



MARKET CONDUCT REPORT ON EXAMINATION

OF THE

STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY

AS OF DECEMBER 31, 2017

EXAMINER:

ADELIA GBADAMOSI

DATE OF REPORT:

MARCH 29, 2019

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

December 11, 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. 31779, dated May 31, 2018, and annexed hereto, an examination has been made into the condition and affairs of State Farm Life and Accident Assurance Company, hereinafter referred to as “the Company,” at its home office located at One State Farm Plaza, Bloomington, Illinois 61710.

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 violations and recommendations contained in this report are summarized below.

- The Company violated Section 2112(d) of the New York Insurance Law by failing to file with the superintendent a statement of the facts relative to such termination for cause, within 30 days. (See item 4A of this report.)
- The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, and vii and Second Amendment for items v, vi, and viii by failing to require an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendix 10B and Appendix 10A for item iv, and by not stating the primary reason or reasons for recommending the new annuity contract and why the existing annuity contract cannot meet the applicant's objectives. (See item 4A of this report.)
- The Company violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, iv, and vii by failing to examine the Disclosure Statement, and ascertain that it is accurate and meets the requirement of the Insurance Law and regulations promulgated thereunder. (See item 4A of this report.)
- The Company violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60, Second Amendment) for items v and vi by failing to reject the application within 10 days of receipt of the application because the required forms were not accurate and did not meet the requirements of the Regulation. (See item 4A of this report.)
- The Company violated Section 224.4(a)(1) of 11 NYCRR 224 (Insurance Regulation 187) by failing to inform the consumer of all the various features of the annuity contract. (See item 4A of this report.)
- The Company violated Section 51.6(b)(5) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to provide documentation that the completed Disclosure Statement was delivered to the applicant no later than the time of delivery of the policy. (See item 4A of this report.)
- The Company violated Section 51.6(b)(6) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to furnish the insurer whose coverage is being replaced the

completed Disclosure Statement and the list of sales material used in the sale of the policy within 10 days of delivery of the policy. (See item 4A of this report.)

- The Company violated Section 51.6(d) of 11 NYCRR 51 (Insurance Regulation 60, Second and Third Amendments) for items xi and xii by failing to provide to the policyowner the right to return the policy or contract within 60 days from the date of delivery of the policy or contract and receive an unconditional full refund of all premiums paid on it. (See item 4A of this report.)
- The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to include in the policy a 60-day free-look provision for the replacement policy. (See item 4A of this report.)
- The examiner recommends that the Company file an endorsement with the Department specifying a 60-day free-look provision for replacement contracts or in its Circular Letter No. 6 (2004) filing, the Company bracket the free-look provision and provide an explanation in its memorandum of variable material as required. (See item 4A of this report.)
- The examiner recommends that the Company strengthen its replacement process to ensure all necessary replacement documentation is received and completed accurately before issuing contracts. (See item 4A of this report.)
- The Company violated Section 3207(b) of the New York Insurance Law by issuing policies to juveniles that exceeded the maximum face amount permitted. (See item 4B of this report.)
- The Company violated Section 3209(b)(1)(A) of the New York Insurance Law by failing to provide the prospective purchaser with the preliminary information at or prior to the time the application was taken. (See item 4B of this report.)
- The Company violated Section 3227(c) of the New York Insurance Law by failing to pay interest on surrender transactions when the surrender request took more than 10 working days to process and interest was at least \$25. (See item 4C of this report.)
- The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its claim forms. (See item 4C of this report.)
- The Company violated Section 3211(b)(2) of the New York Insurance Law by failing to include the required language in its lapse warning notices. (See item 4C of this report.)

- The Company violated Section 3240(h)(7) of the New York Insurance Law and Section 226.5(a)(2)(ii) of 11 NYCRR 226 (Insurance Regulation 200, Third Amendment) by failing to report to the superintendent through a lost policy finder, benefits paid within 30 days of the final disposition of the requests. (See item 4C of this report.)

2. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2011, through December 31, 2017. As necessary, the examiner reviewed matters occurring subsequent to December 31, 2017, but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of market conduct activities and utilized the National Association of Insurance Commissioners' *Market Regulations Handbook* or such other examination procedures, as deemed appropriate, in such review.

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

State Farm Life and Accident Assurance Company was incorporated as a stock life insurance company under the laws of Illinois on October 21, 1960, and commenced business on July 1, 1961. The Company was licensed to do business in New York on March 6, 1963.

The Company is a wholly owned subsidiary of State Farm Mutual Automobile Insurance Company (hereinafter referred to as “the Mutual Company”), a mutual insurance company domiciled in Illinois. Other life insurance affiliates under the Mutual Company include State Farm Life Insurance Company and State Farm Annuity and Life Insurance Company. Neither is licensed in New York State.

B. Territory and Plan of Operation

The Company is authorized to write life insurance and annuities as defined in paragraphs 1, and 2 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in New York and Wisconsin. In 2017, 59.1% of life premiums and 38.8% of annuity considerations were received from New York. Policies are written on a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2017:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	59.1%	New York	38.8%
Wisconsin	27.4	Wisconsin	58.2
Subtotal	86.5%	Subtotal	97.0%
All others	<u>13.5</u>	All others	<u>3.0</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

The Company’s principal lines of business sold during the examination period were individual life insurance and annuity products. The products sold during the examination period include whole life, term life, universal life and group life products as well as deferred and immediate annuity products.

The Company's agency operations are conducted on an independent contractor, exclusive State Farm agents' system.

4. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and sales activities of the agency force, including trade practices, solicitation and the replacement of insurance policies.

1. Section 2112 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, . . . or insurance producer doing business in this state shall, upon termination of the certificate of appointment as set forth in subsection (a) of this section of any insurance agent, . . . licensed in this state, or upon termination for cause for activities as set forth in subsection (a) of section two thousand one hundred ten of this article, of the certificate of appointment, of employment, of a contract or other insurance business relationship with any insurance producer, file with the superintendent within thirty days a statement, in such form as the superintendent may prescribe, of the facts relative to such termination for cause. The insurer, . . . or insurance producer shall provide, within fifteen days after notification has been sent to the superintendent, a copy of the statement filed with the superintendent to the insurance producer at his, or her or its last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier. Every statement made pursuant to this subsection shall be deemed a privileged communication”.

In 10 out of 28 files reviewed (35.7%), the Company did not file with the superintendent a statement of the facts relative to such termination for cause, within the stipulated 30 days.

The Company violated Section 2112(d) of the New York Insurance Law by failing to file with the superintendent a statement of the facts relative to such termination for cause, within 30 days.

2. Section 51.6 of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) states, in part:

“(a) Each insurer shall: . . .

(2) require with or as part of each application, a completed “Definition of Replacement” signed by the applicant and insurance agent or broker;

(3) maintain signed and completed copies of the ‘Definition of Replacement’ in accordance with Part 243 of this Title (Regulation 152); and . . .

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

(2) require with or as part of each application a copy of the sales material including any proposal, used in the sale of the life insurance policy . . ., and proof of receipt by the applicant of the ‘*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies . . .’;”

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

(4) examine the sales material, including any proposal, used in the sale of the life insurance policy . . ., and the “Disclosure Statement”, and ascertain that they are accurate and meet the requirements of the Insurance Law and regulations promulgated thereunder;

(5) deliver the completed ‘Disclosure Statement’ to the policy or contract holder no later than the time of delivery of the policy or contract. . . .

(6) within ten days of the delivery of the life insurance policy or annuity contract, furnish to the insurer that issued the coverage that is being replaced the completed ‘Disclosure Statement’ and a list of the sales material, including any proposal, used in the sale of the life insurance policy or annuity contract . . .

(d) Any insurer that issues a replacement life insurance policy or annuity contract shall provide to the policy or contract owner the right to return the policy or contract within 60 days from the date of delivery of such policy or contract and receive an unconditional full refund of all premiums or considerations paid on it, . . .”

- Section 51.6 of 11 NYCRR 51 (Insurance Regulation 60, Second Amendment) states, in part:

“(a) Each insurer shall:

(1) Inform and train its agents with respect to the requirements of this Part;

(2) Require with or as part of each application, a completed ‘Definition of Replacement’ signed by the applicant and agent or broker;

(3) Maintain signed and completed copies of the ‘Definition of Replacement’ for six calendar years or until after the filing of the report on examination in which the transaction was subject to review. . .

(b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy 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 . . . and proof of receipt by the applicant of the '*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies. . .' 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;'. . .
 - (6) Where the required forms are received with the application and found to be in compliance with this Part, maintain copies of: any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; proof of receipt by the applicant of the '*IMPORTANT*' Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts;' the signed and completed 'Disclosure Statement; and the notification of replacement to the insurer whose life insurance policy or annuity contract is to be replaced indexed by agent and broker, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later;
 - (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 therefor. 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.
- (c) Where a replacement has occurred or is likely to occur, the insurer whose life insurance policy or annuity contract is to be replaced shall:
- (1) Upon notice that its existing coverage may be replaced, maintain copies of such notification, indexed by insurer notifying it of such replacement, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later; and
 - (2) Within twenty days of receipt of a request from a licensee of the Department, for information necessary for completion of the 'Disclosure Statement' with respect to the life insurance policy or annuity contract proposed to be replaced, together with proper authorization from the applicant, furnish the required information simultaneously to the agent or broker of record of the existing life insurance policy

or annuity contract being replaced and the agent or broker and insurer replacing the life insurance policy or annuity contract. This information shall include the insurer's customer service telephone number, the current status of the existing life insurance policy or annuity contract and the currently illustrated dividends/interest and other non-guaranteed costs and benefits.

(d) Any insurer that issues a replacement life insurance policy or annuity contract shall provide to the policy or contract owner the right to return the policy or contract within sixty days from the date of delivery of such policy or contract and receive an unconditional full refund of all premiums or considerations paid on it, . . .

(e) . . . 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 Financial Services 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 Financial Services within 30 days of such change.”

Section 51.7(a) of 11 NYCRR 51 (Insurance Regulation 60, Second Amendment) states, in part:

“No insurer or agent shall:

(1) make or give any deceptive or misleading information in the ‘Disclosure Statement’ or in any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; . . .”

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

“(1) 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. . . .”

Section 224.4 of 11 NYCRR 224 (Insurance Regulation 187) states, in part:

“(a) In recommending to a consumer the purchase or replacement of an annuity contract, the insurance producer, or the insurer where no insurance producer is involved, shall have reasonable grounds for believing that the recommendation is suitable for the consumer on the basis of the facts disclosed by the consumer as to the consumer’s investments and other insurance policies or contracts and as to the consumer’s financial situation and needs, including the consumer’s suitability information, and that there is a reasonable basis to believe all of the following:

(1) the consumer has been reasonably informed of various features of the annuity contract, such as the potential surrender period and surrender charge, availability of cash value, potential tax implications if the consumer sells, surrenders or annuitizes the annuity contract, death benefit, mortality and expense fees,

investment advisory fees, potential charges for and features of riders, limitations on interest returns, guaranteed interest rates, insurance and investment components, and market risk; . . .”

The examiners reviewed a sample of 20 external life replacement transactions, 10 internal life replacement transactions, 26 external annuity replacements transactions and 14 internal annuity replacement transactions that were processed during the examination period. Of the 40 annuity replacements reviewed 18 were subject to Insurance Regulation 60, Second Amendment and 22 were subject to Insurance Regulation 60, Third Amendment. These transactions were reviewed for compliance with Insurance Regulation 60, the Company’s own written replacement procedures, Insurance Regulation 187 and the New York Insurance Law. The examiner noted the following deviations from the Regulations and Law:

- i. In 5 out of 22 annuity replacement transactions reviewed, that were subject to the Insurance Regulation, Third Amendment (22.7%), the Company failed to provide support for the values listed on the Disclosure Statement for either the existing or proposed contract. In the case of contract #1784250, the values are the same for both the proposed and the existing contracts.
- ii. In 4 out of 22 annuity replacement transactions reviewed, that were subject to the Insurance Regulation, Third Amendment (18.2%), the values on the Disclosure Statement do not conform to the values in the illustration for the proposed contract or those of the existing contract.
- iii. In 2 out of 22 annuity replacement transactions reviewed (9.1%), the surrender charges for either the existing or proposed contract were not disclosed correctly on part four of the Agent’s Statement section of the Disclosure Statement.
- iv. In 12 out of 30 life replacement transactions reviewed (40%), the Agent’s Statement section of the Disclosure Statement contained responses that provided inaccurate information, particularly the failure to disclose in question #3 that the contestability and suicide clauses of the existing coverage were either expired, or for the instances in which the existing policy has been in force for less than two years failure to disclose that the clauses were partially expired.
- v. In 3 out of 18 annuity replacement transactions reviewed, (16.7%), the Company provided Disclosure Statements, the Agent Statements of which provided

- inadequate responses to the questions such as the reason for recommending the new product and the reason the existing contract cannot meet the applicant's objective.
- vi. In 6 out of 18 annuity replacement transactions reviewed, that were subject to the Insurance Regulation, Second Amendment (33.3%), the Company provided Disclosure Statements which contained several inaccuracies, such as (1) the agent's stating N/A on death benefits, surrender value etc. for both products although he indicated that approximations were used for the replaced product; (2) listing the values for the proposed product as \$0; (3) listing the proposed product values as N/A; (4) putting figures on the variable annuity section of the Disclosure Statement instead of the fixed annuity section although the product is a fixed annuity; (5) using both variable and fixed values for the proposed fixed single premium annuity product; and (6) using the variable section of the Disclosure Statement for both products although the proposed product is a fixed annuity and the existing product is an endowment policy (The Disclosure Statement (Appendix 10A) should be used instead).
- vii. The examiner's sample contained four deferred annuities which were replaced under Insurance Regulation 60, Third Amendment by single premium immediate annuities. In all four cases, the Company (a) failed to inform the existing companies that the proposed contract would be an immediate annuity contract; (b) failed to request the income stream available through the annuitization of the existing contract; (c) failed to provide a comparison of the payout options for the guaranteed income available under the proposed immediate annuity and the deferred annuity; (d) failed to indicate in the Agent's Statement of the Disclosure Statement that the proposed contract cannot be surrendered for a lump sum cash value; (e) failed to indicate in the Agent's Statement section of the Disclosure Statement that the existing deferred annuity could be annuitized for monthly payments as an option instead of purchasing a new immediate annuity; (f) accepted Disclosure Statements with the replaced company's account values listed as a lump sum for cash surrender values and death benefits rather than a monthly payment amount that the annuitant would receive through annuitization of the deferred

annuity; and (g) accepted Disclosure Statements which did not provide the amount of guaranteed income available under the existing deferred annuity contract.

- viii. The examiner's sample contained three deferred annuities which were replaced under Regulation 60, Second Amendment, by single premium immediate annuities. In all three cases, the Company failed to (a) inform the existing companies that the proposed contract would be an immediate annuity contract; (b) failed to request the income stream available through the annuitization of the existing contract; (c) failed to provide a comparison of the payout options for the guaranteed income available under the proposed immediate annuity and the deferred annuity; (d) failed to indicate in the Agent's Statement of the Disclosure Statement that the proposed contract cannot be surrendered for a lump sum cash value; (e) failed to indicate in the Agent's Statement of the Disclosure Statement that the existing deferred annuity could be annuitized for monthly payments as an option instead of purchasing a new immediate annuity; (f) accepted cash surrender values and death benefits for the existing deferred annuities instead of the guaranteed income available if the applicant annuitized the existing contracts; (g) accepted Disclosure Statements with the replaced company's account values listed as a lump sum for cash surrender values and death benefits rather than a monthly payment amount that the annuitant would receive through annuitization of the deferred annuity; and (h) accepted Disclosure Statements which did not provide the amount of guaranteed income available under the existing deferred annuity contracts.

The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, and vii and Second Amendment for items v, vi, and viii by failing to require an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendix 10B and Appendix 10A for item iv, and by not stating the primary reason or reasons for recommending the new annuity contract and why the existing annuity contract cannot meet the applicant's objectives.

The Company violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, iv, and vii by failing to examine the Disclosure Statement,

and ascertain that it is accurate and meets the requirement of the Insurance Law and regulations promulgated thereunder.

The Company violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60, Second Amendment) for items v and vi by failing to reject the application within 10 days of receipt of the application because the required forms were not accurate and did not meet the requirements of the Regulation.

The Company violated Section 224.4(a)(1) of 11 NYCRR 224 (Insurance Regulation 187) for items vii and iii above by failing to inform the consumer of all the various features of the annuity contract.

- ix. In 6 out of 30 life replacement transactions reviewed (20%), the policy delivery receipt was not located in the file.

The Company violated Section 51.6(b)(5) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to provide documentation that the completed Disclosure Statement was delivered to the applicant no later than the time of delivery of the policy.

- x. In 4 out of 30 life replacement transactions reviewed (13.33%), the file did not contain sufficient evidence to determine that the Company furnished to the insurer whose coverage is being replaced the completed Disclosure Statement and the list of sales material, including any proposal, used in the sale of the life insurance policy with an offer to provide a copy of such material within 10 days of the request for the material.

The Company violated Section 51.6(b)(6) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to furnish the insurer whose coverage is being replaced the completed Disclosure Statement and the list of sales material used in the sale of the policy within 10 days of delivery of the policy.

- xi. In 14 out of 30 life replacement transactions reviewed (46.7%), the Company issued policies which provided to the policy owner the right to return the policy within 30

days instead of 60 days from the date of delivery of such policy and receive an unconditional refund of all premiums or considerations paid on it.

- xii. In 23 out of 40 annuity replacement transactions reviewed (57.5%), the Company issued annuity contracts which provided to the owner the right to return the contract within 30 days instead of 60 days from the date of delivery of such contract and receive an unconditional refund of all premiums or consideration paid on it.

The Company violated Section 51.6(d) of 11 NYCRR 51 (Insurance Regulation 60, Second and Third Amendments) for items xi and xii by failing to provide to the policyowner the right to return the policy or contract within 60 days from the date of delivery of the policy or contract and receive an unconditional full refund of all premiums paid on it.

The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to include in the policy a 60-day free-look provision for the replacement policy.

The Company also violated Section 3201(b)(1) of the New York Insurance Law by including a 60-day free-look provision in the Disclosure Statement and the Important Notice while failing to include the provision in its policy form by bracket or by filing an endorsement to its policy form.

The examiner recommends that the Company file an endorsement with the Department specifying a 60-day free-look provision for replacement contracts or in its Circular Letter No. 6 (2004) filing, the Company bracket the free-look provision and provide an explanation in its memorandum of variable material as required.

The examiner recommends that the Company strengthen its replacement process to ensure all necessary replacement documentation is received and completed accurately before issuing contracts.

B. Underwriting and Policy Forms

The examiner reviewed a sample of underwriting files, both issued and declined, and the applicable policy forms.

1. Section 3207(b) of the New York Insurance Law states, in part:

“An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months,

provided that such policy or policies are effectuated by a person or persons having an insurable interest in the life of such minor or by a person or persons upon whom such minor is dependent for support and maintenance and provided further that an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of fifty thousand dollars or the limit of fifty per centum or the limit of twenty-five per centum in the case of a minor under the age of four years and six months of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater, and any amount of life insurance on the life of such minor not in excess of such limit . . .”

The examiner reviewed 25 underwriting files for insurance policies issued to juveniles during the exam period. The review revealed that four (4) of the policies (16%) were issued in excess of the amounts allowed under Section 3207(b) of the New York Insurance Law.

The Company violated Section 3207(b) of the New York Insurance Law by issuing policies to juveniles that exceeded the maximum face amount permitted.

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

“. . . (b)(1) No policy of life insurance shall be delivered or issued for delivery in this state . . . unless the prospective purchaser has been provided with the following: (A) a copy of the most recent buyer’s guide and the preliminary information . . . at or prior to the time an application is taken. . . .”

The examiner reviewed a sample of 31 term underwriting files and noted that in 14 instances (45.2%), the Company failed to provide the prospective purchaser with the preliminary information at or prior to the time the application was taken.

The Company violated Section 3209(b)(1)(A) of the New York Insurance Law by failing to provide the prospective purchaser with the preliminary information at or prior to the time the application was taken.

C. Treatment of Policyholders

1. Section 3227 of the New York Insurance Law states, in part:

“(a) Interest, . . . shall be payable by life insurers, fraternal benefit societies, and life insurance departments of savings banks upon: (1) the value of policies surrendered by policyholders for cash values, including the rollover of annuity funds to other entities, and (2) the funds disbursed as policy loans. Such interest

payment shall be added to and be a part of the total sum paid or be paid separately at the option of the insurer.

(b) The interest calculated on amounts described in paragraphs one and two of subsection (a) hereof shall be calculated from the date the documentation necessary to complete the transaction is received by the insurer and shall be payable if the funds are not mailed or delivered by the insurer within ten working days of said receipt.

(c) No interest need be payable pursuant to this section unless the amount of such interest is at least twenty-five dollars . . .”

The examiner reviewed a sample of 35 surrenders files and noted that the Company did not pay interest in 19 instances (54%) where the surrender request took more than 10 working days to process and interest was calculated to be \$25.00 or more.

The Company violated Section 3227(c) of the New York Insurance Law by failing to pay interest on surrender transactions when the surrender request took more than 10 working days to process and interest was at least \$25.

On January 21, 2019, the Company implemented a plan to remediate and pay interest on surrender transactions that took more than 10 days to process, and the interest was at least \$25. The Company identified 211 policies that had delayed payment interest of \$25 or more and made total payments of \$18,318.31.

2. Section 403(d) of the New York Insurance Law states, in part:

“All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms . . . shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.’ ”

The examiner reviewed 30 paid annuity claim files and noted that in 7 instances (23.33%), the claim form did not contain the required fraud warning statement.

The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its claim forms.

3. Section 3211(b) of New York Insurance Law states, in part:

“. . . (2) state the amount of such payment, the date when due, the place where and the person to whom it is payable; and shall also state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit. . . .”

The examiner reviewed a sample of 20 lapsed policy files consisting of four (4) universal life, three (3) whole life, and thirteen (13) term life policies. The review revealed that in all instances (100%), the lapse warning notices did not include the required language which states, “unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit. . . .”

The Company violated Section 3211(b)(2) of the New York Insurance Law by failing to include the required language in its lapse warning notices.

The Company agreed with the findings and initiated a remediation plan in January 2020.

4. Section 3240(h) of the New York Insurance Law states, in part:

“(7) Within thirty days of the final disposition of the request, an insurer shall report to the superintendent through the lost policy finder any benefits paid and any other information requested by the superintendent.”

Section 226.5 of 11 NYCRR 226 (Insurance Regulation 200, Third Amendment) states, in part:

“(a) An insurer shall: . . .

(2) report to the superintendent through a lost policy finder: . . .

(ii) where the search reveals that benefits may be due, within 30 days of the final disposition of the request, the benefit paid and any other information requested by the superintendent;. . .”

The examiner’s review of the Company’s closed files in the Lost Policy Finder (LPF) during the examination period revealed that 10 New York consumer requests were reported as death claim in process of settlement. As a result, the examiner requested (as part of Request #66) that the Company provide documentation to verify that the benefit was paid and, where applicable, a copy of the cancelled check/EFT advice for each claim that was settled. For claims that are still outstanding, the examiner requested that the Company provide the necessary documentation to

show why the Company is unable to pay the claims. In response, the Company provided claim files for nine consumer requests and stated that one consumer request was a duplicate which was confirmed by the examiner.

The examiner reviewed the Company's response for the nine consumer requests and noted that eight claims have been resolved and one claim is pending. The examiner noted that in seven out of the eight resolved/paid claims, the Company failed to report to the superintendent through a lost policy finder benefits paid within 30 days of the final disposition of the requests.

The Company violated Section 3240(h)(7) of the New York Insurance Law and Section 226.5(a)(2)(ii) of 11 NYCRR 226 (Insurance Regulation 200, Third Amendment) by failing to report to the superintendent through a lost policy finder, benefits paid within 30 days of the final disposition of the requests.

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 2112(d) of the New York Insurance Law by failing to file with the superintendent a statement of the facts relative to such termination for cause, within 30 days.	8
B	The Company violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, and vii and Second Amendment for items v, vi, and viii by failing to require an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendix 10B and Appendix 10A for item iv, and by not stating the primary reason or reasons for recommending the new annuity contract and why the existing annuity contract cannot meet the applicant's objectives.	14
C	The Company violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) for items i, ii, iii, iv, and vii by failing to examine the Disclosure Statement, and ascertain that it is accurate and meets the requirement of the Insurance Law and regulations promulgated thereunder.	14
D	The Company violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60, Second Amendment) for items v and vi by failing to reject the application within 10 days of receipt of the application because the required forms were not accurate and did not meet the requirements of the Regulation.	15
E	The Company violated Section 224.4(a)(1) of 11 NYCRR 224 (Insurance Regulation 187) by failing to inform the consumer of all the various features of the annuity contract.	15
F	The Company violated Section 51.6(b)(5) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to provide documentation that the completed Disclosure Statement was delivered to the applicant no later than the time of delivery of the policy.	15
G	The Company violated Section 51.6(b)(6) of 11 NYCRR 51 (Insurance Regulation 60, Third Amendment) by failing to furnish the insurer whose coverage is being replaced the completed Disclosure Statement and the list of sales material used in the sale of the policy within 10 days of delivery of the policy.	15

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
H	The Company violated Section 51.6(d) of 11 NYCRR 51 (Insurance Regulation 60, Second and Third Amendments) for items xi and xii by failing to provide to the policyowner the right to return the policy or contract within 60 days from the date of delivery of the policy or contract and receive an unconditional full refund of all premiums paid on it.	16
I	The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to include in the policy a 60-day free-look provision for the replacement policy. The Company also violated Section 3201(b)(1) of the New York Insurance Law by including a 60-day free-look provision in the Disclosure Statement and the Important Notice while failing to include the provision in its policy form by bracket or by filing an endorsement to its policy form.	16
J	The examiner recommends that the Company file an endorsement with the Department specifying a 60-day free-look provision for replacement contracts or in its Circular Letter No. 6 (2004) filing, the Company bracket the free-look provision and provide an explanation in its memorandum of variable material as required.	16
K	The examiner recommends that the Company strengthen its replacement process to ensure all necessary replacement documentation is received and completed accurately before issuing contracts.	16
L	The Company violated Section 3207(b) of the New York Insurance Law by issuing policies to juveniles that exceeded the maximum face amount permitted.	17
M	The Company violated Section 3209(b)(1)(A) of the New York Insurance Law by failing to provide the prospective purchaser with the preliminary information at or prior to the time the application was taken.	17
N	The Company violated Section 3227(c) of the New York Insurance Law by failing to pay interest on surrender transactions when the surrender request took more than 10 working days to process and interest was at least \$25.	18
O	The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its claim forms.	18
P	The Company violated Section 3211(b)(2) of the New York Insurance Law by failing to include the required language in its lapse warning notices.	19

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
Q	The Company violated Section 3240(h)(7) of the New York Insurance Law and Section 226.5(a)(2)(ii) of 11 NYCRR 226 (Insurance Regulation 200, Third Amendment) by failing to report to the superintendent through a lost policy finder, benefits paid within 30 days of the final disposition of the requests.	20

Respectfully submitted,

Adelia Gbadamosi
Adelia Gbadamosi
Senior Insurance Examiner

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

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

Adelia Gbadamosi
Adelia Gbadamosi

Subscribed and sworn to before me
this 11th day of December, 2023

Audrey Hall

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

APPOINTMENT NO. 31779

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, 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:

ADELIA GBADAMOSI

as a proper person to examine the affairs of the
STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY
and to make a report to me in writing of the condition of said
COMPANY

with such other information as she 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 31st day of May, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

