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DEPT. OF INSURANCE
BY CB

STATE OF ARIZONA
DEPARTMENT OF INSURANCE

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In the Matter of:)
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THE LINCOLN NATIONAL LIFE INSURANCE)
)
COMPANY,)
)
NAIC # 65676,)
)
Respondent)

Docket No. 07A-183-INS

CONSENT ORDER

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of The Lincoln National Life Insurance Company ("Lincoln National"). The Report of Examination of the Market Conduct Affairs of The Lincoln National Life Insurance Company alleges that Lincoln National has violated A.R.S. §§ 20-1233 (A), 20-1241. 04 (D), (E) and (H); 20-1241.05 (C), (G)(1) and (G)(2), 20-1241.06 (B) and 20-1242.02 (A).

Lincoln National wishes to resolve this matter without formal proceedings, neither admits nor denies that the following Findings of Fact and Conclusions of Law are true and consents to the entry of the following Order.

FINDINGS OF FACT

1. Lincoln National is authorized to transact life and disability insurance pursuant to a Certificate of Authority issued by the Director.

2. The Director authorized the Examiners to conduct a targeted market examination of Lincoln National. The examination covered the time period from October 1, 2004 through March 31, 2005 and concluded on August 30, 2006. Based on the examination findings, the Examiners prepared the "Report of Targeted Examination of The Lincoln National Life Insurance Company", dated March 31, 2005.

1 3. a. Lincoln National allegedly used seven annuity application forms
2 and two annuity contract forms that either failed to contain a Free Look notice, or
3 contained a Free Look notice that failed to included a statement notifying contract
4 holders age 65 years or older on the date of the application that they had 30 days after
5 delivery in which to return the annuity contract for a full refund of all monies paid, or a
6 statement notifying contract holders that, upon written request, the insurer is required
7 to provide within a reasonable time reasonable factual information regarding the
8 benefits and provisions of the annuity contract to the contract holder;

9 b. Lincoln National allegedly failed to obtain with the application a
10 replacement notice in a form approved by the director on 11 of the 33 life internal and
11 external replacement files reviewed;

12 c. Lincoln National allegedly failed to obtain with the application a
13 replacement notice in a form approved by the director and either failed to notify the
14 producer and applicant that outstanding requirements needed to be fulfilled or did not
15 fulfill the incomplete requirement on 11 of the 33 life internal and external replacement
16 files reviewed;

17 d. Lincoln National allegedly failed to notify the existing insurer that
18 may be affected by the proposed replacement within five business days of the receipt
19 of a completed application indicating replacement on seven of the 29 life external
20 replacement files reviewed;

21 e. Lincoln National allegedly failed to require, with the application, a
22 statement signed by the producer stating that the producer used only sales material
23 which had been approved by the Company and that copies were provided to the
24 applicants on 33 of the 33 life internal and external replacement files reviewed;

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1 f. Lincoln National allegedly failed to notify the applicant within ten
2 days of the issuance of the policy that the producer made a representation that only
3 approved sales materials were used and that the producer had provided copies of
4 those sales materials to the applicant on 33 of the 33 life internal and external
5 replacement files reviewed;

6 g. Lincoln National allegedly failed to obtain with or as a part of the
7 application for the annuity contract a statement signed by the applicant and insurance
8 producer as to whether the applicant had an existing policy or contract on nine of the
9 147 annuity internal and external replacement files reviewed;

10 h. Lincoln National allegedly failed to obtain with or as a part of the
11 application for the annuity contract a statement signed by the applicant and insurance
12 producer as to whether the applicant had an existing policy or contract and either failed
13 to notify the producer and applicant that outstanding requirements needed to be
14 fulfilled or did not fulfill the incomplete requirement on 11 of the 147 annuity internal
15 and external replacement files reviewed;

16 i. Lincoln National allegedly failed to notify the existing insurer that
17 may be affected by the proposed replacement within five business days of the receipt
18 of a completed application indicating replacement on five of the 65 annuity external
19 replacement files reviewed;

20 j. Lincoln National allegedly failed upon receipt of a request to
21 borrow, surrender or withdraw life insurance policy values or annuity contract values to
22 have procedures in place to send the required notice separate from the check if the
23 check was sent to anyone other than the policy owner;

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1 k. Lincoln National allegedly failed to provide a buyer's guide to
2 annuity applicants during the examination period that was in a form approved by the
3 Director.

4 **CONCLUSION OF LAW**

5 1. Lincoln National allegedly violated A.R.S. § 20-1233 (A) by using annuity
6 application forms and contract forms that either failed to contain a Free Look notice, or
7 contained a Free Look notice that failed to included a statement notifying contract
8 holders age 65 years or older on the date of the application that they had 30 days after
9 delivery in which to return the annuity contract for a full refund of all monies paid, or a
10 statement notifying contract holders that, upon written request, the insurer is required
11 to provide within a reasonable time reasonable factual information regarding the
12 benefits and provisions of the annuity contract to the contract holder;

13 2. a. Lincoln National allegedly violated A.R.S. § 20-1241.04 (D) by
14 failing obtain with or as a part of the application for the annuity contract a statement
15 signed by the applicant and insurance producer as to whether the applicant had an
16 existing policy or contract;

17 b. Lincoln National allegedly violated A.R.S. § 20-1241.04 (E) by
18 failing to obtain with life applications a replacement notice in a form approved by the
19 director;

20 c. Lincoln National allegedly violated A.R.S. § 20-1241.04 (H) by
21 failing on both life and annuity applications to notify the producer and applicant of the
22 outstanding replacement requirements that needed to be fulfilled or did not fulfill the
23 incomplete requirement;

24 d. Lincoln National allegedly violated A.R.S. § 20-1241.05 (C) by
25 failing on both life and annuity applications to notify the existing insurer that may be

1 affected by the proposed replacement within five business days of the receipt of a
2 completed application indicating replacement;

3 e. Lincoln National allegedly violated A.R.S. § 20-1241.05 (G)(1) by
4 failing on life applications to obtain a statement signed by the producer stating that the
5 producer used only sales material which had been approved by the Company.

6 f. Lincoln National allegedly violated A.R.S. § 20-1241.05 (G)(2) by
7 failing on life applications to notify the applicant within ten days of the issuance of the
8 contract that the producer made a representation that only approved sales materials
9 were used and that the producer had provided copies of those sales materials to the
10 applicant;

11 g. Lincoln National allegedly violated A.R.S. § 20-1241.06 (B) by
12 failing upon receipt of a request to borrow, surrender or withdraw life insurance policy
13 values or annuity contract values to have procedures in place to send the required
14 notice separate from the check if the check was sent to anyone other than the policy
15 owner.

16 3. Lincoln National allegedly violated A. R. S. § 20-1242.02 (A) by using a
17 buyer's guide for annuity applicants that was not in a form approved by the Director.

18 **ORDER**

19 **IT IS ORDERED THAT:**

20 1. The Lincoln National Life Insurance Company shall:

21 a. use annuity application forms and contract forms that contain a
22 compliant Free Look notice, or contain a Free Look notice that includes a statement
23 notifying contract holders age 65 years or older on the date of the application that they
24 had 30 days after delivery in which to return the annuity contract for a full refund of all
25 monies paid, or a statement notifying contract holders that, upon written request, the

1 insurer is required to provide within a reasonable time reasonable factual information
2 regarding the benefits and provisions of the annuity contract to the contract holder;

3 b. obtain with or as a part of the application for the annuity contract a
4 statement signed by the applicant and insurance producer as to whether the applicant
5 had an existing policy or contract;

6 c. obtain with life applications a replacement notice in a form approved
7 by the director;

8 d. obtain with or as a part of the application for the annuity contract a
9 statement signed by the applicant and insurance producer as to whether the applicant
10 had an existing policy or contract, or obtain with life applications a replacement notice
11 in a form approved by the director, and notify the producer and applicant that
12 outstanding requirements need to be fulfilled, or fulfill the incomplete requirements;

13 e. notify the existing insurer that may be affected by the proposed
14 replacement within five business days of a completed life or annuity application which
15 indicates replacement;

16 f. obtain a statement signed by the producer stating that the producer
17 used only sales material with life applications which had been approved by the
18 Company;

19 g. notify the applicant within ten days of the issuance of life contracts
20 that the producer made a representation that only approved sales materials were used
21 and that the producer had provided copies of those sales materials to the applicant;

22 h. send the required notice separate from the check, if the check was
23 sent to anyone other than the policy owner, upon receipt of a request to borrow,
24 surrender or withdraw life insurance policy values or annuity contract values;

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1 i. use a buyer's guide for annuity applicants that is in a form approved
2 by the Director.

3 2. Within 90 days of filed date of this Order, Lincoln National shall submit to
4 the Arizona Department of Insurance, for approval, evidence that corrections have
5 been implemented and communicated to the appropriate personnel, regarding all of
6 the items listed above in Paragraph 1 of the Order section of this Consent Order.
7 Evidence of corrective action includes but is not limited to memos, bulletins, E-mails,
8 correspondence, procedures manuals, print screens and training materials.

9 3. The Department shall be permitted, through authorized representatives,
10 to verify that Lincoln National has complied with all provisions of this Order.

11 4. Lincoln National shall pay a civil penalty of \$45,000.00 to the Director for
12 deposit in the State General Fund in accordance with A.R.S. § 20-220(B). This civil
13 penalty shall be provided to the Market Conduct Examinations Section of the
14 Department prior to the filing of this Order.

15 5. The Report of Examination of the Market Conduct Affairs of The Lincoln
16 National Life Insurance Company dated March 31, 2005 including the letter submitted
17 in response to the Report of Examination, shall be filed with the Department after the
18 Director has filed this Order.

19 DATED Arizona this 15th day of October, 2007.

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21 
22 Christina Urias
23 Director of Insurance

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1 **CONSENT TO ORDER**

2 1. The Lincoln National Life Insurance Company has reviewed the
3 foregoing Order.

4 2. The Lincoln National Life Insurance Company admits the jurisdiction of
5 the Director of Insurance, State of Arizona, neither admits nor denies the foregoing
6 Findings of Fact and Conclusions of Law, and consents to the entry of the Order.

7 3. The Lincoln National Life Insurance Company is aware of its right to a
8 hearing, at which it may be represented by counsel, present evidence, and cross-
9 examine witnesses. The Lincoln National Life Insurance Company irrevocably waives
10 its right to such notice and hearing and to any court appeals related to this Order.

11 4. The Lincoln National Life Insurance Company states that no promise of
12 any kind or nature whatsoever was made to it to induce it to enter into this Order and
13 that it has entered into this Consent Order voluntarily.

14 5. The Lincoln National Life Insurance Company acknowledges that the
15 acceptance of this Order by the Director of Insurance, State of Arizona, is solely to
16 settle this matter against it and does not preclude any other agency or officer of this
17 state or its subdivisions or any other person from any other civil or criminal
18 proceedings, whether civil, criminal, or administrative, as may be appropriate now or in
19 the future.

20 6. Christine S. Frederick, who holds the office of
21 Vice President &
22 Chief Compliance Officer of The Lincoln National Life Insurance Company, is
23 authorized to enter into this Order for it and on its behalf.

24 **THE LINCOLN NATIONAL LIFE INSURANCE COMPANY**

25 10/05/2007
Date

By: Christine S. Frederick

1 COPY of the foregoing mailed/delivered
2 this 16th day of October, 2007, to:

3 Gerrie Marks
4 Deputy Director
5 Mary Butterfield
6 Assistant Director
7 Consumer Affairs Division
8 Paul J. Hogan
9 Market Oversight Administrator
10 Market Oversight Division
11 Dean Ehler
12 Assistant Director
13 Rates & Regulations Division
14 Steve Ferguson
15 Assistant Director
16 Financial Affairs Division
17 Alan Griffieth
18 Chief Financial Examiner
19 Alexandra Schafer
20 Assistant Director
21 Life and Health Division
22 Terry L. Cooper
23 Fraud Unit Chief

24 DEPARTMENT OF INSURANCE
25 2910 North 44th Street, Suite 210
Phoenix, AZ 85018

Cheryll A. Miller
Compliance Department – Insurance Products
The Lincoln National Life Insurance Company
1300 South Clinton Street
Fort Wayne, IN 46802

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