 2020, so that the policy summary is now generated in the policy packet and delivered with the policy.

As of July 15, 2020, there were 97 policies in force for these products.

4. Variable Universal Life Policy Forms SF 837 NY B Rev 2013 and SF 851 NY A/SF 851 NY A U

Section 3209 of the New York Insurance Law, states in part:

“(b)(1) No policy of life insurance shall be delivered or issued for delivery in this state after the applicable effective date, as set forth in subsection (n) of this section, unless the prospective purchaser has been provided with the following:

(A) a copy of the most recent buyer's guide and the preliminary information required by subsection (d) of this section, at or prior to the time an application is taken . . . and (B) a policy summary upon delivery of the policy . . .

(l) An insurer of any life insurance policy or annuity contract subject to this section shall notify the superintendent whether its policies or contract forms have been or will be marketed with or without an illustration. For those policies and contracts marketed with an illustration which complies with the regulations promulgated pursuant to subsection (k) of this section, no preliminary information or policy summary shall be required. For those policies which are not marketed with an illustration, the preliminary information and policy summary shall be provided pursuant to the provisions of this section . . .”

The Department published guidance in its Individual Variable Life Insurance Product Outline (March 8, 2013) regarding compliance with Section 3209 of the New York Insurance Law for variable life products, including variable universal life policies. An insurer must identify whether the policy form is to be marketed with or without an illustration per Section 3209(l) of the New York Insurance Law. Section 3209 requires an insurer to furnish preliminary information and a policy summary for variable life policies. However, if an insurer chooses to use a sales

illustration in lieu of providing preliminary information and a policy summary as permitted by Section 3209(l) of the New York Insurance Law , then the insurer should comply with all the applicable provisions of 11 NYCRR 53 (Insurance Regulation 74) pursuant to Section 3209(k) of the New York Insurance Law. If the policy will be marketed with an illustration intended to comply with Insurance Regulation 74, in lieu of complying the with preliminary information and policy summary requirements of Section 3209, the certification required by Section 53-3.7(d) of 11 NYCRR 53 (Insurance Regulation 74) must be submitted. The Company should include variable life policies on its annual certifications going forward and identify whether or not the policy form is illustrated or non-illustrated.

The Company violated Sections 3209(b)(1)(A) and (B) of the New York Insurance Law by failing to provide preliminary information and policy summary benefit statements to variable universal life policyholders that conform to Sections 53-2.1 and 53-2.2 of 11 NYCRR 53 (Insurance Regulation 74).

The Company violated Section 3209(l) of the New York Insurance Law by its overall failure to comply with applicable sections of Insurance Regulation 74 because the Company used a non-conforming illustration to market the policies.

Section 53-3.2(a) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“An illustration used in the sale of a life insurance policy and subject to this Subpart shall satisfy the applicable requirements of this Subpart, be clearly labeled ‘life insurance illustration’ and contain the following basic information: . . .  
(5) Generic name of policy, the company product name, if different, and form number; . . .”

The examiner reviewed the two documents provided by the Company for policy forms SF 837 NY B Rev 2013 and SF 851 NY A in relation to compliance with Subpart 53-3 of 11 NYCRR 53 (Insurance Regulation 74). Page 1 of the illustrations for policy forms SF 837 NY B Rev 2013 and SF 851 NY A states, “This illustration demonstrates how Principal VUL-Business works using varying assumptions . . .”, but it is not clearly labeled, “LIFE INSURANCE POLICY ILLUSTRATION”, as required.

The Company violated Section 53-3.2(a) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly label the illustrations used for policy forms SF 837 NY B Rev 2013 and SF 851 NY A.

As of January 21, 2022, the Company issued 238 policies under policy form SF 837 NY B Rev 2013, 718 policies under policy form SF 851 NY A, and 13 policies under policy form SF 851 NY A U.

As with the illustrations for the Company's other products that have been reviewed, the illustrations did not contain the correct policy form number. In addition to the "NY" suffix being omitted, the remainder of the form numbers "B Rev 2013" or "A", respectively, were also not shown.

The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in illustrations of policy forms SF 837 NY B Rev 2013 and SF 851 NY A.

Section 53-3.3(a) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“(a) Format. A basic illustration shall conform with the following requirements . . .

(7) If the illustration shows any non-guaranteed elements, they cannot be based on a scale more favorable to the policyowner than the insurer's illustrated scale at any duration. These elements shall be clearly labeled non-guaranteed.

(8) The guaranteed elements, if any, shall be shown before corresponding non-guaranteed elements and shall be specifically referred to on any page of an illustration that shows or describes only the non-guaranteed elements (e.g., ‘see page one for guaranteed elements’) . . .

(10) The value available upon surrender shall be identified by the name the value is given in the policy being illustrated and shall be the amount available to the policyowner in a lump sum after deduction of surrender charges, policy loans and policy loan interest, as applicable . . .

(13) If the illustration shows that the premium payer may have the option to allow policy charges to be paid using non-guaranteed values, the illustration must clearly disclose that a charge continues to be required and that, depending on actual results, the premium payer may need to continue or resume premium outlays. Similar disclosure shall be made for premium outlay of lesser amounts or shorter durations than the contract premium. If a contract premium is due, the premium outlay display shall not be left blank or show zero unless accompanied by an asterisk or similar mark to draw attention to the fact that the policy is not paid up . . .”

There are two columns labeled “Current Charges” in the Numeric Summary, the terms “not guaranteed” did not appear in close proximity to the “Current Charges” columns. Similarly, the terms “not guaranteed” were not included on the Tabular Detail pages of the illustration showing current assumptions. The only alert to the consumer of this nature appears at the very bottom of

the Tabular Detail page showing current assumptions which includes the phrase, “Illustrated values are not guaranteed . . .”. The phrase is not prominent or conspicuous.

The Company violated Section 53-3.3(a)(7) of 11 NYCRR 53 (Insurance Regulation 74) by failing to label non-guaranteed elements as “non-guaranteed” in the Numeric Summary and Tabular Detail sections of the illustration for variable universal life policy forms SF 837 NY B Rev 2013 and SF 851 NY A.

As of January 21, 2022, the Company issued 238 policies under policy form SF 837 NY B Rev 2013 and 718 policies under policy form SF 851 NY A.

The illustration of policy form SF 837 NY B Rev 2013 reviewed by the examiner depicted a suspension of premium or an annualized premium equal to zero in policy years 11 and later. The examiner was unable to locate a disclosure that a charge continues to be required and that depending on actual results, the premium payer may need to continue or resume premium outlays; and that the policy is not paid up.

The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a disclosure in variable universal life illustrations when there is a suspension of planned premium that a charge continues to be required and reduces the policy values; and depending on actual results, the premium payer may need to continue or resume premium outlays; and that the policy is not paid up.

As of January 21, 2022, the Company issued 238 policies under policy form SF 837 NY B Rev 2013.

Section 53-3.3(c) of 11 NYCRR 53 (Insurance Regulation 74) states, in part:

“Numeric summary.

(1) Following the narrative summary, a basic illustration shall include a numeric summary of the death benefits and values and the premium outlay and contract premium, as applicable. For a policy that provides for a contract premium, the guaranteed death benefits and values shall be based on the contract premium. Except as provided in subdivision (g) of this Section, this summary shall be shown for at least policy years 5, 10 and 20 and at age 70, if applicable, on the three bases shown below. For multiple life policies the summary shall show policy years 5, 10, 20 and 30. The three bases are as follows:

- (i) Policy guarantees;
- (ii) Insurer’s illustrated scale;
- (iii) Insurer’s illustrated scale used but with the non-guaranteed elements reduced as follows: . . .”

Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) states:

“The numeric summary for a policy subject to Section 4232(b) of the Insurance Law and a cash value policy providing three basic components consisting of a base policy, a paid-up additions element and a term insurance element shall show, in addition to the policy durations set forth in subdivision (c) of this section, policy duration at age 85 and age 90 of the insured.”

The Numeric Summary (or “Plan Summary”) in the basic illustration of policy form SF 837 NY B Rev 2013 included the annualized premium outlay, policy values and benefits for the insured for policy years 5, 10, and 20 and at ages 70 and 85, but not at age 90. The Numeric Summary in the basic illustration of policy form SF 851 NY A included the annualized premium outlay, policy values and benefits for the insured for policy years 5, 10, and 20 and at age 70, but not at ages 85 and 90.

The Numeric Summary for both forms SF 837 NY B Rev 2013 and SF 851 NY A did not include median assumptions. Median scale cost factors are supposed to be no less than ½ the sum of the corresponding guaranteed and current scale cost factors.

The Company violated Section 53-3.3(c)(1)(iii) by failing to provide the annual premium outlay, benefits and values using a median assumed rate of return and median policy cost assumptions.

The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in the basic illustrations of variable universal life policy forms.

As of June 30, 2020, the Company accepted 1,205 applications for the policy forms SF 837 NY B Rev 2013, SF851 NY A, and SF 851 NY A U in which a non-compliant illustration was presented to a New York consumer. Of these, 969 policies were issued.

The Company has elected, going forward, not to market its variable universal life products with an illustration, instead the Company is updating its software to comply with the preliminary information and policy summary requirements in Section 53-2.1 and Section 53-2.2 of 11 NYCRR 53 (Insurance Regulation 74).

## 5. Annual Reports

Section 4221(a)(7) of the New York Insurance Law states, in part:

“That the company shall deliver . . . and shall mail to each such holder at least once each policy year or within sixty days after the end of a policy year a statement as of a date during such year as to the death benefit, cash surrender value and loan value under the policy. . .”

The annual reports reviewed by the examiner did not comply with Section 4221(a)(7) of the New York Insurance Law. The annual reports contained the amount of any outstanding loans against the policy, where applicable, but the annual reports did not contain the maximum loan value available under each policy.

The Company violated Section 4221(a)(7) of the New York Insurance Law by failing to specify the loan value available to the policyholder under the policy in the annual report.

The Company agreed to add the loan value available to the policyholder under the policy to the annual report.

As of June 30, 2020, the Company identified 33,881 policies in force that are subject to Section 4232(b) of the New York Insurance Law in which the policyholder did not receive the loan value available to them under their policy in the annual report.

## 5. SUMMARY AND CONCLUSIONS

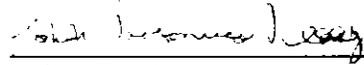
Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require an accurate and complete Disclosure Statement prior to the delivery of a life insurance policy, where a replacement has occurred or is likely to occur.	9
B	The Company also violated Section 243.2(b) of 11 NYCRR 243 (Insurance Regulation 152) by failing to maintain 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.	9
C	The Company violated Section 3201(b)(1) of the New York Insurance Law by using an application form that was not filed with and approved by the superintendent, and by using a policy form in a manner that was not approved by the superintendent.	9
D	The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in in-force illustrations of universal life policies.	11
E	The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly disclose in universal life illustrations that a charge continues to be required and that, depending on actual results, the premium payer may need to continue or resume premium outlays; and by failing to alert the policyholder to the fact that the policy is not paid up. These disclosures should be proximate to the Tabular Detail depicting the stoppage of premiums when the planned annual premium for some or all years is zero.	12
F	The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in in-force illustrations of universal life policy forms SF 913 NY, SF 914 NY, and SF 978 NY.	13

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The Company violated Section 53-3.3(b)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a statement in the Narrative Summary Section of universal life basic illustrations that “[t]his illustration assumes that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown”.	14
H	The Company violated Section 53-3.3(c)(1)(d) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the year that coverage would terminate prior to maturity for each of the three bases in basic illustrations of universal life policy forms.	14
I	The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in universal life basic illustrations.	14
J	The Company violated Section 53-2.1(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the generic name of the policy in the preliminary information for non-illustrated universal life policy forms.	15
K	The Company violated Section 53-2.2(a)(3) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the home or administrative office address of the Company in the Policy Summary for non-illustrated universal life policy forms.	15
L	The Company violated Section 3209(b)(1)(B) of the New York Insurance Law by failing to provide a policy summary upon delivery of the policy.	16
M	The Company violated Sections 3209(b)(1)(A) and (B) of the New York Insurance Law by failing to provide preliminary information and policy summary benefit statements to variable universal life policyholders that conform to Sections 53-2.1 and 53-2.2 of 11 NYCRR 53 (Insurance Regulation 74).	17
N	The Company violated Section 3209(l) of the New York Insurance Law by its overall failure to comply with applicable sections of Insurance Regulation 74 because the Company used a non-conforming illustration to market the policies.	17
O	The Company violated Section 53-3.2(a) of 11 NYCRR 53 (Insurance Regulation 74) by failing to clearly label the illustrations used for policy forms SF 837 NY B Rev 2013 and SF 851 NY A.	17

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
P	The Company violated Section 53-3.2(a)(5) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include the correct policy form number in illustrations of policy forms SF 837 NY B Rev 2013 and SF 851 NY A.	18
Q	The Company violated Section 53-3.3(a)(7) of 11 NYCRR 53 (Insurance Regulation 74) by failing to label non-guaranteed elements as “non-guaranteed” in the Numeric Summary and Tabular Detail sections of the illustration for variable universal life policy forms SF 837 NY B Rev 2013 and SF 851 NY A.	19
R	The Company violated Section 53-3.3(a)(13) of 11 NYCRR 53 (Insurance Regulation 74) by failing to include a disclosure in variable universal life illustrations when there is a suspension of planned premium that a charge continues to be required and reduces the policy values; and depending on actual results, the premium payer may need to continue or resume premium outlays; and that the policy is not paid up.	19
S	The Company violated Section 53-3.3(c)(1)(iii) by failing to provide the annual premium outlay, benefits and values using a median assumed rate of return and median policy cost assumptions.	20
T	The Company violated Section 53-3.3(g) of 11 NYCRR 53 (Insurance Regulation 74) by failing to show the annual premium, policy values and benefits of the policy for the insured at ages 85 and 90 in the basic illustrations of variable universal life policy forms.	20
U	The Company violated Section 4221(a)(7) of the New York Insurance Law by failing to specify the loan value available to the policyholder under the policy in the annual report.	21

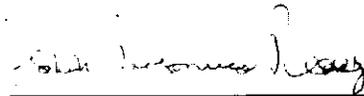
Respectfully submitted,



Ashok Reddy  
Senior Examiner

STATE OF NEW YORK     )  
  )SS:  
COUNTY OF NEW YORK    )

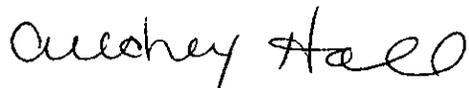
Ashok Reddy, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.



Ashok Reddy

Subscribed and sworn to before me

this 23rd day of January, 2023



AUDREY HALL  
Notary Public, State of New York  
No. 01HA6274900  
Qualified in Kings County  
Commission Expires January 28, 2025

Respectfully submitted,

\_\_\_\_\_  
/s/

Christine Mavour  
Associate Insurance Examiner

STATE OF NEW YORK     )  
  ) SS:  
COUNTY OF NEW YORK )

Christine Mavour, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_  
/s/

Christine Mavour

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_

***APPOINTMENT NO. 32310***

***NEW YORK STATE***

***DEPARTMENT OF FINANCIAL SERVICES***

*I, **ADRIENNE A. HARRIS**, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***ASHOK REDDY***

*as a proper person to examine the affairs of the*

***PRINCIPAL LIFE INSURANCE COMPANY***

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

***COMPANY***

*with such other information as he shall deem requisite.*

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

*this 1st day of October, 2021*

***ADRIENNE A. HARRIS***  
*Acting Superintendent of Financial Services*

*By:*

*mark mcLeod*

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***MARK MCLEOD***  
***DEPUTY CHIEF - LIFE BUREAU***

