



Illinois Department of Insurance

BRUCE RAUNER
Governor

JENNIFER HAMMER
Director

VIA ELECTRONIC MAIL

April 13, 2018

Mr. Richard J. Bielen
President
Protective Life Insurance Company
1620 Westgate Circle, Suite 200
Brentwood, TN 37027-8035

Re: Protective Life Insurance Company, NAIC 68136
Market Conduct Examination Report Closing Letter

Dear Mr. Bielen:

The Department has reviewed your Company's proof of compliance and deems it adequate and sufficient. Therefore, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report and Stipulation and Consent Order available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Michael P. Rohan".

Michael P. Rohan
Deputy Director
Consumer Education and Protection
Illinois Department of Insurance
122 S. Michigan Avenue, 19th Floor
Chicago, IL 60603
Phone: 312-814-8206
E-mail: Michael.Rohan@Illinois.gov

ILLINOIS DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION
OF
PROTECTIVE LIFE INSURANCE COMPANY

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: June 19, 2017 through November 7, 2017

EXAMINATION OF: Protective Life Insurance Company
NAIC Number: 68136

LOCATION: 2801 Highway 280 South
Birmingham, AL 35223

PERIOD COVERED
BY EXAMINATION: March 1, 2016 through February 28, 2017

COMPLAINTS REVIEWED: September 1, 2015 through February 28, 2017

EXAMINERS: Victor Negron, CIE, MCM, FLMI, IR
Craig L. Leonard, CIE, CPCU, CCP, FLMI, ARC, AIAF
Michael Currier, MCM
Tim Kelley, JD, CIE, MCM
Sheri Kenney, CFE, MCM
Sheri Marston, CIE, ARC, AMCM

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I. SUMMARY

A comprehensive market conduct examination of Protective Life Insurance Company was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

The following represent general findings, however specific details are found in each section of the report.

TABLE OF VIOLATIONS						
Crit	Statute/Rule	Description of Violations	Population	Files Reviewed	Number of Violations	Error %
5	50 Ill. Adm. Code 917.70(b)	Marketing and Sales: External Annuity Replacements – Company failed to obtain Exhibit A from the producer and/or Exhibit A was not dated.	36	36	2	6%
6	50 Ill. Adm. Code 917.70(c)	Marketing and Sales: External Annuity Replacements – Company failed to provide Exhibit B to the existing insurer (timely/or at all).	36	36	20	56%
7	50 Ill. Adm. Code 3120.60(a)	Marketing and Sales: External Annuity Replacements – Producer solicited business prior to completing the required training.	36	36	1	3%
9	50 Ill. Adm. Code 1406.80(a)(2)	Underwriting and Rating: Individual Life Policies Issued – Company failed to ensure a revised illustration was signed as required.	3,839	110	1	1%
12	215 ILCS 5/1005(B)(4)	Operations and Management: Privacy Notices – Company’s PLICO Privacy Notice 1-2013 did not fully comply with privacy requirements.	12	12	1	8%
13	215 ILCS 5/224(2)	Marketing and Sales: External Life Replacements – Company failed to provide the existing insurer the required policy summary within 3 days of new policy issuance.	1,072	111	110	99%
15	50 Ill. Adm. Code 917.70(c)	Marketing and Sales: External Life Replacements – Company failed to timely provide Exhibit B to the existing insurer.	1,072	111	9	8%
16	50 Ill. Adm. Code 917.70(b)	Marketing and Sales: External Life Replacements – Company failed to obtain Exhibit A from the producer and/or Exhibit A was not dated.	1,072	111	4	4%
17	50 Ill. Adm. Code 1406.80(a)(1)	Marketing and Sales: External Life Replacements – Company failed to ensure illustration was signed as required.	1,072	111	1	1%
18	50 Ill. Adm. Code 917.70(d)	Marketing and Sales: External Life Replacements – Company failed to maintain copies of the replacement notices.	1,072	111	2	2%
19	215 ILCS 5/224(1)(l)	Claims: Paid Life (TPA Liberty National) – Company failed to notify the beneficiary of the claim interest accrual requirements.	2	2	2	100%
20	215 ILCS 5/500-80(a)	Producer Review: Producer Licensing – Company accepted business from and paid commissions to unlicensed agents.	7,352	483	2	<1%

TABLE OF VIOLATIONS

Crit	Statute/Rule	Description of Violations	Population	Files Reviewed	Number of Violations	Error %
21	215 ILCS 5/224(1)(l)	Claims: Paid Life – Company failed to notify the beneficiary of the claim interest accrual requirements.	607	105	38	36%
22	50 Ill. Adm. Code 919.70(a)(1)(A)	Claims: Paid Life – Company failed to perform a search for additional policies upon notification of death of the insured.	607	105	3	3%

II. BACKGROUND

Protective Life Insurance Company

Protective Life Insurance Company (“Protective” or “Company”) is domiciled in Tennessee, was founded in 1907 and is a wholly owned subsidiary of Protective Life Corporation, which is itself a wholly owned subsidiary of Dai-ichi Life Holdings, Inc. as of February 1, 2015.

Protective is licensed in 49 states (except New York), American Samoa, Guam, Northern Mariana Islands, Puerto Rico, U.S. Virgin Islands and the District of Columbia as a life and annuity insurer.

Protective markets fixed and variable annuity products as well as fixed universal life, indexed universal life, variable universal life, bank-owned life insurance and term life insurance.

The Company utilizes a network of independent insurance agents and brokers, broker/dealers, financial institutions, independent marketing organizations and affinity groups.

Year	Total Written Premium in Illinois (Per Schedule T of the Annual Statement)	Illinois Market Share
2016	\$109,537,559	3.67%

III. METHODOLOGY

The market conduct examination places emphasis on an insurer's systems and procedures used in dealing with insureds and claimants. The period under review was generally March 1, 2016 through February 28, 2017, with complaints reviewed for the period September 1, 2015 through February 28, 2017. Specifically, the examination focused on reviews of the following areas:

- A. Operations and Management
- B. Complaint Handling
- C. Marketing and Sales
- D. Producer Licensing
- E. Policyholder Service
- F. Underwriting and Rating
- G. Claims

The reviews were completed through examination of internal audits, TPA contracts and agreements, complaint files, advertising materials, producer files, new business application files, and claim files. Each of the categories was examined for compliance with Illinois Department of Insurance rules and regulations and applicable state laws.

This report includes practices performed by Protective Life Insurance Company which resulted in failure to comply with Illinois statutes and the Illinois Administrative Code. Written criticisms were provided to Protective, which addressed violations discovered in the review process. All violations are cited in this report.

The following methods were used to obtain the required samples and to assure a statistically accurate and methodical selection. The samples were developed from Company-generated data. The sample size was based on the most recent NAIC Market Regulation Handbook. Random samples were generated using Audit Command Language software and the selected samples were provided to the Company for retrieval.

Operations and Management

The review of the Company's Operations and Management is designed to determine how the Company operates. Examiners reviewed both publicly available documents, such as prior market conduct examinations and annual statements; and internal documents, such as the Company's policies, procedures, board minutes, internal audits and external audits. In addition, the Company's privacy forms were reviewed.

Examiners also reviewed the Market Conduct Annual Statement ("MCAS") submissions for calendar years 2014, 2015, and 2016, to ensure accuracy and completeness.

Complaint Handling

Department of Insurance and Consumer Complaints for the period of September 1, 2015 through February 28, 2017, were reviewed for compliance with applicable state laws and Company guidelines.

Department of Insurance (“DOI”) Complaints – The population request for this category consisted of complaints received from the Illinois DOI during the examination period. The Company’s complaint log was reconciled with the individual file information and DOI records to determine completeness and accuracy of data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

Consumer Complaints – The population request for this category consisted of complaints received directly from consumers by the Company during the examination period. The Company’s complaint log was reconciled with the individual file information to determine completeness and accuracy of data recorded. Each complaint file, along with the underlying claim or underwriting file, was reviewed for compliance with regulatory requirements.

Marketing and Sales

The Marketing and Sales portion of the examination is designed to evaluate the representations made by the Company about its products and services to both consumers and producers. Items requested for this category consisted of all sales, advertising, producer training and producer communications used during the examination period. A sample of materials was reviewed for compliance with regulatory requirements. In addition, life and annuity internal and external replacements were also reviewed for compliance with proper required notifications and producer training requirements.

Producer Licensing

Producer licensing and terminations were reviewed for compliance with statutory requirements. Producer licensing was reviewed as part of the new business samples selected for the underwriting and rating reviews for both life and annuities. There were no terminations for cause during the period of the examination.

Policyholder Service

The Policyholder Service portion of the examination is designed to test the Company’s compliance with non-forfeiture options and policy cash surrender requirements. Samples of life non-forfeitures and life and annuity surrenders were reviewed.

Underwriting and Rating

The Underwriting and Rating portion of the examination included a review of the policy issuance and declination process for the various life and annuities products sold by the Company, including determining if all required notices were provided. The review also included verification that forms were properly filed and in compliance with Illinois statutes and the Illinois Administrative Code.

Claims

Claims samples were selected based on settlements occurring within the examination period and reviewed for compliance with policy contracts and applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*).

IV. SELECTION OF SAMPLES

	<u>Total Files</u>	<u># Reviewed</u>	<u>% Reviewed</u>
Operations and Management			
Internal/External Audits	116	31	27%
Board Minutes	4	4	100%
Third Party Administrator Agreements	15	15	100%
Prior Examination Reports	6	6	100%
Privacy Notices	12	12	100%
MCAS Reports	6	6	100%
Filing Certifications	1	1	100%
Complaint Handling			
DOI Complaints	10	10	100%
Consumer (Non-DOI) Complaints	12	12	100%
Marketing and Sales			
Marketing and Sales Materials	34	34	100%
Internal Life Replacements	104	3	3%
External Life Replacements	1,072	111	10%
Internal Annuity Replacements	1	1	100%
External Annuity Replacements	36	36	100%
Producer Licensing	7,352	483	7%
Policyholder Services			
Non-forfeitures – Life	39	39	100%
Life Surrenders	465	39	8%
Variable Life Cash Surrenders	37	4	11%
Annuity Cash Surrenders (Fixed)	700	57	8%
Annuity Cash Surrenders (Variable)	192	16	8%
Annuity Cash Surrenders (Acquired Business)	8	1	13%
Underwriting and Rating			
Individual Life Policies Issued (Indexed UL)	118	3	3%
Individual Life Policies Issued (Ordinary Life)	49	1	2%
Individual Life Policies Issued (Term Life)	27	1	4%
Individual Life Policies Issued (Universal Life)	3,839	110	3%
Annuity Contracts Issued (Fixed)	161	48	30%
Annuity Contracts Issued (Immediate)	4	1	25%
Annuity Contracts Issued (Variable)	119	35	29%
Declined Life Applications	1,714	114	7%
Declined Annuity Applications	17	17	100%
Claims			
Paid Life	607	105	17%
Paid Life (TPA Liberty National)	2	2	100%
Paid Annuity (IMS)	30	7	23%
Paid Annuity (TLS)	78	18	23%
Paid Annuity (ADMI)	250	57	23%
Paid Annuity (CWA)	1	1	100%
Life Waiver of Premium	2	2	100%
Denied Life	2	2	100%

V. FINDINGS

A. Operations and Management

1. Internal/External Audits

No violations were noted.

2. Filing Certifications

No violations were noted.

3. Controls of Computer Information

No violations were noted.

4. Board Minutes

No violations were noted.

5. Prior Examination Reports

No violations were noted.

6. Third Party Administrator Agreements

No violations were noted.

7. Privacy Notices

In one (1) instance of 12 forms reviewed, the Company's PLICO Privacy Notice 1-2013 did not fully comply with privacy requirements as required by 215 ILCS 5/1005(B)(4) (Crit #12). The form did not contain a description of the rights established in Sections 1009 (Access to Recorded Personal Information) and 1010 (Correction, Amendment or Deletion of Recorded Personal Information) and the manner in which such rights may be exercised. A description of these rights and the manner in which such rights may be exercised was provided separately in the Company's "PL-DIP" (Description of Information Practices) form. However, the "PL-DIP" form was only provided to Life Insurance applicants. Annuity applicants did not receive the "PL-DIP" form based on the Annuity Application Packet provided by the Company.

8. Market Conduct Annual Statement Reports

No violations were noted.

B. Complaint Handling

1. Department of Insurance Complaints

No violations were noted.

2. Consumer (Non-Department of Insurance) Complaints

No violations were noted.

C. Marketing and Sales

1. Advertising Materials

No violations were noted.

2. Internal Life Replacements

No violations were noted.

3. External Life Replacements

In 110 instances of 111 policies reviewed, the Company failed to provide the policy summary to the existing insurer within 3 days of policy issuance as required by 215 ILCS 5/224(2) (Crit #13).

In nine (9) instances of 111 policies reviewed, the Company failed to timely provide Exhibit B to the existing insurer as required by 50 Ill. Adm. Code 917.70(c) (Crit #15).

In four (4) instances of 111 policies reviewed, the Company failed to provide evidence that Exhibit A was provided to the applicant as required by 50 Ill. Adm. Code 917.70(b) (Crit #16). In three (3) files, Exhibit A was not obtained by the Company and in one (1) file, Exhibit A was not signed and dated to demonstrate presentation at the time of application.

In one (1) instance of 111 policies reviewed, the Company failed to comply with illustration requirements as required by 50 Ill. Adm. Code 1406.80(a)(1) (Crit #17). An illustration was used but not signed in accordance with the statutory requirement.

In two (2) instances of 111 policies reviewed, the Company failed to maintain copies of the replacement notices as required by 50 Ill. Adm. Code 917.70(d) (Crit #18).

4. Internal Annuity Replacements

No violations were noted.

5. External Annuity Replacements

In two (2) instances of 36 replacement policies reviewed, the Company failed to obtain evidence that Exhibit A was provided to the applicant as required by 50 Ill. Adm. Code 917.70(b) (Crit #5). In one (1) file, Exhibit A was not included in the file. In the other file, Exhibit A was not dated to demonstrate presentation at the time of application.

In 20 instances of 36 replacement policies reviewed, the Company failed to provide Exhibit B to the existing insurer as required by 50 Ill. Adm. Code 917.70(c) (Crit #6). In 19 files, the Company failed to forward Exhibit B to the existing insurer timely. In one (1) file, Exhibit B was not forwarded to the existing insurer at all.

In one (1) instance of 36 replacement policies reviewed, the producer solicited business prior to completion of the producer training as required by 50 Ill. Adm. Code 3120.60(a) (Crit #7). The producer used the same application to resubmit and just initialed the revised dates.

D. Producer Review

1. Producer Licensing

In two (2) instances of 483 new business policies reviewed, the Company accepted business and paid commissions to unlicensed agents. This is a violation of 215 ILCS 5/500-80(a) (Crit #20).

2. Producer Terminations

There were no terminations for cause during the scope of the examination.

E. Policyholder Service

1. Extended Term / Reduced Paid-Up Non-Forfeiture

No violations were noted.

2. Life Cash Surrenders

No violations were noted.

3. Annuity Cash Surrenders

No violations were noted.

F. Underwriting and Rating

1. Individual Life Policies Issued

In one (1) instance of 110 policies reviewed, the Company failed to comply with illustration requirements as required by 50 Ill. Adm. Code 1406.80(a)(2) (Crit #9). A revised illustration was used but not signed in accordance with the statutory requirement.

2. Annuities Issued

No violations were noted.

3. Declined Life Applications

No violations were noted.

4. Declined Annuity Applications

No violations were noted.

G. Claims

1. Paid Life

In 38 instances of 105 files reviewed, the Company failed to notify the beneficiary of the claim interest accrual requirements as required by 215 ILCS 5/224(1)(1) (Crit #21).

In three (3) instances of 105 files reviewed, the Company failed to perform a search for additional policies upon notification of death of the insured as required by 50 Ill. Adm. Code 919.70(a)(1)(A) (Crit #22). The screen shots provided for the three (3) claims were dated after the examiner requested the information. The search was not performed at the time of the claim.

2. Paid Life (TPA Liberty National)

In two (2) instances of two (2) files reviewed, the Company failed to notify the beneficiary of the claim interest accrual requirements as required by 215 ILCS 5/224(1)(1) (Crit #19).

3. Paid Annuity

No violations were noted.

4. Life Waiver of Premium
No violations were noted.
5. Denied Life
No violations were noted.

VI. INTERRELATED FINDING

The Company did not process a policy surrender effective the date it was requested (October 25, 2016). This was a Florida contract since the owner of the policy was from Florida, but the insured was an Illinois resident. By cancelling effective October 31, 2016, when the Company received the second request, the surrender resulted in an underpayment of \$316.40. The Company has corrected the error and on August 29, 2017, submitted the underpayment to the client's custodial account. A copy of the electronic funds transfer was provided to the examiners.

STATE OF FLORIDA)
) ss
COUNTY OF MARION)

Victor M. Negrón, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of Protective Life Insurance Company (the "Company"), NAIC #68136.

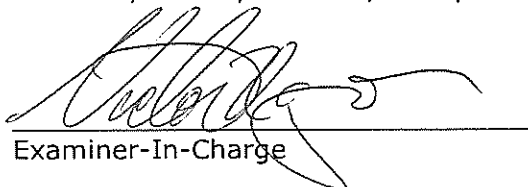
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

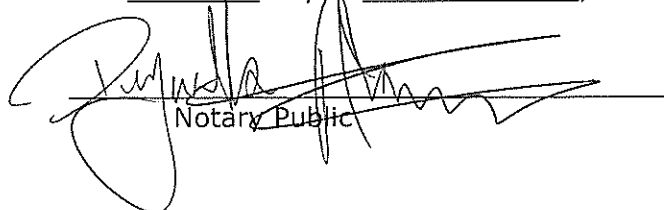
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That she/he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.


Examiner-In-Charge

Subscribed and sworn to before me
this 7th day of November, 2017.

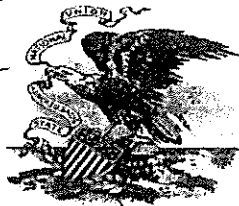

Notary Public



Reynaldo Alvarez
State of Florida
MY COMMISSION NO. FF 124633
Expires: May 19, 2018
Bonded through Western Surety Company

STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

PROTECTIVE LIFE INSURANCE COMPANY
1620 WESTGATE CIRCLE, SUITE 200
BRENTWOOD, TN 37027-8035

STIPULATION AND CONSENT ORDER

WHEREAS, the Director of the Illinois Department of Insurance ("Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Protective Life Insurance Company ("the Company"), NAIC 68136, is authorized under the insurance laws of this State and by the Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department examiner filed a Market Conduct Examination Report which is an official document of the Department; and

WHEREAS, the Market Conduct Examination Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands their various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407, and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, they waive any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and Department Regulations; and
2. The Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain policies and procedures whereby the Company shall, in the case of a replacement, provide to the existing insurer Exhibit B, which is the Notice Regarding Proposed Replacement of Life Insurance or Annuity, within three working days after receipt of the application as required by 50 Ill. Adm. Code 917.70(c).
2. Institute and maintain policies and procedures whereby the Company shall provide the existing insurer with a policy summary within 3 working days after the date the replacement policy is issued as required under 215 ILCS 5/224(2).
3. Institute and maintain policies and procedures whereby the Company shall provide notice of the availability of interest on life claims to the beneficiary(s) if payment is delayed beyond 31 days at the time the beneficiary makes the claim as required by 215 ILCS 5/224(1)(l).
4. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above three (3) orders within 30 days of execution of this Order.
5. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$44,750.00 to be paid within 30 days of execution of this Order.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code including, but not limited to, levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of PROTECTIVE LIFE INSURANCE COMPANY




Signature

Steve Callaway

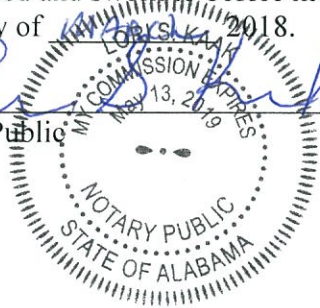
Name

SVP, Senior Counsel & Chief Compliance Officer

Title


Subscribed and sworn to before me this
7th day of May, 2018.


Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE 3/8/2018



Jennifer Hammer
Director

