

AUG 12 2003

STATE OF ARIZONA

DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE
BY CB

In the Matter of:)
LIBERTY LIFE INSURANCE COMPANY)
(NAIC No. 65323))
Respondent.)

Docket No. 03A-106-INS
CONSENT ORDER

The State of Arizona Department of Insurance ("Department") has received information regarding allegations involving claims of racially discriminatory practices by Respondent Liberty Life Insurance Company relating to the sale of industrial life and certain other life insurance policies. The State of Arizona and Liberty Life Insurance Company wish to resolve this matter without the commencement of formal administrative proceedings, and Liberty Life consents to the following Findings of Fact, Conclusions of Law, and the entry of this Order.

FINDINGS OF FACT

1. Respondent Liberty Life Insurance Company ("Liberty") currently holds, and has held since 1953, a certificate of authority to transact business as a life and disability insurer in the state of Arizona, NAIC No. 65323.

2. The South Carolina Department of Insurance, in consultation with other regulators, acted as primary negotiator in negotiations with Liberty seeking a proposed negotiated settlement of the subject allegations of racially discriminatory practices by Liberty relating to the sale of industrial life and certain other life insurance policies set forth in the Report on Examination dated June 30, 2000. The alleged practices affected citizens of Arizona.

3. A Regulatory Settlement Agreement dated January 16, 2003, was executed by

1 Liberty and the South Carolina Department of Insurance, in its capacity as primary negotiator
2 and presented to the Director of Insurance for the State of Arizona ("Director"). The
3 Regulatory Settlement Agreement is attached hereto as Exhibit A and incorporated herein by
4 this reference.

5 **CONCLUSIONS OF LAW**

- 6 1. The Director has jurisdiction over this matter.
7 2. Grounds exist for the entry of the following Order pursuant to A.R.S. §20-220.

8 **ORDER**

9 IT IS HEREBY ORDERED that Respondent Liberty Life Insurance Company shall
10 comply with all terms and conditions of the Regulatory Settlement Agreement as incorporated
11 herein.

12 DATED AND EFFECTIVE this 11th day of August 2003.

13 

14 CHARLES R. COHEN
15 Director of Insurance

16 **CONSENT TO ORDER**

- 17 1. Respondent has reviewed the foregoing Findings of Fact, Conclusions of Law and
18 Order.
19 2. Respondent admits the jurisdiction of the Director of Insurance, State of Arizona and
20 consents to the foregoing Findings of Fact and consents to the entry of the foregoing
21 Conclusions of Law and Order.
22 3. Respondent is aware of its rights to notice and a hearing at which it may be
23

1 represented by counsel, present evidence and examine witnesses. Respondent irrevocably
2 waives its rights to such notice and hearing and to any court appeals relating to this Consent
3 Order.

4 4. Respondent states that no promise of any kind or nature whatsoever, except as
5 expressly contained in this Consent Order and the incorporated Regulatory Settlement
6 Agreement, was made to it to induce it to enter into this Consent Order and that it has entered
7 into this Consent Order voluntarily.

8 LIBERTY LIFE INSURANCE COMPANY

9
10 August 5, 2003
DATE

11
12 By 
13 ROBERT E. EVANS
14 President

15 COPY of the foregoing mailed/delivered
16 this 12th day of August, 2003, to:

17 Frank R. Ellerbe, III
18 ROBINSON MCFADDEN & MOORE
19 Post Office Box 944
20 Columbia, South Carolina 29202
21 Counsel for Liberty Life Insurance Company

22 Gerrie L. Marks, Acting Deputy Director for Regulatory Affairs
23 Vista T. Brown, Acting Deputy Director for Policy Affairs
Mary M. Butterfield, Assistant Director
Steven P. Ferguson, Assistant Director
Alexandra Shafer, Assistant Director
Deloris E. Williamson, Assistant Director
Paul Hogan, Chief Market Conduct Examiner
Catherine M. O'Neil, Consumer Legal Affairs Officer
Arizona Department of Insurance
2910 N. 44th Street, 2nd Floor
Phoenix, AZ 85018

1 David Belton
South Carolina Department of Insurance
2 300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223
3

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In the Matter of:)
Liberty Life Insurance Company)
_____)

REGULATORY SETTLEMENT AGREEMENT

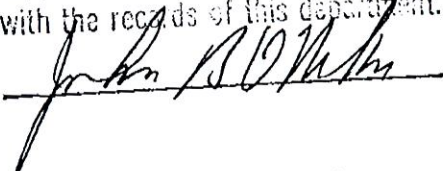
Certified to be a true and correct
copy as taken from and compared
with the records of this department.


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SIGNATURE PAGE 25

EXHIBIT 1

ADDITIONAL SIGNATURE PAGE FOR ADOPTION
OF REGULATORY SETTLEMENT AGREEMENT

EXHIBIT 2

AGREEMENT TO RESOLVE CONTESTED CASE PROCEEDING

In the Matter of:)
)
Liberty Life Insurance Company)
)
REGULATORY SETTLEMENT AGREEMENT

This is a settlement agreement (the "Regulatory Settlement Agreement") between Liberty Life Insurance Company ("Liberty Life") and the South Carolina Department of Insurance (the "Primary Regulatory Negotiator") for and on behalf of each of the Insurance Regulators adopting this Regulatory Settlement Agreement.

I. DEFINITIONS

As used in this Regulatory Settlement Agreement, the following terms have the following meanings:

A. Examination Team and Examination Team States: Kentucky, Louisiana, North Carolina, Ohio, and South Carolina, and the Insurance Regulators for those states.

B. Impacted State: A state identified on page 24 of the Report on Examination, which includes all states known the Primary Regulatory Negotiator in which policies covered by this Regulatory Settlement Agreement are currently in-force or in which claims were paid prior to the Settlement Approval Date. If an additional state is identified pursuant to the ongoing review referenced in Section V.2 of this Regulatory Settlement Agreement, that state shall be deemed an Impacted State for all purposes other than Section VIII of this Regulatory Settlement Agreement.

C. In-force: When used in conjunction with an insurance policy, in-force means that, as of the Settlement Implementation Date, the policy is premium paying, is fully paid-up, or otherwise continues to provide coverage pursuant to a contractual or statutory non-forfeiture option, including reduced paid up or extended term insurance.

Certified to be a true and correct copy as taken from and compared with the records of this department.

D. Insurance Regulator: The individual or agency having primary responsibility for the regulation of the business of insurance for a particular state. The term Insurance Regulator shall be understood to be co-extensive with the state represented by the Insurance Regulator.

E. Liberty Life Insurance Company: The term Liberty Life Insurance Company or Liberty Life shall be liberally construed to include Liberty Life Insurance Company, any company acquired by Liberty Life Insurance Company, and any present or former officer, director, manager, employee, agent, representative, or attorney for these companies.

F. Participating State: An Impacted State that executes the Adoption of Regulatory Settlement Agreement or other document acceptable to Liberty Life that is intended for the purposes of adopting and becoming a party to the Regulatory Settlement Agreement.

G. Settlement Approval Date: The date the Regulatory Settlement Agreement is approved by the South Carolina Administrative Law Judge Division.

H. Settlement Implementation Date: Ten days after the time for appeal has expired for an order of a court of competent jurisdiction modifying or lifting the injunction issued by the Court of Common Pleas for Richland County, State of South Carolina, on December 12, 2001, thereby allowing Liberty Life to comply with the terms of the Regulatory Settlement Agreement. In the event of an appeal of an order modifying or lifting the injunction, the Settlement Implementation Date shall be 30 days from the date of a final determination of the appeal or, if earlier, 30 days from the date that Liberty Life and the South Carolina Department of Insurance determine that the appeal does

constitute a legal impediment to compliance with the terms of the Regulatory Settlement Agreement.

II. BACKGROUND AND RECITALS

A. In June 2000, the South Carolina Department of Insurance, working with the Insurance Regulators for the States of Kentucky, Louisiana, North Carolina, and Ohio ("Primary Regulatory Working Group"), began a Target Multi-State Examination into Market Conduct Affairs of Liberty Life Insurance Company as of June 30, 2000 (the "Examination"). The Examination, which included industrial and other small face value life insurance policies, was instituted to determine if the underwriting of the policies was impacted by the race of the applicant.

B. Details regarding the Examination are found in the Report on Target Multi-State Examination into Market Conduct Affairs of Liberty Life Insurance Company as of June 30, 2000 (the "Report on Examination").

C. Members of the National Association of Insurance Commissioners ("NAIC") agreed that the Primary Regulatory Working Group would investigate the matters that were the subject of the Examination and would, if appropriate, seek to obtain a multi-state settlement with respect to these regulatory issues.

D. The South Carolina Department of Insurance acted as the Primary Regulatory Negotiator on behalf of the Primary Regulatory Working Group Members and the other members of the NAIC. After extensive investigation and negotiation, Liberty Life and the Primary Regulatory Negotiator agreed to enter into this Regulatory Settlement Agreement that provides benefits for current and former policyholders and others whose policies or benefits may have been affected by underwriting practices that

included race as a consideration. Each member of the NAIC with affected policies in their jurisdiction will have the opportunity to approve the Regulatory Settlement Agreement.

E. By the Execution or adoption of this Regulatory Settlement Agreement, Liberty Life and the undersigned Insurance Regulators have agreed to resolve all issues addressed in the Report on Examination.

F. The parties to this Regulatory Settlement Agreement understand and acknowledge that Liberty Life does not admit to violating the regulatory laws of any state, and that Liberty Life is foregoing its right to regulatory process in exchange for the releases granted by this Regulatory Settlement Agreement.

III. CONDITIONS OF SETTLEMENT AND IMPLEMENTATION OF BENEFITS

A. This Regulatory Settlement Agreement was negotiated in an effort to conclude with finality all regulatory allegations involving the impact of race on life, health, and accident insurance underwriting, sales, pricing, or policy benefits on policies that were issued, assumed, acquired, or administered by Liberty Life prior to the date of this Regulatory Settlement Agreement. The Regulatory Settlement Agreement is expressly conditioned upon its approval by the South Carolina Administrative Law Judge Division as set forth in Section XI.

B. All parties to this Regulatory Settlement Agreement understand and agree that the implementation of increased benefits for policyholders set forth in Sections IV, V, and VI is conditioned upon modification of the injunction issued by the Court of Common Pleas for Richland County, State of South Carolina, on December 12, 2001. Within 45 days after the Settlement Approval Date, Liberty Life agrees to move for an

appropriate modification of the injunction to allow for the implementation of this Regulatory Settlement Agreement. The Primary Regulatory Negotiator and the Participating States agree to support the motion for modification of the injunction.

IV. ADMINISTRATION OF REGULATORY SETTLEMENT AGREEMENT

Liberty Life Insurance Company will designate a person or firm to be responsible for the administration of the terms and conditions of the Regulatory Settlement Agreement. The Primary Regulatory Negotiator shall have the right to approve the selection of any third party administrator ("TPA") designated for this purpose. In the event an approved TPA is selected to administer the Regulatory Settlement Agreement, Liberty Life will not be subject to regulatory action for any failure, inaction, or error on the part of the TPA that is not directly attributable to Liberty Life. Nothing in this provision shall be construed to relieve Liberty Life of its contractual obligations under this Regulatory Settlement Agreement.

V. BENEFITS TO POLICYHOLDERS

A. Policies Entitled to Benefits

1. Policies covered by this Regulatory Settlement Agreement are those policies in the plan codes identified in the Report on Examination dated October 23, 2001, at pages 25-28, or that are identified pursuant to Section V.A.2 of this Regulatory Settlement Agreement.

2. It is the intention of Liberty Life and the states adopting this Regulatory Settlement Agreement that additional policies entitled to benefits may be identified by ongoing review by Liberty Life and the South Carolina Department of Insurance, including due diligence efforts required by the Report on Examination or follow-up

compliance examinations pursuant to this Regulatory Settlement Agreement. In the event additional policies are identified, the parties agree that those policies will be entitled to the same policyholder benefits provided for in this Regulatory Settlement Agreement.

B. Benefits for In-Force Policies

1. For all policies that are in force as of the Settlement Implementation Date, Liberty Life will at the time of claim: (a) increase the face amount of the policy by one third in the event of a death claim; (b) increase the face amount of the policy by one third for endowment policies that mature; or (c) increase the gross cash surrender benefit payable by one third before reduction by any outstanding loan or other indebtedness.

2. At the time of a death claim, eligible claims will be determined by comparing the claim to the list of policy plan codes identified in the Report on Examination as modified pursuant to Section V.A.2. If the policy plan code is on the list, and if the death certificate indicates the insured's race is African American, the automatic benefit increase will be provided. Automatic increases in endowment and cash surrender payments will be determined in similar fashion except that applications will be used to determine the race of the insured.

C. Claims, Endowments, and Cash Surrender Payments paid from January 1, 1986 to Settlement Date

1. Liberty Life will make an additional benefit payment available to all identifiable beneficiaries or policyholders who received a claim, endowment, or cash surrender payment where the date of the original payment was between January 1, 1986 and the date of Settlement Implementation Date. The amount of the additional

benefit payment will be one third of the original payment plus simple interest from the date of the original payment at the rate of 4% per annum.

2. Liberty Life will make available to the designated administrator its computer and other records of claims payments, and the designated administrator will use reasonable efforts to identify and locate all eligible policyholders and beneficiaries during this period. For beneficiaries whose eligibility and identification can be fully determined from computer records, payment of the additional benefit will be made without beneficiaries or policyholders having to file a claim. For beneficiaries and policyholders whose eligibility and identification cannot be fully determined from computer records, benefits will be paid pursuant to the notice and claims process set forth in Section VI.C.

3. This benefit will be paid to the last identified individual beneficiary or beneficiaries as their interests may appear without regard to whether the policy was subsequently assigned to a funeral home or other artificial entity

D. Claims, Endowments, and Cash Surrender Payments Paid Prior to January 1, 1986

1. Liberty Life will create a fund in the amount of \$1,000,000.00 for the payment of an additional benefit payment to policyholders or beneficiaries who received a claim, endowment, or cash surrender payment where the date of the original payment was prior to January 1, 1986.

2. The base benefit amount will be one third of the original payment plus simple interest at the rate of 4% per annum.

3. These benefits will be available pursuant to the notice and claims procedures set forth in Section VI.C. Benefits under this provision will not be paid until

the conclusion of the claims period set forth in that provision.

4. At the conclusion of the claims period, Liberty Life will make payment of the base amount of all eligible claims if the aggregate sum of such claims, including interest, is equal to or less than \$1,000,000.00. To the extent the aggregate sum of all eligible claims, including interest, exceeds \$1,000,000.00, each eligible recipient will receive a percentage of the base benefit amount determined by dividing \$1,000,000.00 by the aggregate sum of all base benefit amounts.

E. Limitation on policies that were originally issued or acquired by Kentucky Central Life Insurance Company

This Regulatory Settlement Agreement is inapplicable to policies that were originally issued or acquired by Kentucky Central Life Insurance Company ("Kentucky Central Policies") and that were never assumed and reinsured by Liberty Life as part of the assumption and reinsurance agreement entered between Kentucky Central and Liberty Life on July 1, 1991. Claims, endowments, and cash surrender payments on Kentucky Central Policies that were originally paid prior to July 1, 1991 are not eligible for benefits under Sections V.C or V.D of this Regulatory Settlement Agreement. All Kentucky Central Policies that were in-force as of the Settlement Implementation Date and all Kentucky Central Policies on which claims, endowments, or cash surrender payments were made on or after July 1, 1991 are eligible for benefits under Sections V.B and V.C of this Regulatory Settlement Agreement.

VI. NOTICE AND CLAIMS PROCEDURES

A. Notice of Regulatory Settlement Agreement

1. Notice to all policyholders and beneficiaries impacted by the Regulatory Settlement Agreement will be provided by publication. Liberty Life will select the

newspapers or other outlets used for publication in each of the Impacted States. In advance of the publication, Liberty Life will furnish the states adopting this Regulatory Settlement Agreement the details of the proposed publication in each state. If a dispute exists as to the sufficiency of the publication in a particular state, the parties will use good faith efforts to arrive at a mutually agreeable method of publication in that state that is sufficient and appropriate to provide the desired notice. Notwithstanding the foregoing, upon agreement between Liberty Life and the Department, direct mail or other direct notice may be used in lieu of publication in one or more of the Impacted States. In the event direct mail is returned as undeliverable in a state in which publication was not used, Liberty Life will use internet and city directory searches in an effort to locate the policyholder or beneficiary.

2. The form and content of the notice to policyholders will be mutually agreed upon by Liberty Life and the South Carolina Department of Insurance prior to the implementation of this Regulatory Settlement Agreement. The notice will include: (a) background of the regulatory investigation; (b) description of the Regulatory Settlement Agreement and the benefits available; (c) description of claims procedure; and (d) toll-free telephone number and address for the purposes of questions about the Regulatory Settlement Agreement and obtaining claim forms.

B. Additional notice to In-force policyholders and notice at time of claim

1. For policyholders of In-force policies entitled to benefits pursuant to Section V.B., notice of the settlement will be given by direct mail to the extent the designated administrator determines the company has a current address for the policyholder. To the extent the law of a particular state requires the issuance of

certificates in connection with a compromise settlement, Liberty Life will issue such certificates in accordance with the law of that state. In all other states, Liberty Life will send notice to policyholders advising them there has been a change in the face amount of the policy. A copy of this notice will be maintained in the policyholder file.

2. At the time of claim on In-force policies entitled to benefits pursuant to Section V.B., Liberty Life will include with the claim payment an explanation that benefits were increased as a result of this Regulatory Settlement Agreement.

3. For beneficiaries entitled to additional benefits in connection with claims or endowments paid prior to the Settlement Implementation Date, Liberty Life will include an explanation of this Regulatory Settlement Agreement with the payment of the additional benefit.

4. The form and content of the notice(s) to policyholders and beneficiaries pursuant to this section will be mutually agreed upon by Liberty Life and the South Carolina Department of Insurance prior to implementation of the Regulatory Settlement Agreement.

C. Claim Procedure

1. Policyholders and beneficiaries eligible for benefits pursuant to Section V.C (original claim paid January 1, 1986 to present) will have a claims period of 9 months after first publication or mailing in each state to submit evidence of entitlement to the additional benefit under this provision. Liberty Life will make payment to eligible policyholders and beneficiaries on an ongoing basis during the claims period. Liberty Life will make all payments for claims filed pursuant to this section within 90 days after the close of the claims period. The requirement of submitting a claim for benefits under

Section V.C applies only to policyholders and beneficiaries for whom the eligibility and identification cannot be fully determined from computer records.

2. Policyholders and beneficiaries eligible for benefits pursuant to Section V.D (original claim prior to January 1, 1986) will have 180 days from date of first publication to make a claim and present evidence to the designated administrator. The requirement of submitting a claim form applies to all policyholders and beneficiaries entitled to benefits pursuant to Section V.D.

3. The form and content of the claims forms will be mutually agreed upon by Liberty Life and the South Carolina Department of Insurance prior to implementation of the Regulatory Settlement Agreement.

4. Claims for benefits pursuant to Sections V.C and V.D may be submitted by the policyholder, beneficiary, estate representative, family member, power of attorney, or by an attorney or other legal representative directly engaged by such person. Nothing in this Regulatory Settlement Agreement shall be construed to permit or authorize claims for benefits to be submitted by a class representative or class counsel acting solely in a representative capacity pursuant to a class action pending in any court in any jurisdiction, and nothing in this Regulatory Settlement Agreement shall be construed to require payment of any amount should any such claims be submitted.

D. Due Diligence

1. The designated administrator will use reasonable efforts to use the available computer and other databases to identify and locate persons entitled to additional benefits pursuant to this Regulatory Settlement Agreement.

2. In the event that Liberty Life has an address for a policyholder or

beneficiary but knows that address to be incorrect, Liberty Life will not automatically mail any notices that would otherwise be required if Liberty Life had a valid address for the policyholder or beneficiary. In those instances, Liberty Life shall use other reasonable efforts to locate the policyholder or beneficiary.

3. In the event of returned mail with a forwarding address indicated by the Post Office, the designated administrator will re-mail the notice or payment to the forwarding address indicated by the Post Office and will update Liberty Life's computer databases as appropriate.

VII. CONTRIBUTION TO CHARITY

Liberty Life will make charitable contribution(s) to suitable organization(s) engaged in addressing minority health issues. The total of the contribution(s) will be \$2,000,000.00. The contribution(s) shall be made to organization(s) selected by Liberty Life and the Primary Regulatory Negotiator. The contribution(s) shall be payable within one year of the Settlement Approval Date.

VIII. PAYMENT TO IMPACTED STATES

Liberty Life agrees to pay to the Impacted States that adopt this Regulatory Settlement Agreement a total amount of \$436,036.00. In the event all Impacted States approve the Regulatory Settlement Agreement, this total amount shall be distributed to the individual Impacted States based upon a pro-rata percentage determined by dividing the total number of policies identified in the Report on Examination (162,700) by the total number of policies shown for the particular Impacted State on page 24 of the Report on Examination. Notwithstanding the foregoing, in the event one or more of the Impacted States does not approve this Regulatory Settlement Agreement, the total

payment under this provision will be reduced by the pro-rata share(s) that would have been allocated to the Impacted State(s) that do not approve the Regulatory Settlement Agreement.

IX. REGULATORY RESOLUTION AND RELEASE

This Regulatory Settlement Agreement is intended to release with finality all regulatory action of any kind with respect to the matters addressed by the Report on Examination or this Regulatory Settlement Agreement.

With respect to all matters addressed by the Report on Examination or this Regulatory Settlement Agreement, the States executing this Regulatory Settlement Agreement release and forever discharge Liberty Life from all civil, administrative, criminal, or quasi-criminal causes, actions, claims, damages, fines, sanctions, losses, demands, or other liability that the States could pursue or seek based upon alleged distinctions in the terms or benefits of insurance policies based upon the race of the insured where such liability arises under the under the insurance and anti-discrimination laws and regulations of each state related or applicable to the marketing, solicitation, application, underwriting, benefit payment, acceptance, sale, purchase, operation, retention, or administration of all life or accident insurance policy sold, issued, assumed or administered by Liberty Life or its acquired companies prior to the date this Regulatory Settlement Agreement is executed.

X. MODIFICATION OR TERMINATION

A. This Regulatory Settlement Agreement may not be altered or modified except by written instruction executed by Liberty Life and by the Primary Regulatory Negotiator.

B. This Regulatory Settlement Agreement may be terminated as to any individual party at the sole option and discretion of that party if:

(i) the South Carolina Administrative Law Judge Division, any appellate court(s), or any other court of competent jurisdiction rejects, modifies or denies approval of any portion of the Regulatory Settlement Agreement that the terminating party in its (or their) sole judgment and discretion determine(s) is material, including, without limitation, the terms of relief, the findings of the Court, the provisions relating to notice, or the terms of the releases granted by this Regulatory Settlement Agreement; or

(ii) the South Carolina Administrative Law Judge Division, any appellate court(s), or any other court of competent jurisdiction does not enter or completely affirm, or alters or expands, any portion of the approval of this Regulatory Settlement Agreement, or alters any of the findings of fact or conclusions of law as proposed by counsel for the parties, that the terminating party in its (or their) sole judgment and discretion determine(s) is material.

C. This Regulatory Settlement Agreement may be terminated at the sole option of Liberty Life if any state attorney general or regulatory or administrative authority institutes a proceeding against Liberty Life that arises out of or otherwise relates to the subject matter of the Regulatory Settlement Agreement. In the event such action is instituted, Liberty Life, in its sole option, will have additional option to terminate the Regulatory Settlement Agreement only as to the Participating State or to seek specific performance against the Participating State.

In the event a proceeding is instituted that is limited solely to addressing policies that are specifically excluded pursuant to Section V.E. of this Regulatory Settlement

Agreement, Liberty Life shall not have the option to terminate this Regulatory Settlement Agreement pursuant to this provision. If such proceeding extends to or includes policies that are covered by this Regulatory Settlement Agreement and that are not excluded by Section V.E, Liberty Life shall have the option to terminate the Regulatory Settlement Agreement as otherwise provided herein.

D. In the event of termination, the terminating party must exercise the option to withdraw from and terminate this Regulatory Settlement Agreement by providing prompt written notice to the other party of the event triggering the termination.

E. If an option to withdraw from and terminate this Regulatory Settlement Agreement arises, the parties to the Regulatory Settlement Agreement will not be required for any reason or under any circumstance to exercise that option and any exercise of that option shall be made in good faith.

F. If this Regulatory Settlement Agreement is terminated by either party pursuant to this Section, then:

1. this Regulatory Settlement Agreement shall be null and void and shall have no force or effect, and no party to this Regulatory Settlement Agreement shall be bound by any of its terms, except for the terms of this Section X.F.;

2. this Regulatory Settlement Agreement, all of its provisions, and all negotiations, statements and proceedings relating to it shall be without prejudice to the rights of Liberty Life or of any Insurance Regulator, all of whom shall be restored to their respective positions existing immediately before the execution of this Regulatory Settlement Agreement;

3. Liberty Life and their current and former directors, officers, employees, agents, attorneys and representatives expressly and affirmatively reserve all defenses, arguments and motions as to all claims that have been or might later be asserted in connection with the subject matter of this Regulatory Settlement Agreement; and

4. any consent order entered after the date of this Regulatory Settlement Agreement will be deemed vacated and will be without any force or effect.

XI. RESOLUTION OF SOUTH CAROLINA REGULATORY ACTION

Concurrent with this Regulatory Settlement Agreement, Liberty Life and the South Carolina Department of Insurance have executed a separate agreement ("South Carolina Agreement", attached Exhibit 2) to resolve the issues particular to those parties that are the subject of the The South Carolina Department of Insurance v. Liberty Life Insurance Company, 01-ALJ-090585-CC, which is currently pending in the South Carolina Administrative Law Judge Division ("SCALJD"). In concluding that proceeding, Liberty Life and the South Carolina Department of Insurance will request the Honorable Marvin F. Kittrell, Chief Judge for the SCALJD, to approve the terms and conditions of the South Carolina Agreement and this Regulatory Settlement Agreement as they apply to South Carolina residents. If approval is granted in the manner set forth in this Regulatory Settlement Agreement and the South Carolina Agreement, the date of such approval shall be the "Settlement Approval Date" as that term is used in this Regulatory Settlement Agreement. If the request for approval is denied or altered, the provisions of Section X. will apply.

XII. ADOPTION OF REGULATORY SETTLEMENT AGREEMENT

Upon execution by an Insurance Regulator of the Adoption of Regulatory Settlement Agreement (attached Exhibit 1) or other document intended for that purpose and in a form acceptable to Liberty Life, the Insurance Regulator and the state he or she represents shall be deemed a party to this Regulatory Settlement Agreement.

XIII. CERTIFICATION OF COMPLIANCE

At the first anniversary of the Settlement Approval Date, the administrator will provide a certification of compliance with the Settlement as follows: (1) a certification that procedures were implemented and all claims on policies that were subject to automatic in force policy enhancement were paid in accordance with the Settlement beginning no later than 60 days after the Settlement Implementation Date; with respect to all such claims that were submitted within that 60 day period, a certification that the additional benefit amount has been paid; (2) a certification as to the number of policies, the amount of additional benefits, and the efforts that were made in connection with payments for policies for which the original payment was made between 1986 and the date of the Settlement; (3) a certification of the total number of policies and the amount of benefits paid in connection with policies for which the original payment was made prior to 1986; and (4) a certification that policy certificates or other required documents under this Regulatory Settlement Agreement were sent to In-force policyholders with copies placed in company policyholder files.

XIV. FOLLOW UP EXAMINATION

One year from the Settlement Approval Date, the Examination Team shall conduct a follow-up examination to determine compliance with the Regulatory

Settlement Agreement. The parties agree to cooperate in a good faith effort to resolve informally any issues that arise with respect to implementation of the Settlement. In the event of a disagreement over whether the Settlement has been complied with, the parties agree to submit the question to the South Carolina Administrative Law Judge Division. Liberty Life will not be subject to regulatory penalty and will only be required to take such action is necessary to ensure compliance, unless said noncompliance is determined to be willful on behalf of Liberty Life.

XV. GENERAL MATTERS AND RESERVATIONS

A. The parties agree that this Regulatory Settlement Agreement is only intended to confer an additional benefit to beneficiaries, policyholders, and other living persons identified herein. The parties agree that the additional benefits available under this Regulatory Settlement Agreement are not to be construed as unclaimed or abandoned property within the meaning of state escheatment laws. Notwithstanding the foregoing, in the event an individual policyholder or beneficiary later comes forward to claim funds that were escheated on a policy that was entitled to automatic in-force policy enhancement, Liberty Life will agree to make any additional benefit called for under this Regulatory Settlement Agreement at that time. In the event this paragraph is determined to contradict the laws of the impacted states, the unenforceability of this paragraph in that particular state will not invalidate the remaining paragraphs of this agreement in that state or be deemed a material alteration pursuant to Section X.B.

B. By execution of the Regulatory Settlement Agreement, Liberty Life does not intend to release any claim against any insurer for any cost or expense hereunder.

C. The Primary Regulatory Negotiator represents that it is authorized to

negotiate this Regulatory Settlement Agreement on behalf of the State of South Carolina and the Insurance Regulators of each of the other Impacted States and of the District of Columbia. The Primary Regulatory Negotiator acknowledges that Liberty Life is entering this Regulatory Settlement Agreement in reliance on the fact that the Primary Regulatory Negotiator is authorized to negotiate on behalf of the Insurance Regulators of each of the Impacted States and of the District of Columbia.

D. Robert E. Evans represents that he is authorized to enter into this Regulatory Settlement Agreement on behalf of Liberty Life Insurance Company.

E. This Regulatory Settlement Agreement, with its exhibits, sets forth the entire agreement among the parties with respect to its subject matter, and it may not be altered or modified except by written instruction executed by Liberty Life and by the Primary Regulatory Negotiator. The parties expressly acknowledge that no other agreements, arrangements, or understandings not expressed in this Regulatory Settlement Agreement exist among or between them which alters or affects the terms described herein.

F. Any action or proceeding to enforce the provisions of Section VIII of this Regulatory Settlement Agreement brought by any Participating State shall be governed by the laws and regulations of such Participating State. In all other respects, this Regulatory Settlement Agreement shall be governed by, and interpreted in accordance with, the laws of the State of South Carolina, without regard to the law of any other state whose law might otherwise apply under South Carolina conflict or choice of laws principles.

G. All time periods set forth herein shall be computed in calendar days unless

otherwise expressly provided. In computing any period of time prescribed or allowed by this Regulatory Settlement Agreement or by order of court, the day of the act, event, or default from which the designated period of time begins to run shall not be included. The last day of the period so computed shall be included, unless it is a Saturday, a Sunday or a legal holiday, or, when the act to be done is the filing of a paper in court, a day on which weather or other conditions have made the office of the clerk of the court inaccessible, in which event the period shall run until the end of the next day that is not one of the aforementioned days. As used in this Section, "legal holiday" includes New Year's Day, Birthday of Martin Luther King, Jr., Presidents' Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, Christmas Day and any other day appointed as a holiday by the President or the Congress of the United States or by any of the states adopting this Regulatory Settlement Agreement.

H. Neither this Regulatory Settlement Agreement, the South Carolina Agreement, nor any related negotiations, statements, or court proceedings shall be construed as, offered as, received as, used as, or deemed to be evidence or an admission or concession of any liability or wrongdoing whatsoever on the part of Liberty Life or as a waiver by Liberty Life of any applicable defense.

I. Liberty Life does not admit violation of any applicable provision of any state insurance code.

J. Except for the provision or payment of benefits (which shall be deemed supplemental benefits under the applicable life insurance or accident policies), neither this Regulatory Settlement Agreement nor any of the benefits offered under it shall be

interpreted to alter in any way the contractual terms of any Policy or to constitute a novation of any insurance policy.

K. The Parties, their successors and assigns, and their attorneys undertake to implement the terms of this Regulatory Settlement Agreement in good faith, and to use good faith in resolving any disputes that may arise in the implementation of the terms of this Regulatory Settlement Agreement.

L. This Regulatory Settlement Agreement may be signed in counterparts, each of which shall constitute a duplicate original.

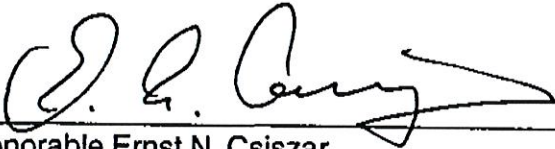
M. Liberty Life enters into this Regulatory Settlement Agreement with the South Carolina Department of Insurance acting as Primary Regulatory Negotiator. The terms of this Regulatory Settlement Agreement shall be binding on Liberty Life, the Primary Regulatory Negotiator, and on the Insurance Regulator of any state, or the District of Columbia, that adopts the Regulatory Settlement Agreement.

N. The intent of the Parties is that this Regulatory Settlement Agreement and the Stipulation of Settlement shall be liberally construed to effectuate their remedial purposes.

SIGNATURE PAGE FOLLOWS


Agreed to as of the 16th day of January, 2003.

**AGREED TO BY AND ON BEHALF OF
THE SOUTH CAROLINA DEPARTMENT OF INSURANCE**

By: 

Honorable Ernst N. Csiszar
Director of Insurance for the State of South Carolina
and Primary Regulatory Negotiator

**AGREED TO BY AND ON BEHALF OF
THE LIBERTY LIFE INSURANCE COMPANY**

By: 

Robert E. Evans
President, Liberty Life Insurance Company

**ADOPTION OF REGULATORY SETTLEMENT AGREEMENT
TO BE ATTACHED IMMEDIATELY AFTER THIS PAGE**

ADOPTION OF REGULATORY SETTLEMENT AGREEMENT

The undersigned Insurance Regulator adopts, ratifies, and agrees to all terms and conditions of this Regulatory Settlement Agreement for and on behalf of the state and regulatory agency he or she represents:

State: _____

Office: _____

Signature: _____

Print Name: _____

Title: _____

Date: _____