

STATE OF ARIZONA  
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DEPT. OF INSURANCE

**REPORT OF TARGETED EXAMINATION  
OF  
HARTFORD LIFE INSURANCE COMPANY**

**NAIC# 88072**

**AS OF**

**MARCH 31, 2005**

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**JANET NAPOLITANO**  
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**CHRISTINA URIAS**  
Director of Insurance

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Honorable Christina Urias  
Director of Insurance  
State of Arizona  
2910 North 44<sup>th</sup> Street, Suite 210  
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

**HARTFORD LIFE INSURANCE COMPANY**

**NAIC # 88072**

The above examination was conducted by James R. Dargavel, FLMI, CIE, Examiner-in-Charge, Mel Mohs, CIE, Senior Market Examiner, and Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor.

The examination covered the period of October 1, 2004 through March 31, 2005.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,


A handwritten signature in cursive script that reads "Paul J. Hogan".

Paul J. Hogan, FLMI, ALHC, CI, CIE  
Market Oversight Administrator  
Market Oversight Division

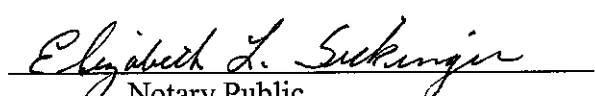
**AFFIDAVIT**

STATE OF ARIZONA                    )  
  )    ss.  
County of Maricopa                 )

I, James R. Dargavel, FLMI, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Mel Mohs, CIE, Senior Market Examiner and Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, the Examination of Hartford Life Insurance Company, hereinafter referred to as the "Company." was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management, as the Examination was not finalized. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and that any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

  
James R. Dargavel, FLMI, CIE  
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 30<sup>th</sup> day of November, 2006.

  
Notary Public

My Commission Expires Jan. 17, 2009



## FOREWARD

This targeted market examination of Hartford Life Insurance Company ("Company" or "HTF") was prepared by employees of the Arizona Department of Insurance ("Department") as well as independent examiners contracting with the Department. A targeted market examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following components of the Company's annuity business:

1. Provide a proper "free look period" for annuity contracts.
2. Communicate all of the required disclosures relative to annuity contracts.
3. Use of proper replacement practices.

## SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market examination of the Company covered the period from October 1, 2004 through March 31, 2005 for the business reviewed. The purpose of the examination was to determine: (1) if the Company uses annuity applications and contracts that contain the appropriate notice regarding Free Look and premium refund requirements; (2) if the Company utilizes annuity replacement procedures and practices, and provides training to its producers that complies with the applicable statutes; (3) if the Company uses compliant procedures for processing annuity refunds requested during the Free Look and 30 day option period; and (4) if the Company provides the required disclosure documents, buyer's guide and annual reports on all annuity applications in compliance with the applicable statutes. This examination targeted the top 75% of the Arizona individual life and annuity insurance market.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by sample involves the review of a selected number of records from within the population. Due to

the small size of some populations examined, examination by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of annuity new business files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Mr. Shane McCann, Market Conduct Manager. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met". The standard in the areas of procedures, forms and policy forms use will not be met if any exception is identified.

### **EXECUTIVE SUMMARY**

This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page seven.

The Company failed Standard No. 1 because:

1. It used 20 annuity application forms that failed to include a free look notice on or attached to the application form.

2. It used four annuity contract forms that contained a free look notice that failed to state that upon written request, the insurer is required to provide within a reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder.

3. It used three variable annuity contract forms that contained a free look notice that failed to offer the right to return the annuity contract for a refund of the value of the separate accounts plus the fees and other charges that were paid.

The Company failed Standard No. 3 because:

1. It used a report on replacements that failed to include a listing that was indexed by the replacing producers and existing insurers.

2. It failed to provide a procedure, as the existing insurer, to advise the contract owner:

- a. Of the right to receive information about the existing contract values, within five business days of receiving a replacement notice.

3. It failed on 80 annuity external and internal replacement applications, within ten days of issuance of the contract to:

- a. Provide a notice to the applicant that the producer made a representation about leaving sales materials, from a person whose duties are separate from the marketing area of the Company; and
- b. Advise the applicant of the importance of retaining copies of the sales materials for future reference.

The Company passed Standards No. 2, 4 and 5.

### STANDARD 1

#### The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.	A.R.S. § 20-1233(A), (B) & (C)

The Examiners reviewed HTF's annuity application and policy forms to determine if those forms contained notices that state the policyholder's right to request information regarding benefit and contract provisions, and the right to return the contract for a refund of premium.

#### Procedures Performed:

During the Phase I Examination, the Examiners reviewed six annuity application forms, six annuity contract forms and a random sample of 38 of 1122 HTF annuity new business application files selected from the new business issued, external and internal replacement and free look canceled populations. During the Phase II Examination, the Examiners reviewed an additional 46 new business external replacement files and 16 internal replacement files selected randomly from the above listed population.

#### Findings:

Six application forms failed to contain a free look notice on or attached to the application form. [PF 001]

Four contract forms contained a free look notice that failed to state that upon written request, the insurer is required to provide within a reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder. [PF 002]

Three variable annuity contract forms contained a free look notice that failed to offer the right to return the annuity contract for a refund of the value of the separate accounts plus the fees and other charges that were paid. [PF 003]

During their review of the 100 annuity files the Examiners identified 14 additional annuity application forms, that were not included with the annuity forms review, and that failed Standard 1. The 14 forms failed to contain a free look notice on or attached to the application form. [PFs 007, 008, 013, 019, 020 and 026]

Application Form Number	Application Form Number	Contract Form Number
APP03HLI-D	HL-16592-6	LA-VA03
APP03HLI-DNCDSC	HL-16592-7	LA-VAXC03
APP03HLI-DXC	HL-16594-7	LA-ASHARE03
APP03HLI-DOUT	HL-16695-8	LA-NCDSC03
HLASHAPP2003-D	HL-16695-9	ILA-IMVA96AZ
HL-16053-13	HL-16695-10	ILA-IMVA96PCAZ
APP03HLI-L	HL-17829-5	
APP04HLI-D	HL-17829-7	
APP04HLI-L	HLASHAPP99	
HL-16034-7	eSNAP	

**ANNUITY CONTRACTS AND APPLICATION FORMS**

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
20	Application forms	N/A	A.R.S. §20-1233(A)
4	Contract forms	N/A	A.R.S. §20-1233(A)
3	Contract forms	N/A	A.R.S. §20-1233(B)

**Recommendation No. 1**

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company uses annuity application forms and annuity contract forms that contain a compliant Free Look notice.



**Subsequent Events**

*The Company stated that they have corrected the failure to provide a Free Look notice with the application by attaching a separate Free Look notice to each application form. A copy of the separate Free Look notice was provided to the examiner.*

*The Company stated that the front page of the annuity contract forms have been revised to include the statement that, upon written request, the insurer is required to provide within a reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder. A copy of a revised contract front page was provided to the examiner.*

**STANDARD 3**

**The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:**

<b>#</b>	<b>STANDARD</b>	<b>Regulatory Authority</b>
<b>3</b>	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.	A.R.S. § 20-1241.02; 20-1241.04, 20-1241.05, 20-1241.06, and 1241.07.

The Examiners reviewed HTF's procedures pertaining to producer and Company requirements in connection with replacement of annuity contracts.

**Procedures Performed:**

During the Phase I Examination, the Examiners reviewed the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories, and follow-up requests.

During the Phase I Examination, the Examiners reviewed a random sample of 28 of 1093 HTF annuity new business application files selected from the issued new business, external replacement new business and internal replacement new business populations. During the Phase II Examination, the Examiners reviewed an additional 46 new business external replacement files and 16 internal replacement files selected randomly from the above listed population.

**Findings:**

In response to the Department's inquiry, the Company provided a sample report on replacements that failed to include a listing that was indexed by the replacing producers and existing insurers. [PF 004]

In response to the Department's inquiry, the Company has no procedure in place to advise the contract owners:

a. That they have a right to receive information about their existing contract values, within five business days of receiving a replacement notice. [PF 005]

Eighty of 80 (100%) annuity external and internal replacement new business files reviewed failed Standard 3 because, within ten days of the issuance of the contract, the Company:

a. Failed to provide a notice to the applicant, from a person whose duties are separate from the marketing area of the Company, that the producer made a representation about leaving sales materials; and

b. Failed to advise the applicant of the importance of retaining copies of the sales materials for future reference. [PFs 012, 018, 025 and 027]

**COMPANY AND PRODUCER REQUIREMENTS REGARDING REPLACEMENT**

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
1	Forms	N/A	A.R.S. §20-1241.04(C)(5)
1	Procedures	N/A	A.R.S. §20-1241.06(A)(2)
80	80	100%	A.R.S. §20-1241.05(G)(2)(a)(c)

**An error ratio greater than 5% does not meet standards; therefore recommendations are warranted.**

**Recommendation No. 2**

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company provides a) a report on replacements that includes a listing indexed by the replacing producer and existing insurer; b) advice to contract owners, within five business days of receiving a replacement notice, about their right to information about existing contract values; and c) a notice to the applicant, from a person whose duties are separate from the marketing area of the Company, within ten days of the issuance of the contract that the insurance producer made the representation about leaving only approved sales materials, and that the applicant should retain copies of the sales materials for future reference.

**Subsequent Events**

*The Company revised the report on replacements to index the replacements by the replacing producer and the existing insurer. A revised report on replacements was provided to the examiner.*

*Regarding Form HL-16558-3, used to provide notice to the applicant within ten days of issuance of the contract, the Company added language, required by A.R.S. §20-1241.05(G)(2)(c), advising the applicant of the importance of retaining copies of the sales materials used in the sale for future reference.*

**SUMMARY OF STANDARDS**

#	STANDARD	PASS	FAIL
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.		X
2	Company producer training procedures and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.	X	
3	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.		X
4	Company procedures for processing refunds under the "Free Look" option, or the 30 day option, if the application involved replacement of existing coverage, are in compliance with applicable statutes, rules and regulations.	X	
5	Company procedures that require disclosure documents, buyer's guides and annual reports be provided to contract owners are in compliance with applicable statutes, rules and regulations.	X	