REPORT

of the

METROPOLITAN LIFE INSURANCE COMPANIES

located in

NEW YORK, NEW YORK

as of

DECEMBER 31, 1998

BY EXAMINERS

of the

STATE OF NEW JERSEY

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF ENFORCEMENT AND CONSUMER PROTECTION

MARKET CONDUCT EXAMINATION UNIT

Date Report Adopted:

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I. INTRODUCTION

This is a report of the market conduct activities of the Metropolitan Life Insurance Companies ("the company", "Met" or "MetLife"). In this report, examiners from the New Jersey Department of Banking and Insurance ("the Department" or "NJDBI") present their findings and recommendations as a result of their market conduct examination. The Market Conduct Examiners were Phyllis A. Sabino, Examiner-In-Charge, Clifton J. Day, Vivien Cosner and Robert Guice.

A. SCOPE AND PURPOSES OF THE EXAMINATION

The examiners reviewed the life insurance and annuity business issued in New Jersey and conducted by the company during the period January 1, 1988 through the present. For the examination, MetLife provided the examiners with lists and computer disks which contained databases that provided consumer complaint, underwriting and policyholder service transaction information. This data allowed selected reviews of certain company transactions through the use of computer queries of the database(s). The examiners conducted this examination at the NJDBI in Trenton, New Jersey, with one visit to the Pearl River, NY policy issuance center on December 1, 1998 to review policy forms and procedures.

Among the purposes of the examination were:

- To determine the accuracy and completeness of MetLife's consumer complaint records.
- To determine if the company acted responsibly concerning information available to it regarding sales practices and agent misconduct.
- To determine the extent and effectiveness of the company's discipline program for company employees, management and brokers who failed to adhere to statutory and company requirements governing replacement sales.
- To ascertain and assess the adequacy of current internal controls MetLife utilizes regarding the sale of insurance financed by other life insurance products.
- To ascertain the degree of the company's marketing efforts involving replacement sales and MetLife's efforts to ensure compliance with New Jersey replacement regulations.
- To ascertain the extent of potential improprieties in the sale of financed insurance, covering the period 1993 through 1997.
- To verify that the company uses filed policy forms.

B. ERROR RATIOS

Error ratios are the percentage of files, which the insurer handled in error. Each file mishandled or not handled in accordance with applicable statutes or regulations is in error. A file will also be counted as an error when it is mishandled or the insured/ claimant is treated unfairly, even if no statute or regulation is applicable. The examiners count one (1) error per file in calculating the error ratio. However, any file, which contains more than one (1) error will be cited more than once in this report. For the most part, this is a report of exceptions uncovered by the examiners in the course of analyses.

For the purpose of the computer analyses conducted, the examiners define an exception as a file or record in a database that does not meet specified criteria set forth in the queries. The file or record has not been reviewed in depth by an examiner. The examiners occasionally find a business practice of an insurer which may be technical in nature or which did not have an impact on consumers. Even though such a practice would not be in compliance with law, the examiners do not count each of these files as in error for determining the error ratios.

The examiners submitted written inquiries to representatives of MetLife on the errors and exceptions cited in this report. These inquiries afforded the company an opportunity to respond to the examiners' findings and to offer explanations for the errors or exceptions reported by the examiners. On those errors and exceptions where the company disagreed, the examiners evaluated the merits of each response and considered all comments. In some instances, the examiners retracted the citations because of the company explanation; in other cases, the examiners retained the citations(s) specified in the inquiries.

N.J.S.A. 17B:30-2 et seq. defines an unfair trade practice as an unfair or deceptive act in the business of life insurance. When the examiners found that errors and exceptions cited constituted a general business practice, they stated that in the report.

C. COMPANY PROFILE

Metropolitan is the second largest life insurance company in the nation as measured by total life insurance in force. Metropolitan Life Insurance Company together with its subsidiaries offers a comprehensive portfolio of individual and group life, annuities, pensions and group health insurance programs. The company has also expanded into mortgage banking, real estate and investment management fields.

Metropolitan operates in all states, the District of Columbia, Puerto Rico and all provinces of Canada. Business is conducted on the branch office plan through approximately 8,100 sales representatives and managers with field operations divided into five geographical divisions. Although the career agency system remains as the core distribution channel, business is also conducted through a network of 500 brokers.

Sales of individual life insurance have dropped significantly, following allegations concerning the sales practices of certain MetLife agents that led to regulatory inquiries about its overall sales practices. In response, MetLife enhanced internal controls, which included a compliance review of all sales materials. These actions, in addition to an overall decreased demand for traditional life insurance and widespread concerns about industry sales practices, have negatively impacted new sales and have increased agent turnover. However, sales from MetLife's other lines of business have remained strong. Individual annuities have been the fastest growing line of business.

II. COMPLAINT DATABASE ANALYSIS

A. INTRODUCTION

In this review, the examiners evaluated the company's complaint handling procedures and checked for compliance with applicable New Jersey insurance laws and regulations. MetLife provided its complaint database including all complaints it received directly and those received through the NJDBI from January 1, 1993 through December 31, 1997. The complaint records indicate that 449 complaints were filed with the NJDBI and 3,065 were filed directly with the company. The examiners completed a database review of all 3,514 complaints logged during this period. The examiners discovered 1,543 errors and exceptions for an error/exception ratio of 44%. In the following table, the examiners provide a breakdown of the errors/exceptions by type of complaint.

ERROR AND EXCEPTION RATIO CHART

TYPE OF COMPLAINT	*POPULATION*	*EXCEPTIONS & ERRORS**	*EXCEPTION & ERROR RATIO**
NJDBI Claims	26	8	31%
NJDBI Non-Claims	423	208	49%
Subtotal-NJDBI	449	216	48%
Direct Claims	72	15	21%
Direct Non-Claims	2,993	1,312	44%
Subtotal-DIRECT	3,065	1,327	43%
TOTALS	3,514	1,543	44%

* Allowing for the 10% offset described below (to account for reopened complaints) yields an overall error ratio of 41%.

B. COMPLAINT LOGS

For analysis, the examiners requested that MetLife provide its complaint database categorized in the following areas of complaint: Claims, Marketing and Sales, Policyholder Services, Underwriting and Miscellaneous. The complaint population breaks down as follows:

CATEGORY	*COUNT*	*% OF TOTAL*
Marketing and Sales	2,011	57%
Policyholder Services	1,175	33%
Claims	98	3%
Underwriting	98	3%
Miscellaneous	132	4%

Within its complaint system, MetLife does not categorize its complaints in the exact categories listed above; they were included at the request of the examiners to facilitate analysis. The standard procedure of MetLife is to put more specific information or a descriptive phrase in the complaint category fields. This logging difference explains the sizable number of entries in the miscellaneous category; anything that did not seem to fit into one of the requested categories was entered as miscellaneous. MetLife maintains its complaint logging system electronically. When the examiners requested the company's official complaint logs, the company retrieved those fields into a database that were needed to comply with N.J.S.A. 17B:30-13.2. The examiners found that MetLife's electronic complaint system maintains more detail than is required by statute; no errors were noted in the complaint log format currently being used.

MetLife had two different complaint tracking systems in place during the review period. The original complaint tracking system was in effect until July 1996 for marketing complaints and January 1997 for operations complaints, at which point the new system was put in place. The two tracking systems were similar except that the new system reflects when a complaint is reopened for additional activity, how many times that occurs, and how long it takes to resolve each reopening. The previous logging system only contained an indicator that a reopening occurred; the time logged was from original opening date to ultimate closure, regardless of how many reopenings occurred.

The examiners' analysis of the complaint database revealed a large number of delayed responses, see the COMPLAINT HANDLING ERRORS section below for more detail. In its response to written inquiries, MetLife stated that 10% of the records in the older tracking system indicated that at least one reopening occurred on the file. As stated above, because the old system does not reflect either the number of reopenings on any given file, nor the resolution time for any reopening, the examiners could not clearly determine the promptness or lack thereof, in the response times of older complaints in which at least one reopening occurred. The examiners cross-referenced the reopening counts to the newer complaint system, which is fully detailed, to verify whether the 10% reopening is a viable number to apply to the older complaint system. The numbers are comparable; the examiners accepted the 10% figure provided by the company. Therefore, the errors cited below are given as two sets of numbers; the first represents the entire population analysis with no offset for the old system reopenings. The second number is reduced by 10% to account for old system reopened complaints that may have resolved in a timely manner. When the category of error was small enough to permit a record by record review, the examiners did so. In these instances, the number is reported as an error count without the 10% offset and is identified as such.

C. COMPLAINT HANDLING ERRORS AND/OR EXCEPTIONS

N.J.A.C. 11:2-17.6(d) and (e) set forth the requirements for promptly and completely responding to complaints and other correspondence. The examiners advised MetLife that the NJDBI expects a complete response within the required time frames, not merely an acknowledgment of receipt. An acknowledgement letter does not suffice as a "complete response" as required by statute and regulation. If the company cannot resolve the complaint within the regulatory time frames, then them it should send a substantive, interim response. In response to the examiners' explanation of the requirements, the MetLife exam coordinator, a corporate Vice President, stated, "While we endeavor to meet these time requirements it is not always possible and we will certainly stress the necessity for providing timely status updates to both the Department and the policyholder in cases where the 15 or 21 day response time cannot be met."

The database review of the complaint population (3,514) during the five-year period, 1993-1997, revealed an exception ratio of 40%, with the 10% offset for the older reopenings. Due to MetLife's the high exception ratio, the examiners consider the company's failure to respond to complaints in a timely manner to be an improper general business practice. MetLife acknowledged these findings and, in discussions with the examiners, generally agreed that the company is not always prompt in its complaint handling methods.

In responding to the filed report with respect to this finding, the company stated, MetLife cannot fully and fairly respond to complaints without obtaining information from outside sources. When the outside sources are dilatory in providing this information, MetLife has only two options: respond to the complaint based upon incomplete information or wait until all relevant information has been gathered. MetLife has chosen to wait until it believes it has sufficient information to respond fully to the complaint." The fact that the company has chosen to wait would undoubtedly have contributed to the delays noted by the examiners. The company is responsible for promptly obtaining such information so that it can meet the timeliness requirements. Improvements in its diary system and frequent follow-up notices for the information may be necessary.

The errors and exceptions are as follows:

1. Failure to Respond In Timely Manner to NJDBI Claim and Non-Claim Complaints
   - 8 Errors (Claims), 208 exceptions/195 exceptions (less 10% offset) (Non-Claims)
   - Improper General Business Practice

N.J.A.C. 11:2-17.6(d) defines the maximum permitted time frame to resolve claim complaints received from the NJDBI to be 15 working days. MetLife failed to respond to the NJDBI in a timely manner on eight of 26 (31%) NJDBI claim complaints received and logged by the company. The examiners reviewed each of these records and no reopenings were revealed; the 10% offset is not necessary. Days to resolve these complaints ranged from a low of 24 days to a high of 107 days.

N.J.S.A. 17B:21-1b requires a prompt response to an inquiry from the NJDBI, on all non-claim related complaints. After completion of a full database review it was determined that MetLife failed to respond in a timely manner to NJDBI non-claim complaints on 208 files of 423 (49%); the exception rate is 195 files of 423 (46%) after the 10% offset to accommodate the older system reopenings. Days to resolve these complaints ranged from a low of 22 days to a high of 210 days.

2. Failure To Respond In Timely Manner To Direct Complaints – 1,327 exceptions/1,211 exceptions (less 10% offset) - Improper General Business Practice

The examiners found 1,327 of 3,065 (43%) direct claim and non-claim complaints resolved in excess of the 15 working day standard outlined above. MetLife delayed 1,312 of 2,993 (44%) direct non-claim complaints; days to resolve ranged from a low of 22 days to a high of 279 days. The exception rate is 1,211 (41%) with the 10% offset for reopened older complaints. The remaining 15 of 72 (21%) direct claim complaints were also delayed; days to resolve ranged from a low of 16 days to a high of 91 days. The examiners reviewed each of the 15 records; no offset of 10% necessary. MetLife did not meet the requirements of N.J.A.C. 11:2-17.6(e), which specifies a maximum 10 working day response period on direct claim complaints.

3. Failure to Include Nature of Complaint in Log - 5 errors

N.J.S.A. 17B:30-13.2 requires the nature of the complaint to be included within the company complaint logging system. MetLife agreed that it failed to include the nature of the complaint on the following five complaints (of 3,514) as required by statute.

COMPANY COMPLAINT ID	POLICY NUMBER
97056038962	800301951A
97079034334	726404616A
97143030133	830663211A
97161028179	880261667A
97311033049	861164991PR

D. ANALYSIS OF COMPLAINTS BY TYPE

The chart in the Complaint Logs section lists the distribution of complaints by category and percentage of total. Marketing and Sales complaints represent 57% of the total complaints logged; Policyholder Services represent 33% of the total. The remaining categories each represent less than 5% of the total; the following analysis focuses on Marketing and Sales complaints.

Marketing And Sales Complaints

Within the Marketing and Sales (2,011) complaint category, are 1,121 misrepresentation and 856 replacement complaints. Combined, these two complaint types made up 98% of the category, and 32% and 24% respectively, of the entire complaint population. In order to analyze frequency distributions of these complaints, the examiners charted annual complaint totals of the two most frequently occurring types of marketing and sales complaints during the five-year period of January 1, 1993 through December 31, 1997. The following chart reflects complaint frequency on a calendar year basis and by type of complaint for the period.

Type of Complaint	1993	1994	1995	1996	1997
Misrepresentation	140	370	265	186	181
Replacements	112	258	239	150	95
Totals	252	628	504	336	276
Population	571	1015	877	575	473
% of All Complaints	44%	62%	57%	58%	58%

The two categories of marketing and sales complaints combined as represented above averaged 200 complaints per year over the five-year data period (1996 complaints/five (5) years). From 1993 to 1994, the misrepresentation complaints experienced a 264% increase; in the same time frame, replacement complaints also increased by 230%. From 1995 through 1997, both categories of complaints fell substantially and continued to decline from year to year. The most notable decline is in the replacement complaint numbers; the number of complaints in 1997 dropped below the numbers for 1993. In response to various inquiries by the examiners concerning the decline, MetLife stated and verified that it instituted multiple measures, among them its Enhanced Compliance Program, to eliminate improper rollover and replacement activity. The measures taken by the company, including the Enhanced Compliance Program, are discussed in greater detail later in the report.

1. Misrepresentation Complaints

Within the misrepresentation category, Met categorized 64 complaints (6%), as specifically involving the Accelerated Payment Plan (APP). The examiners found five additional APP complaints logged in the miscellaneous category; bringing the total APP complaints logged to 69. APP complaints usually do not emerge until several years after the sale of the policy. Such policyholders become dissatisfied when the abbreviation point, which the agent projects will occur several years after the policy is issued, is extended due to dividend decreases.

Of the APP complaints, 51 (74%) were resolved with a “satisfactory explanation given” (company phraseology) to the complainant, with no refunds being issued. The examiners reviewed on the database 25 random records from the 51 and determined that eight of the 25 included reopenings. This means that eight complainants contacted the company more than once (in one instance five times) to effect satisfactory resolution of their APP complaint. The remaining 18 APP complaints (26%) were resolved with a "corrective action taken" (company phraseology) and a refund issued. Corrective action and refund issued may indicate that the complaint is valid. In response to the filed report the company has stated "MetLife's willingness to offer relief to policy holders for unfulfilled expectations does not in any way indicate the existence of improper activity." The examiners saw no disciplinary actions logged against any agent specifically for APP complaints or issues.

The examiners also found among the 1,121 complaints logged as "Misrepresentations", 624 logged as "Misunderstandings", 12 logged as "Unsuitable Recommendations" and one (1) logged as "Decrease Interest Rates." These may include additional APP complaints. The resolutions of these 637 complaints are as follows:

Satisfactory Explanation Given (No Refund Issued)	412
Corrective Action Taken (No Refund Issued)	22
Corrective Action Taken (Refund Issued)	194
No Action Necessary	5
No outcome logged*	4

* Logging errors cited elsewhere in section.

2. Replacement Complaints

MetLife logged a total of 856 replacement complaints, or 24% of entire complaint population. The replacement complaints were resolved as follows:

RESOLUTION ACTION	*NUMBER OF COMPLAINTS*	*% OF REPLACEMENT COMPLAINTS*
Corrective Action Taken (Refund Issued)	552	65%
Corrective Action Taken (No Refund Issued)	140	16%
Satisfactory Explanation Given (Refund Issued)	6	<1%
Satisfactory Explanation Given (No Refund Issued)	143	17%
No Action Necessary	9	1%
Resolution Not Logged*	6	<1%

* Logging errors cited elsewhere in section

Of the 143 replacement complaints resolved with a "satisfactory explanation given" to the complainant with no refunds issued, the examiners reviewed 15 random records. Three of the 15 reviewed were reopened at least once; this may indicate that the complainant was not initially satisfied with the company response to their complaint and additional efforts were necessary to effect a satisfactory resolution.

The examiners determined that the disciplinary records reflect seven actions specifically related to replacement activity; however, only two of the seven agents disciplined for replacement activity had replacement complaints logged against them.

D. SUMMARY

The results of this review include several statutory and regulatory exceptions and errors relative to MetLife's complaint records. Logging errors were found, including several failures to include the nature of complaints as required. In addition, the examiners found that MetLife had a 40% error/exception ratio for late responses to complaints. This results in an Improper General Business Practice for failing to respond to complaints within the required time frames.

The examiners also found that marketing and sales complaints accounted for 57% (2,011) of the 3,514 complaints filed against MetLife. Within this category, misrepresentation and replacements combined to account for 98% of the complaints. Both types of complaints experienced a dramatic increase, 264% and 230% respectively, from 1993 to 1994. However, from 1995 forward, both misrepresentation and replacement complaints consistently decreased. In the case of replacement complaints, the 1997 numbers have fallen to pre-1993 levels. Based on the increase in complaints in 1993-1994, MetLife should have implemented its corrective measures sooner; these measures are addressed elsewhere in this report. Overall, this review indicates that MetLife needs improvement in its complaint handling procedures, with particular emphasis to be placed on response timeliness and accurate logging. See recommendations section for corrective measures.

III. POLICY TRANSACTION AND POLICY REPLACEMENT REVIEW

A. INTRODUCTION

A major focus of this examination was a database analysis of MetLife's policy transactions, specifically policy loans, dividend withdrawals and policy lapses or surrenders and whether uses of existing policy value transactions were related to new business sales. Depending on the circumstances of a new policy sale, and if values from an existing policy served as a source of new business premium, the sale could constitute a replacement transaction subject to New Jersey's replacement regulations.

B. DATABASE ANALYSIS

The examiners received from the company a policy transaction database for the period January 1, 1993 through December 31, 1997, or longer in some categories. For all policies, the NJDBI received the insured's name, policy data (policy number, premium, face amount, mode, effective date), name of agent, marketing information and the current status of any policies in the household. The examiners were particularly interested in the company's systems for monitoring replacement transactions, their ability to identify possible undisclosed replacements and the company's procedures when an undisclosed replacement is discovered.

The examiners requested specific information about new business that occurred in households with existing MetLife policies as well as households without any existing MetLife products. In addition, the database included disbursement records from households with multiple MetLife policies, information about the agent force, the company's Replacement Log, internal tracking records for undisclosed replacements, and recaptured agent commission data. The company provided database consisted of nine tables of information as follows:

Met Master Data Base

Table Name	Date Range
NjexhB1(Matched)	01/01/1993 - 12/31/1997
NjexhB2(No match)	01/01/1993 - 12/31/1997
NjexhB3-Disbursements	01/01/1993 - 12/31/1997
NJ Producer List	N/A
NJ Replacement Register Record	06/04/1993 - 04/01/1998
NJexhb6 Undisclosed	12/25/1989 - 12/19/1997
Njexhb6 Disclosure Not Captured	01/02/1989 - 11/07/1997
Njexhb7 Recaptured Commissions	01/01/1989 - 12/29/1997
Plancode	N/A

NJexhB1 listed policies sold to individuals who already owned (or a household member owned) a MetLife policy(s). NJexhB2 are new policies issued to individuals who purchased policies in households with no other existing MetLife policy. The NJexhB3 table is disbursements data on existing policies, with matched new business in a household including loans, surrenders, dividend withdrawals, withdrawals from Universal Variable life accounts or any combination of the above. NJ Producer List of agent's name and identification number is contained in Table Four. NJ Replacement Register information is in Table Five. NjexhB6 Undisclosed is a list of possible replacements in which the replacement question (Question 12(c) on the application) and/or on the agent's supplementary information form is answered in the negative. In reply to a written inquiry, the company characterizes "Possible replacements" as transactions "identified through use of an electronic system that matches withdrawals from existing policies and new issues within the same household within a specified time period. We have no way of determining whether the withdrawal relates to the new issue." Njexhb6 Disclosure Not Captured are possible replacements where MetLife was unable to determine electronically how the replacement question on the application was answered, even though a disbursement occurred on an existing policy within a specific period of time. Njexhb7 Recaptured Commissions is a policy by policy listing that shows each instance that MetLife recaptured a portion or all of an agent's commission and the reason therefore. Plancode is a translation key for codes identifying policy types.

For all policies, the Department received the insured's name, policy data (policy number, premium, face amount, mode, effective date), name of agent, marketing information and the current status of any policies in the household. For the database review, the examiners scrutinized business written between January 1, 1993 and December 31, 1997. The examiners were particularly interested in the company's systems for monitoring replacement transactions, their ability to identify possible undisclosed replacements and what the company policy is when an undisclosed replacement is discovered.

The examiners developed a set of computer queries to obtain certain information from the databases that MetLife provided in the aforementioned tables. Unless otherwise noted the following date ranges are between January 1, 1993 and December 31, 1997. After removing duplicate records from the databases, these queries provided the examiners with the following information:

1) New policies issued in New Jersey = 118,682
2) New policies matched to existing in household 69,008 = 58% NB
3) Disbursements in households with multiple policies 43,423 = 37% NB
4) New business funded from an existing policy (IFT) 5,906 = 5% NB
5) External replacements from Replacement Register 4,406 = 4% NB
6) Internal replacements from Replacement Register 2,010 = 2% NB
7) Recaptured commissions (Rewritten Business*) 2,880 = 2%NB
   (*According to the company, includes both compliant and non-compliant replacement activity)
8) Undisclosed (possible replacements) 522 <1% NB
9) Disclosure not captured (possible replacements) 1,959 2% NB
10) Accelerated Payment Plans 44 = 0.03% NB

The following table provides a year by year breakdown of matched and unmatched policies and the percentage each representing new business written between 1993 and 1997.

<u>New Business Issues: Matched and Unmatched Households</u>

	1993	1994	1995	1996	1997	Totals
Matched Policies	19,755 (59%NB)	15,778 (60%NB)	14,128 (60%NB)	10,108 (56%NB)	9,239 (54%NB)	69,008 (58%NB)
Unmatched Policies	13,727 (41%NB)	10,682 (40%NB)	9,353 (40%NB)	7,907 (44%NB)	8,005 (46%NB)	49,674 (42%NB)
Totals	33,482	26,460	23,481	18,015	17,244	118,682

During the same period, the examiners found 6,115 (5% NB) disbursements related to matched policies, 5,906 (5% NB) of these disbursements funded new policies. The disbursements included dividend withdrawals, dividend surrenders, loans and policy surrenders. In the following table, the examiners provide a breakdown of disbursements on matched policies by type of transaction:

Transactions and Disbursements in Households with Multiple Policies						
Trans Code	1993	1994	1995	1996	1997	Totals
01	1,726	1,924	1,454	1,573	1,690	8,367
02	3,036	2,797	2,283	1,947	1,712	11,775
03	424	315	270	215	186	1,410
04	2,251	1,262	1,175	1,292	1,226	7,206
05	80	163	194	166	162	765
06	520	442	367	406	317	2,052
10	1,282	1,543	1,460	1,210	1,027	6,522
11	17	19	13	18	16	83
12	759	1,034	1,128	1,144	1,178	5,243
Totals	10,095	9,499	8,344	7,971	7,514	43,423

Transaction Codes

01	Full Cash Surrender	06	Partial Cash Surrender
02	Additional Insurance Surrender	10	Policy Went on Extended Term
03	Withdrawal of Dividends with Interest	11	Policy Became Reduced Paid-up
04	Policy Loans	12	Lapse No Value
05	PUAR Withdrawal		

The table below illustrates an overall decrease in replacement activities for the review period. The table also includes the percentage of the annual new business represented by each category. Except for an increase in external replacements in 1997 and an increase in disclosures not captured (possible replacements as defined above) in

1995, replacement activities have decreased significantly. Internal replacements have fallen by 75% from 1994 through 1997 from a high of 928 in 1994 to a low of 231 in 1997. External replacements decreased 25% over the review period from 1,359 in 1994 to 1,013 in 1997. Commission recaptures due to rewritten business declined steeply by 167% over the period. Undisclosed (possible replacements) decreased by 68% from a high of 554 in 1994 to 176 in 1997. Disclosures not captured (possible replacements) decreased 45% from 58 in 1994 to 32 in 1997.

Replacement Activity

	1994	1995	1996	1997	Totals
Internal Replacements	928	531	245	231	1,935
External Replacements	1,359	1,135	635	1,013	4,142
Recaptured Commissions (on Rewritten Bus.)	721	724	522	271	2,238
Subtotal	**3,008** *(11% NB)*	**2,390** *(10% NB)*	**1,402** *(8% NB)*	**1,515** *(9%NB)*	**8,315** *(10% NB)*
Undisclosed (possible)	554	515	412	176	1,657
Disclosure Not Captured (possible)	58	86	58	32	234
Possible Replacements Subtotals	612	601	470	208	1,891
Grand Totals	**3,620**	**2,991**	**1,872**	**1,723**	**10,206**

Lastly, the examiners determined that 44 new business issues contained some form of accelerated payment (APP) option. The examiners found that 30 of these policies were 1993 issues.

C. RESULTS of REPLACEMENT FILE REVIEW

1. Introduction

N.J.A.C. 11:4-2 et seq. regulates the actions of replacing insurers, their agents and existing insurers, with respect to the replacement of existing insurance, both within the same company and between two different companies. In addition, it protects the interests of life insurance policyholders by establishing minimum standards of conduct of agents and insurers. Compliance with this regulation reduces the opportunity for misrepresentation by the agent by assuring that the policyholder receives information with which to make an informed decision.

N.J.A.C. 11:4-2.2 defines Replacement "as any transaction in which new life insurance is to be purchased, and is known or should be known to the proposing agent, or to the proposing insurer if there is no agent, that by reason of such transaction, existing life insurance has been or is to be:

1. Lapsed, forfeited, surrendered, or otherwise terminated;
2. Converted to reduced paid-up insurance, continued on extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy benefits;
3. Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;
4. Reissued with any reduction in cash value; or
5. Pledged as collateral or subjected to borrowing, whether in a single loan or under a schedule of borrowing over a period of time for amounts in the aggregate exceeding 25 percent of the loan value set forth in the policy."

Throughout the review, the examiners checked for compliance with N.J.S.A. 17B:30, which regulates trade practices and prohibits misrepresentation, and N.J.A.C. 11:4-2 et seq. The examiners obtained the replacement review files from five separate random samples. Of the 119 files reviewed 16 files were multi-funded Universal products not subject to replacement regulations.

Files Reviewed

Sample	Data Date Ranges	Files Reviewed	Files in Error	Error Ratio
Disbursements	01/01/1993 – 12/31/1997	29	0	0
Internal Replacements	06/04/1993 – 12/31/1997	48	1	2%
External Replacements	06/04/1993 – 12/31/1997	15	0	0
Disclosure Not Captured	01/01/1989 – 12/31/1997	25	6	24%
Recaptured Commissions	01/01/1989 – 12/31/1997	2	2	100%
Total		119	9	8%

2. Examiners' Findings

a. Failure of Agent to Respond Accurately Regarding Replacement Transaction - 9 Errors

N.J.A.C. 11:4-2.4(a)1 requires an agent to submit to the replacing insurer a statement signed by the applicant as to whether or not such insurance will replace existing insurance; N.J.A.C. 11:4-2.4(a)2 requires the agent to submit a signed statement indicating whether the agent is aware that a replacement is or may be involved. The examiners found that the company agent did not comply with the regulation on the following nine policies.

New Policy	Issue Date	Data Sample	Triggering Event	Trigger Date	Existing Policy
1. 890-277-005-UL	01/27/89	DC	CS	03/31/89	665-433-437
2. 890-277-139-UL	03/16/89	DC	CS	03/09/90	750-164-884-A
3. 890-279-350-UL	04/07/89	DC	CS	04/13/89	648-106-270-M
4. 891-177-053-UL	12/01/89	DC	CS	12/20/89	831-169-520-PR
5. 900-275-208-UL	03/03/90	DC	CS	03/12/90	13-242-502-A
6. 900-278-563-UL	03/26/90	DC	CS	04/04/90	022-886-540
7. 915-802-118-A	10/03/91	RC	LV	09/91	900-266-829-A
8. 890-866-420-A	08/24/89	RC	CS	11/09/89	770-765-890-PR
9. 956-904-801-M	09/14/95	IR	CS	09/13/95	850-975-298-UL

CS = Cash Surrender
DC = Disclosure not Captured
IR = Internal Replacement
LV = Lapse no Value
RC = Recaptured Commissions

Of the nine policies referenced above, existing policy 900-266-829-A lapsed without value in the month prior to the issue of 915-802-118-A. The remaining eight policies were issued and an existing policy was cash surrendered within plus or minus 12 months of the new issue.

The company disagreed with the examiners' findings on files one through seven above because N.J.A.C. 11:4-2.5(a)vii requires existing insurers to maintain replacement documents for five years or until the conclusion of the next succeeding regular examination by the Insurance Department of its state of domicile, whichever is later. MetLife is domiciled in the state of New York, which concluded in July of 1998 its last regular examination of the company covering the period January 1, 1989 through December 31, 1993. MetLife believes they are required to maintain copies of replacement documentation for the period from June 1993 through the present.

The examiners are continuing to cite the seven files in question for the following reasons: within each of these files, the agent answered the replacement question incorrectly in the negative or not at all. During the file review, the examiners reviewed other policy files that were at least as old, or older, than those being cited herein; the older files contained the appropriate replacement documentation. Therefore, it is apparent that it is MetLife's normal procedure to retain these materials, even beyond the required time frame. In addition, MetLife informed the examiners that due to the "current atmosphere in the industry" it has not purged its file records for several years now, preferring to retain materials longer than normal in the event they are needed for possible litigation support. For these reasons, the examiners do not accept MetLife's argument that the company is not obligated to retain these materials and the error cites for the files noted above will stand.

In the same nine files referenced above, unless otherwise indicated, MetLife did not comply with the following regulations:

b. <u>Failure of Replacing Insurer to Require Replacement Documentation From Agent</u> - 9 Errors

<u>N.J.A.C.</u> 11:4-2.5(a)3 Replacing insurers shall: where a replacement is involved: require from the agent a copy of the "Notice Regarding Replacement of Life Insurance" signed by the applicant, a copy of the Comparative Information Form signed by the agent and the applicant, and a copy of all sales proposals used for presentation to the applicant. In each of the nine new business files charted above, Met failed to require these forms from the agent contrary to this regulation.

c. <u>Failure of Agent to Provide Notice Regarding Replacement of Life Insurance</u> - 9 Errors

Where a replacement transaction is concerned, <u>N.J.A.C.</u> 11:4-2.4(b)1 requires an agent to present to the applicant not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance. The Notice must be signed by and left with the applicant. Because the form is missing it is not possible to determine if the applicant read and signed the Notice Regarding Replacement of Life Insurance.

d. <u>Failure of Agent to Leave Copy of Comparative Information Form with Applicant</u> - 9 Errors

<u>N.J.A.C.</u> 11:4-2.4(b)2 requires an agent to present to the applicant not later than the time of taking the application, a Comparative Information Form (CIF). The agent and the applicant must sign the CIF and leave a copy with the applicant. In each of these files, the required form is missing from the file and the replacement question is answered in the negative.

e. <u>Failure of Agent to Submit Documentation to Replacing Insurer</u> – 9 Errors

<u>N.J.A.C.</u> 11:4-2.4(b)4 requires agents to submit to the replacing insurer with the application, a copy of the "Notice Regarding Replacement of Life Insurance" signed by the applicant, a copy of the Comparative Information Form signed by the agent and the applicant, and a copy of all sales proposals used for presentation to the applicant. The examiners determined that each of these policy transactions was a replacement and the agent failed to submit the required forms to MetLife, the replacing insurer.

f. <u>Failure of Replacing Insurers to Maintain Complete Replacement Register –</u> 9 errors

<u>N.J.A.C</u>. 11:4-2.5(a)3vii requires replacing insurers to maintain a replacement register cross indexed by replacing agent and existing insurer, for at least five years or until the conclusion of the next succeeding regular examination by the insurance department of it's state or domicile, whichever is later. MetLife failed to include these nine files in the Replacement Register as required.

g. Failure of Agent to Provide Sales Proposal -1 Error

N.J.A.C. 11:4-2.4(b)3 requires the agent to leave a copy of all sales proposals with the applicant. The examiners found no evidence of a sales proposal in file 956-904-801M and concluded that a copy was not left with the applicant as required.

h. Failure of Replacing Insurer to Provide Policy Summary - 1 Error

N.J.A.C. 11:4-2.5(a)3vi requires replacing insurers if it is also the existing insurer to provide the policy owner with a policy summary for the new policy. MetLife failed to provide the policy summary in one case. N.J.A.C. 11:4-11.5(a) requires the insurer to deliver with the new policy a copy of the policy summary for the new policy. MetLife failed to provide a copy of this policy summary in policy file 956-904-801M.

3. Company Replacement Detection Methods

For the purpose of replacement detection, MetLife identifies replacements in two ways: by a MetLife representative having marked the application as a replacement (question #A12(c) on the application) and responding to question #4 on the Sales Representative's Report affirmatively, and by internal audit. According to the company, it uses several internal systems that have evolved from the early 1970's; they are discussed elsewhere in the report.

The company has informed the examiners that regardless of the identifying source, when a potential replacement is identified, the manager is responsible for determining whether a replacement has occurred. The underwriter is responsible for assuring that the manager has considered all available information that suggests an undisclosed replacement has occurred. If it is determined that no replacement has occurred, the manager must provide a statement for the file as to why the transaction is not a replacement. The underwriter must concur with the manager's findings. If so, the policy is issued. If the underwriter does not agree, the materials must be returned to the manager and an additional review is requested. Once an agreement is reached, the file is noted and the policy is issued.

When an unreported replacement is identified, the checklist and state required forms must be submitted. Replacement questions on the application must be amended to 'Yes'. Additionally, the sales representative's commissions may be adjusted.

D. SUMMARY

Counting replacements appearing in the company's register and possible replacements identified through MetLife's computer systems, the examiners' found that the company's records revealed an overall decrease in replacement sales as a percentage of new business. This decrease may have resulted from a combination of procedures that

MetLife implemented and the changes in the marketplace and industry. The decrease is consistent with industry trends.

With regard to the results of their review of files, the examiners found an 8% error ratio.

IV. AGENT DISCIPLINARY REVIEW

A. INTRODUCTION

The examiners reviewed records provided by MetLife of agents disciplined during the period beginning late 1995 through 1997. The purpose of this review was to determine the number of agents disciplined, the type and frequency of disciplinary action implemented and the underlying reasons prompting disciplinary activity. The examiners reviewed and analyzed the company's discipline logs to make such determinations.

B. AGENT DISCIPLINE PROCEDURES

1. <u>Disciplinary Logging Procedures</u>

MetLife stated that it did not consistently record its disciplinary actions until late 1995. Even though disciplinary actions were to be recorded, it was not done as a matter of routine. Therefore, the records are not reliable or complete. Managers were asked to record the most serious actions in the appropriate personnel file; however, the company admits this was not always done. In the last quarter of 1995 MetLife initiated a new quarterly reporting system. The examiners reviewed all quarterly NJ logs from 1995-1997. The logs included 46 separate entries in which some disciplinary action occurred; included were nine involuntary agent terminations. These terminations are discussed further in the Agent Licensing section of this report.

The examiners also compared the logs to a separate list of involuntary terminations provided by the company. The list included 26 involuntary terminations that occurred during the time period covered by the logs. Some of these terminations were not properly reported to the NJDBI; those terminations are cited in the Agent Licensing section of this report. Even though a logging system was in place, only four of the involuntary terminations appeared on both the list and in the appropriate log. The examiners concluded that MetLife was still inconsistent with its record keeping. The company agreed with the examiners' conclusions. The logs and the list do not coincide as to the number of involuntary terminations that occurred; each contains names not included on the other. As a result, the examiners could not confirm the accuracy, or the completeness of the logs or the list.

MetLife has stated that a new disciplinary action record keeping system was implemented in 1998. The new system records actions in a more easily retrievable format. The examiners reviewed the procedures and training materials for the new record keeping and retrieval system; the Ethics and Compliance Library and Inquiry Profile System (ECLIPSE) pulls data from all anticipated sources of disciplinary action together into one database. As long as MetLife uses the system as it is designed and is diligent about entering all actions, ECLIPSE should enable the company to track and report all types of investigations and disciplinary actions from a single database. In response to the filed report, the company stated that it will soon be implementing the "comprehensive

On-line Management System (COMS). This system is designed to supplement the current system. It is described as bringing together, in a single source, communications, reporting and historical compliance information from different systems and paper files.

2. Disciplinary Actions Taken

As noted above, MetLife instituted a disciplinary logging system in late 1995. From the last quarter of 1995-1997, MetLife logged only 46 New Jersey disciplinary actions for all types of agent wrongdoing. There is no indication that the company disciplined any agents as the result of a consumer complaint. The examiners found no evidence that the company uses allegations of wrong doing in a complaint file to initiate agent disciplinary investigations.

Fourteen (30%) entries, referencing various agents, reflect replacements or improper sales practices and resulted in disciplinary actions as follows:

2- involuntary terminations - no explanation of infractions;
3- written warnings;
2- voluntary quit;
2- memo to corporate
5- miscellaneous single actions

In addition, MetLife recaptured 2,880 commissions on rewritten replacement business (RWB) for the period of 1993 through 1997. At least some of these rewritten policies should have required an investigation and/or discipline for non-compliant sales.

MetLife's standard procedure is to contact policyholders when it discovers previously undisclosed replacements and provide them with the proper replacement forms. Based on the information contained within the disciplinary logs, none of the recaptures resulted in disciplinary actions and there was no indication that any disciplinary investigations resulted in commission recaptures.

A recent Connecticut market conduct report criticized MetLife for permitting agents under investigation to quit voluntarily. In response to a written inquiry, Met stated it does not invite or encourage voluntary terminations. The company continues to investigate pending allegations against an agent after a voluntary termination has occurred. MetLife provided the examiners with two investigative files in support of this position. In addition, a complaint file reviewed reflected commission recapture activity occurring after the agent voluntarily terminated. Although commission recapturing is not necessarily disciplinary in nature, it does support the company's position that MetLife does not cease an investigation merely due to a voluntary termination. See the Agent Licensing section of this report for subsequent findings regarding the two investigative files referenced herein.

The company has always conducted investigations of specific representatives for various reasons. Such investigations may result from in-house audits, a complaint or in the course of a lawsuit. Although disciplinary actions may have occurred, there is no indication in the logs provided that these investigations resulted in disciplinary actions regardless of the outcome. The ECLIPSE system implemented in 1998 and discussed elsewhere in this report is designed to collect all records of investigations or infractions into one central, accessible location.

C. COMPENSATION GUIDELINES REVIEW RELATIVE TO REPLACEMENT ACTIVITY

According to MetLife, compliance has been a formal element of the compensation package for sales management, as well as a factor in promotions and recognition since 1997. Up to 20% of an agency manager's compensation is based on the good business practices assessment of his agency. The assessment includes consumer complaints, early lapses, customer understanding as determined by the Call-Out program (discussed elsewhere in report) as well as audit results. The Ethics and Compliance Officer for Individual Business complete these assessments.

Effective January 1, 1998, MetLife revised its compensation arrangements to allow for payment of commissions on properly disclosed internal replacements. MetLife states that it is "...policy to issue contracts [policies] and pay commissions only if the transaction is disclosed, documented, determined to be suitable and in full compliance with all state and Company replacement regulations and procedures." Commissions on internal replacements are based on one-half the normal first year commission rate. Full commissions are paid on any "new money" (in excess of the amount transferred).

Several documents exist within MetLife's training materials that define and explain replacements and the corresponding responsibilities of the sales force. The company provided the examiners with a copy of "Keeping Your Customer – Revised Compensation Guidelines." According to the company, it gives this document to all sales staff; it provides an overview of MetLife's compensation guidelines on internal replacements and related transactions. The Guidelines do not include any explanation of how and when the company will recapture commissions paid out if the transaction is later found to be improper. MetLife did state in writing, "In instances where MetLife discovers an unreported replacement transaction, … MetLife will recapture any commission paid in excess of that described in … replacement and termination guidelines."

1. <u>Failure to Recognize Policy Loans >25% of Cash Value As Replacements</u>

<u>N.J.A.C.</u> 11:4-2.2 defines one type of replacement as a transaction in which a new life insurance policy is to be purchased and it is known or should be known to the proposing agent that the existing policy is to be subjected to borrowing exceeding 25% of the policy's loan value. This replacement definition became effective in February 1982.

Part of the compensation guidelines materials provided by MetLife included a document identified as "1C (3-82)", published in March of 1982. The document includes the following definition of a replacement that occurs when a new policy is being funded by policy loan(s) from an existing policy. "(1) A loan is taken out on an existing policy which results in the total outstanding loan on that policy being equal to 80% or more of the total loan value on that policy,…" As stated above, NJ regulation defines a policy loan transaction to be a replacement when the loan(s) meet(s) or exceeds 25% of the policy loan value.

In response to an inquiry from the examiners, MetLife wrote the following:

> The guidelines that covered replacement and rewritten business described what the Company considered a replacement or rewritten business transaction for the purpose of commission adjustments only. It was not intended for use in communicating the requirements of a specific state when a replacement transaction was taking place or defining a replacement transaction in a given state.
>
> In 1982, a letter was sent to our Field Force in New Jersey notifying them of the New Jersey requirements that became operative June 1, 1982. Included was the New Jersey regulation defining a policy loan transaction to be a replacement when the loan(s) meet(s) or exceeds 25% of the policy loan value…. In our Summary of Rules and Regulations Governing Replacement Transactions for New Jersey … that was provided to our sales representatives in 1996, the 25% threshold is covered in the Instructions to Field Representatives for Completion of Comparative Information Forms.

The examiners reviewed the materials referenced within the quote that set forth the definition of a replacement regarding the >25% loan value. The two areas where this regulatory definition appears include a copy of the regulation itself and a multi-page document providing instructions for completing a Comparative Information Form. Although the definition is included in both of these documents, it is not obvious in either one. The regulation includes multiple definitions of replacements within its language. The >25% of policy loan value definition is also in the instructions for completing a CIF. The definition is not highlighted or set apart in any manner within either document.

There is a greater likelihood that Sales personnel would be more fully aware of the compensation guidelines that affect their paycheck, which reflects the 80%, than relatively obscure entries within regulations or multi-page instruction forms. The company was sending the message that it would not attempt to reduce commissions until the 80% policy loan level has been reached. As a result, agents did not have a monetary incentive to properly disclose a replacement involving a policy loan(s) that exceed the 25% threshold set forth in New Jersey regulation, but that are below the 80% at which MetLife will recognize it as a replacement transaction for commission purposes. Effective January 1, 1998, MetLife revised these rules, so that commissions are now reduced for replacements, regardless of the borrowing percentage. According to the company, its computer system now detects loans that are taken at greater than 25% of the cash value and whether such loans occurred in connection with the issue of a new policy.

The examiners also reviewed the MetLife retired agents' contracts in effect during the review period. The contracts originally stated that "no commissions will be paid on funds transferred from or proceeds of existing MetLife policies, contracts, or riders used to fund or purchase new or existing policies, contracts or riders." Although this wording covers policy replacements resulting from surrendering or borrowing from existing insurance, the other types of replacement defined in N.J.A.C. 11:4-2.2 are not covered. Such replacements include those resulting from the lapse, forfeiture, conversion, reissuing or amending the existing policy. Moreover, the term replacement is not used to characterize such transactions.

D. ENHANCED ETHICS, SALES MONITORING AND COMPLIANCE PROGRAMS

From January 1973 through July 1995, the Rewritten Business (*RWB)* system was in effect. This system searched transactions occurring on existing MetLife policies owned by the same policyholder six months before and six months after a new policy application was written, looking for potential undisclosed replacement transactions. As of July 1995, the system searches transactions occurring six months before and 12 months after a new policy is written. Any matches were termed as "possible replacement transactions" and were investigated further to determine if a replacement has occurred.

In the early 1980's the *FIP* ("Financed by Inforce Policies") system was established and used to help identify and monitor to what extent account representatives were using existing policy values to finance new business. This system was designed to match newly placed policies with a dividend withdrawal exceeding $100, a cash surrender or a loan in the same household. With the introduction of the following more sophisticated systems, FIP was discontinued.

Enhanced Ethics and Compliance Program

In February 1994, MetLife's senior management formally adopted and the Board of Directors endorsed the Enhanced Ethics and Compliance Program. The program affects all aspects of MetLife's business (including individual life insurance marketing and sales). As part of this program, MetLife advised the examiners that it has put into place on a company-wide basis a number of internal control systems. It has restructured and expanded the compliance oversight staff to ensure that compliance initiatives are properly implemented and adhered to and that further possible enhancements are identified. Several internal control systems are discussed below.

A *Quality Assurance Call-Out Program* was instituted in January 1994. MetLife uses a team of service representatives to contact and interview policyowners of most new business issues. The interview includes a question designed to help identify possible replacements that may have been undisclosed when the application was written. The company acknowledges that not all applicants are contacted in this manner, if after four attempts there has been no contact, a written survey is sent. If a possible replacement is identified by the Call-Out, the Quality Assurance unit will advise the underwriter who will then question the agent to determine if the transaction is or is not a replacement.

The *Sales Activity Monitoring System* (SAMS), implemented in November 1994, is a MetLife computer system that enables management to monitor a number of sales indicators that may indicate the possibility of improper sales activities. It is not an identifier of specific transactions; rather it is used to determine trends and sales practices. SAMS yields information regarding the movement of funds from life insurance policies, annuities and mutual funds in households where new business is written. It also provides information about disbursements from all life insurance policies in force. Agency management is responsible for regularly reviewing and evaluating the information available on SAMS and initiating appropriate remedial and disciplinary actions. The Corporate Ethics and Compliance Department monitors managers' use of SAMS.

Metropolitan Sales Activity Monitoring System (MSAMS), is another computerized sales monitoring system that provides more detailed information regarding the movement of funds with respect to individual sales transactions. Reports from this system are available to MetLife's compliance staff.

The *Managing Replacement System* (MRS) implemented April 15, 1997, is MetLife's most-recently implemented data processing system used to help monitor internal replacements. When a new business application is processed where no replacement is disclosed, this system automatically performs a search of disbursements during the preceding six months and continues to monitor for twelve months for other policies owned by the applicant. If a match is detected, an electronic message is sent to the Agency Manager, advising that further investigation is warranted to determine the appropriateness of the transaction and whether all state and company replacement requirements have been met.

ECLIPSE, as discussed earlier in this section, brings compliance data from various parts of the company into a single database. This system, implemented in 1998, provides ready access to the compliance staff to relevant data on a sales representative, office region or territory in a central system. This is the database now being used as the central logging point for agent discipline activities or investigations.

As a part of the Enhanced Compliance Program, MetLife stated that in June 1998 it distributed to all branch managers the Manager's Guide to Corrective Action. This manual provides guidance for the creation, implementation and evaluation of corrective action plans when agency management learns (through any of MetLife's monitoring mechanisms) that Company rules and procedures are not being followed. The guide provides instructions on the use of the Corrective Action Log System, a computer program designed to log corrective action plans and to track them to completion. Among the corrective actions available to the branch manager are training, verbal or written warnings, withdrawal of commission, disqualification from honors programs, suspensions and/or termination.

The Enhanced Compliance Program has continuously been updated with new and improved compliance systems and structures. MetLife has numerous training, communications and monitoring mechanisms in place to educate, supervise, deter and detect inappropriate sales activity. Annual on-site compliance reviews are conducted of all Career Agency sales offices. Specific compliance areas of focus include, possible replacement activity, sales material, policy delivery, settlement transactions, new business applications, agent licensing, business conduct, customer service and policyholder complaints.

According to the company, since 1994 MetLife has spent over $50 million for these enhanced compliance efforts. In order to continue to enhance the ethics and compliance efforts, effective December 1, 1997, MetLife assigned overall responsibility for the company's compliance program to the Executive Vice-President of Corporate Special Services, who is a member of MetLife's Corporate Management Office. Also in 1997, the scope was expanded to include a review of management controls and supervision from a compliance and good business practices standpoint. When these reviews identify possible customer issues, Met stated that it refers the cases to the Client Relations Center in Johnstown, Pennsylvania for further evaluation and handling. This handling may include contacting the policyholders and taking any remedial action warranted.

As yet another part of its Enhanced Ethics and Compliance Program, MetLife stated that it also instituted heightened criteria for recognizing its employees. Company policy now is that no person in sales or sales management may be promoted or recognized for sales awards unless that person has a positive compliance history. The determination is made based on a compliance history review which consists of a review of prior audits, direct and NJDBI complaints, history of implementing action plans, disciplinary actions and any litigation.

E. SUMMARY

Despite the implementation of multiple programs and the compensation incentives discussed throughout this report, MetLife recaptured 2,880 commissions due to replacement sales that are sometimes unreported and non-compliant. MetLife took no disciplinary actions for these unreported replacements. In reviewing all of the corrective action materials, the examiners saw no indication that the company makes use of progressive discipline procedures. Several disciplinary options are available to management for any infraction, from very lenient, such as a verbal reminder, to very severe, such as termination. The examiners saw no written materials in which MetLife mandates any specific disciplinary action for any specific infraction. This is also evidenced not only by the disciplinary actions taken, but particularly by the actions <u>not</u> taken, for replacement and improper sales practices. In comparison to potential areas for disciplinary action to be taken, MetLife disciplined a relatively small number of agents over the period. The company's failure to consistently apply its disciplinary measures can result in inequitable treatment of sales personnel and does not create as strong of a deterrent to improper sales practices as would a well-defined, consistently used, progressive discipline program.

As a result of MetLife's history of unstructured discipline and in the absence of printed materials spelling out the consequences of improper sales activities, there is no guarantee that any corrective and/or disciplinary action is taken or will be forthcoming when an infraction occurs. When disciplinary measures are not precisely spelled out and not consistently applied, they do not serve to effectively deter improper behavior.

V. ADVERTISING, SALES AND TRAINING MATERIAL AND POLICY FORMS REVIEW

A. ADVERTISING REVIEW

As one of the country's largest life insurance companies, MetLife advertises extensively, utilizing various formats aimed at specific market segments. The company's training programs and materials address product knowledge in detail. In order to determine if company marketing materials also address compliance issues and proper sales methods, the examiners requested and received an index that listed 2,185 Company advertising and training materials that it used during the review period, 1993-1997. From these lists, the examiners reviewed a select sample of 75 advertising and training pieces used during the five-year period. The pieces included advertising aimed at specific sales situations, e.g., retirement planning, funds accumulation for other needs, as well as training material directed towards sales techniques. The examiners reviewed this material for compliance with the New Jersey advertising regulations N.J.A.C.11:2-23-1 et seq. and N.J.S.A. 17B:30-3 and 4, the statutes prohibiting misrepresentations, false information and false advertising. The following chart itemizes the number of advertising pieces reviewed by year:

YEAR	# REVIEWED
1993	15
1994	10
1995	15
1996	15
1997	20
TOTAL	75

In its June 7, 1994 Consent Order #94-102, the NJDBI cited N.J.S.A. 17B:30-3 and N.J.A.C. 11:2-23.4 and subsequently fined MetLife $965,555 for MetLife's practice of misrepresenting life insurance to be retirement or savings plans, particularly in advertisements sent to nurses and other professionals. This action was taken based on the findings of a task force established by the National Association of Insurance Commissioners. The Florida Department of Insurance conducted the investigation on behalf of the task force members

MetLife presented the task force with an "Enhanced Compliance Plan." In response to an examiner's inquiry, MetLife stated that it formally adopted this plan in February of 1994 and submitted a description. One major element of the Plan involved the review and approval of sales material. Prior to the plan, MetLife's Manual of Instructions provided that all sales material had to be submitted to MetLife's Law Department before it could be used. In late 1993, MetLife issued lists of approved material which its account representatives could use. In December 1993 MetLife's Law Department began issuing a control number for each piece of sales material. The control number contains an expiration date which indicates the date after which material cannot be used. If material did not contain an unexpired control number and was not on the list, it could not be used by MetLife's sales personnel. As of July 1, 1994 the use of the list was discontinued; only material which had an unexpired control number could be used.

Control numbers are issued by MetLife's Law Department. Initially the review process involved submission of materials directly to the Law Department for review. In March of 1996, MetLife introduced a Sales Material Review unit, which served as an interface between our sales force and the Law Department in connection with the review of sales material. This unit assured a systematic review of material and shortened the time taken to obtain approvals.

Each sales office is audited each year to assure that only currently approved sales material is used. The auditor reviews client files, account representative files and general office files, cabinets and storage facilities to assure that unapproved or expired material is not in use. The manager of each office periodically attests to that fact as well. In addition, an element of management compensation (up to 20%) is based on the results of office audits.

The examiners' review of MetLife's advertising materials did not reveal any of the objectionable advertisements in use. In addition, the examiners found that the advertising materials reviewed did not misrepresent life insurance to be savings or retirement plans. The examiners confirmed that the company makes reference to the potential disadvantages whenever replacements are discussed.

1. Failure to Reflect Liabilities with Assets and Improper Use of "Capital"

N.J.S.A. 17B:18-48 states, "When an insurer doing business in this state advertises its assets, it shall, in the same connection and equally conspicuously, advertise its liabilities, the same to be determined in the manner required in making the annual statements to the commissioner. All advertisements purporting to show the capital of the company shall exhibit only the amount of capital actually paid in cash…. All policies, renewals, signs, circulars, cards, or other means by which public announcements are made, shall be held to be advertisements within the meaning of this section." N.J.A.C. 11:2-23.4(a) states, "Advertisements shall be truthful and not misleading in fact or by implication…. The advertisement shall not have the capacity or tendency to mislead or deceive." N.J.A.C. 11:2-23.7(e) states, "An advertisement shall not contain statements, …which are false or misleading, in fact or by implication, with respect to the assets, liabilities, ... financial condition, age or relative position of the insurer in the insurance business." Also, N.J.S.A. 17B:30-4 provides that no person shall make or cause to be made, any statement with respect to the business of insurance in any medium which is untrue, deceptive or misleading.

The review of MetLife's advertising material revealed one advertisement entitled, "STRENGTH THAT HAS STOOD THE TEST OF TIME" that failed to meet the requirements of the statutes and regulations quoted above. Assets under management and company capital are both referenced in the text; however, there is no mention of the liabilities, contrary to the statute. The company believes it can reference "assets under management" without also indicating its liabilities. However, the statute does not exclude advertisements that refer to assets under management. Whenever assets are shown, the liabilities must also be reflected, the same to be determined in the manner required in making the annual statements to the commissioner. Referencing assets under management without stating assets on an annual statement basis is also not in compliance with the statute. MetLife is concerned that the liability numbers compared to the assets under management would be misleading to the average consumer and the examiners agree. An acceptable alternative would be to list the assets without those under management on an annual statement basis separately, show the liabilities as required, and then, if the company so chooses, include a separate entry for the assets under management. This would eliminate confusion and would be in compliance with the statute.

Additionally, MetLife stated in response to an inquiry that the "capital" referenced in this advertisement includes the company surplus plus its valuation reserves as of year-end 1993. This statement caused concern. MetLife was a mutual company until April 7, 2000. The term "capital" specifically relates to a stock company. While the term "surplus" is not an acceptable alternative in this case due to the addition of the reserves, the word "capital" is inappropriate and ultimately misleading to the reader, and should not have been used while MetLife was a mutual company.

Second, the inclusion of the investment reserve values in reporting the company surplus, or "capital" (as used in the advertisement,) is in itself misleading. Investment reserve valuations are considered to be company liabilities, not assets or surplus. To include them could mislead the reader as to the company's financial condition. In response to the filed report, MetLife agreed that a reference to "capital" is not appropriate for a mutual company

The company states that because the advertisement had a December 1995 expiry date for its use, that this is now a moot issue, and requests that this section be deleted from the report. However, all such advertisements that MetLife issued before the company discontinued them were in error, and these errors occurred during the examination review period. For these reasons, this advertisement does not meet the requirements of the statutes and regulations quoted above. The company reported that this advertisement was used in 1994-95. Approximately 1,300,000 copies were mailed out nationally during that time period.

B. POLICY FORM REVIEW

The examiners reviewed policy forms at the company's Pearl River, NY location. From a review of the company's outgoing mail, the examiners obtained samples of 54 separate policy forms; they copied and later compared them to those policy forms the company filed with the NJDBI. All 54 the policy forms examined were filed by the Department; no instances of improper use of variable language were discovered. In addition, the examiners reviewed the company's list of forms that it used during the review period and compared the list to the Department's database of forms filed for the company; the examiners found no errors or discrepancies.

C. ACCLERATED PAYMENT PLANS

The examiners specifically reviewed MetLife's handling of the Accelerated Premium Plan (APP) option and subsequently confirmed that sales illustrations include a statement that dividends are not guaranteed and also confirmed that the word "vanishing" is not used in any of the MetLife APP printed materials. In response to an inquiry, the company liaison stated that "MetLife's AP option is a premium payment arrangement that can be elected when, under current dividend scales, the policy's accumulated dividends and future dividends at the then current scale are sufficient to fund premiums as they come due. It is not an option that is elected at the time of sale."

For policyholders to pay premiums using MetLife's APP, they must specifically elect in writing that premiums be paid using this option. Although the agent may discuss APP with the policyholder at the time of sale, the election cannot be made at that time. The APP election cannot become effective until the policy is eligible – when the combined current dividend values and projected future dividends (as projected based upon current dividend scales) for the policy at the time of the election is sufficient to pay all future premiums due on the policy. The policyholder may at any point choose to stop paying premiums this way or, due to changes in future dividend scales or a policyholder's withdrawal of dividend values, the policy may at some point become ineligible to continue paying premiums using the AP option. If that occurs, MetLife notifies the policyholder by mail of the ineligibility, the AP option is removed, and the policy premium is billed as due.

According to the databases provided by MetLife, only 44 policies issued between 1993 and 1997 were on APP as of December 31, 1997. The number is small because the sample period is five years and few policies that are in force for five years or less would be eligible for the Accelerated Premium Plan.

VI. AGENT LICENSING

A. INTRODUCTION

As part of the examination, the examiners reviewed the agent licensing records of MetLife. The examiners completed a database comparison of the NJDBI master licensing records to the licensing records of MetLife. Both lists contained several thousand names; however, the lists were widely divergent and could not be readily reconciled to each other. After many inquiries and discussions with the company and NJDBI licensing staff, it was apparent that the differences were indicative of record keeping problems on both sides. As a direct result of the market conduct examination, MetLife anticipates working closely with the NJDBI licensing staff to update and correct the records of both parties. Throughout the examination, specific agent licensing records were reviewed. The following errors were revealed and verified by written inquiry to the company. MetLife has agreed with these findings.

B. EXAMINERS' FINDINGS

1. <u>Failure to Provide Accurate Reason For Termination to NJDBI</u> – 8 Errors

<u>N.J.S.A.</u> 17:22A-15b requires "Upon the cancellation of an agency contract, the insurance company shall within 15 days file written notice of cancellation with the commissioner. Notice of cancellation shall be on a form prescribed by the commissioner and shall indicate the date of cancellation and the reason therefore."

As discussed in the Agent Discipline section of this report, nine involuntary agent terminations appeared in the discipline logs reviewed. The examiners because of incomplete log entries could not identify three of the nine agents. Due to the time that has passed since the terminations occurred, the examiners were unable to verify the original reason as reported to the NJDBI for the remaining six terminations. However, the examiners did determine that none of the six resulted in NJDBI investigations, even though the company's disciplinary log entries indicated that possible illegal activities such as fraud and theft occurred in at least three of the cases.

When the NJDBI Licensing Department is made aware of an involuntary termination for cause, through the notice of termination process, the agent is referred to the Enforcement Unit of the NJDBI for possible further investigation. These facts indicate that the NJDBI was, until this Market Conduct review, unaware of the true reasons for these terminations, contrary to the statute. The examiners forwarded all six of these involuntary terminations to the Enforcement Unit for possible further investigation. The agents are as follows:

024-1	812-5	872-2
856-1	040-1	511-1

In addition, the examiners cross-referenced the NJDBI licensing records of two agents MetLife continued to investigate after the agents quit voluntarily, as discussed in the Agent Discipline section of this report. MetLife did not issue corrected NJDBI notices of termination as a result of either investigation, even though evidence of wrongdoing occurred in both cases, contrary to the statute above. The examiners also referred these two agents to the Enforcement Unit for possible investigation.

R.C.	ID# 823-1	Audit Report # 97-20015
T.M.	ID# - Unknown	Audit Report # 93-20047

2. Delayed Notice of Agent Termination to NJDBI - 19 errors

MetLife delayed filing termination notices with the NJDBI for 19 agents:

Agent Number	Co. Term. Date	NJDBI Notified	Days Delayed
003-5	11/11/94	04/04/95	129
005-1	01/13/89	10/10/90	621
015-3	01/14/94	02/14/94	16
021-1	12/13/93	01/24/94	27
028-1	02/07/91	07/02/91	130
040-1	02/21/97	03/19/97	11
086-1	01/01/96	06/03/96	176
500-2	08/17/90	10/17/90	46
511-1	04/14/97	05/06/97	07
802-2	04/03/92	07/19/93	457
811-3	04/23/93	01/20/94	257
812-1	06/08/90	07/10/90	17
832-1	11/15/93	04/12/94	133
835-4	06/24/88	08/01/88	23
839-2	04/10/92	07/19/93	450
872-2	05/95	02/18/97	605 *
881-1	03/14/90	04/30/90	31
883-1	06/13/97	10/08/97	105
895-1	05/01/97	07/07/97	53

* Approximated count

In March 1998, separate from the market conduct review, the Enforcement Division of the NJDBI completed a market-wide mailing to all companies that sent delayed agent termination notices to the NJDBI. MetLife was among those contacted. The mailing reminded insurers of the statutory requirements regarding notice to the NJDBI, and requested an explanation of the delays experienced. MetLife replied that its internal reporting system was set up for weekly reporting; if agent termination information was recorded past any weekly deadline, it could sit for as long as a week before the NJDBI notification would be sent. This built-in delay may explain some of the notification delays for which MetLife was being questioned. As a result of the NJDBI mailing, MetLife created an immediate reporting method using a dedicated internal E-mail address. Termination actions are to be immediately reported via E-mail, the notices will be issued and overnighted to the NJDBI well within the required time frames. Due to its recent creation, the examiners did not see this reporting method in action. If used as described, this method should improve MetLife's compliance efforts.

3. Failure to Provide Notice of Agent Termination to NJDBI - 16 errors

N.J.S.A. 17:22A-15b, as quoted in #1 above, requires written notice to the NJDBI of all agent terminations. MetLife was unable to verify sending termination notices on the following 16 agents as required by the statute.

008-1	852-5
012-6	853-1
017-2	890-1
500-1	F478171
808-5	G218741*
512-3	F560405*
037-1	E878902/A368902*
025-3	B977541/M747542*

* MetLife failed to terminate appointments to all of its subsidiaries.

4. Failure to Notify NJDBI of Newly Appointed Agents - 2 errors

N.J.S.A. 17:22A-15c and N.J.A.C. 11:17-2.9(a)2 require insurers to advise the NJDBI in writing within 15 days when an agent has been appointed to the company. According to the company's producer listing, the following two individuals were MetLife agents but do not appear in the NJDBI master licensing records as having been appointed by MetLife or any of its subsidiaries, contrary to statute and regulation.

- 59E8201 is licensed with the State of New Jersey but was never appointed as a producer for MetLife as required.
- B370274 worked at Met for a very short time. He maintained a license with the State of New Jersey but was never appointed by MetLife.

5. Failure to Accurately Report Agent Termination to NJDBI; Failure of Producer to Maintain Current NJ License and Improper Compensation Paid to Unlicensed Producer - 1 each of 3 errors

Agent 880-2 was an out-of-state agent (NY) with a New Jersey license. The NJ license expired April 30, 1985 and was not renewed. Agent 880-2 remained a MetLife agent until June 2, 1995. The company employed agent 880-2 until June 1995 and believed him licensed in New Jersey the entire time.

N.J.S.A.17:22A-15b requires written notice of agent termination to be provided to the NJDBI within 15 days of the termination. MetLife did not properly advise the NJDBI of this termination as required by statute. N.J.S.A. 17:22A-3 requires all producers to be licensed to sell insurance in New Jersey. Agent 880-2 was not licensed from April 30, 1985 until his termination in June 1995. If this person sold any New Jersey business during this period, it was contrary to the statute. N.J.A.C. 11:17A-1.3 prohibits any insurer from compensating an unlicensed producer. Any compensation, commissions, etc. paid on NJ new sales by MetLife to agent 880-2 from April 30, 1985 until his termination on June 2, 1995 were paid to an unlicensed producer, contrary to regulatory requirements

VII. GENERAL FINDINGS

A. YEAR 2000 PLAN, NJDBI ORDER A97-129

On May 21, 1997 New Jersey Banking and Insurance Commissioner Elizabeth Randall issued Order A97-129 encouraging companies to begin instituting programs to address the Year 2000 issue within the companies' own computer systems. MetLife stated to the examiners that several years ago it recognized the potential problem that the year 2000 could create. As a result, the company created or modified several of its existing computer operations to correctly handle the change of the century. However, the company indicates that it still has a number of older computer applications that were not designed to correctly process the turn of the century dates. In order to enable these older system applications to handle the change, the company stores dates in a four-character year format. MetLife will use other formats if they can be determined to be more cost effective and still meet business requirements.

The company has established a budget to support its Year 2000 compliance efforts. Included within that budget is a centralized staff charged with managing, coordinating and actually performing conversions as well as additional staff to support testing of the entire process. A schedule has been developed to ensure all systems applications will be Year 2000 compliant by December 31, 1998. The company has advised the examiners that MetLife completed its Y2K efforts on schedule.

B. DISASTER RECOVERY PLAN

According to the company, MetLife is protected by a fully operational, corporate mandated, disaster recovery plan. The plan is coordinated and tested regularly by a full-time staff and is regularly reviewed and approved by both internal and external auditors. The company recovery plan follows the common body of knowledge published by an organization that provides certification, education and research in disaster recovery.

The examiners reviewed the documentation provided by the company in explanation of its disaster recovery plan. The plan appears to be complete, thorough and well organized. In addition, the examiners noted that Met seems to routinely drill and test the company-wide disaster plan. Any procedure followed in such a routine manner will ensure familiarity with its premises. MetLife's disaster plan does not appear to be a high level corporate plan of which only a few executives are aware; rather, it appears to be a dynamic working plan familiar to all, as it should be.

C. FAILURE TO PROMPTLY RESPOND TO EXAMINER INQUIRIES

<u>N.J.S.A.</u> 17:23-1 requires insurers to respond promptly in writing to all inquiries from the NJDBI. During the examination of MetLife, the examiners submitted 100 inquiries in writing to the company. The examiners informed MetLife from the earliest days of the examination, as well as routinely throughout the exam and in writing on each

inquiry form, that inquiry responses were expected within a three-day turnaround, plus mail time. The examiners granted extensions of time on an issue by issue basis when an inquiry required research or was of a more complex nature. Inquiries with granted extensions are not cited herein. In addition, the examiners cite no inquiry response received within 10 days of issuance of the inquiry. The following is a breakdown of the turnaround times for inquiries submitted during this examination:

13 inquiries on which extensions were granted (not cited as errors)
26 inquiries responded to within 10 days (not cited as errors)
6 inquiries were informational and did not require a company response

Days	Inquiries
11 to 30	36
31 to 60	13
61 to 90	4
91 to 120	1
Over 120	1
Total	55

As noted above, MetLife did not respond promptly to 55 inquiries contrary to N.J.S.A. 17:23-1. MetLife advised the examiners that the New Jersey exam was one of many ongoing exams by various states, and the only one in which the examiners were not on site at a MetLife location. The examiners believe this to be one of the reasons for the long delays in obtaining the company's written responses. In addition, it was apparent to the examiners that the inquiries with the longest response times involved complex issues the company could not immediately resolve.

VIII. RECOMMENDATIONS

The recommendations below are applicable to individual insurance only as set forth in the Scope of Examination at the start of this report. Metropolitan Life should inform all employees, including all outside sales staff who may have handled the areas cited in this report, of the examiners' findings. The New Jersey Department of Banking and Insurance recommends the remedial measures listed below and that Metropolitan establish procedures to monitor compliance with these measures.

A. GENERAL INSTRUCTIONS

Documentation of compliance with each of the recommendations below including copies of written instructions, bulletins, procedures, reminders, etc., should be sent to the attention of Clifton Day, Manager, Market Conduct Examinations and Anti-fraud Compliance Unit, within 30 days of the date of the final, adopted report.

B. COMPLAINTS

1. The company must issue written instructions to all appropriate staff itemizing the categories of information that are required by statute to be included in the log for each complaint entered; specific reference is to be made to the nature of the complaints.

2. MetLife is to issue written instructions and hold training sessions for all personnel responsible for responding to consumer complaints, both direct and those received from the NJDBI. The topic to be discussed and clarified is the requirement for the company to respond promptly or within specific time frames to complaints received. All time frames are to be fully discussed, and implementation must be monitored. The company should send a status letter to the complainant when it is waiting for information and follow-up with any outside source to obtain any missing information. All instructions, memos, directives, training materials, etc. generated as a result of the training, are to be forwarded to the NJDBI for review.

3. MetLife should implement procedures that will enable the company to identify and track trends that manifest themselves in New Jersey through the complaint process. MetLife has already taken steps that will help to implement this recommendation.

C. POLICY TRANSACTION AND REPLACEMENT REVIEW

4. The company must ensure that all agents adhere to all state Replacement Regulations.

5. The company should hold training seminars for all appropriate field and regional office personnel to instruct in identifying replacements as defined by New Jersey regulation, as well as in N.J.A.C. 11:4-2.4 et seq. This training should be repeated periodically to reinforce the information and to ensure all new personnel receive this training. The seminars are to include discussions of, but not be limited to, the following sections of regulation and statute:

- <u>N.J.A.C.</u> 11:2.2 – Definition of replacement and the exemptions to that definition.
- <u>N.J.A.C.</u> 11:4-2.4(a)1 & 2 – Agent's requirement to submit accurate statements from self and applicant acknowledging replacement;
- <u>N.J.A.C.</u> 11:4-2.4(b)1- Agent's requirement to provide applicant with Notice Regarding Replacement of Life Insurance;
- <u>N.J.A.C.</u> 11:4-2.4(b)2 – Agent's requirement to complete and present a Comparative Information Form to applicant;
- <u>N.J.A.C.</u> 11:4-2.4(b)3 Agent's requirement to provide sales proposal to applicant;
- <u>N.J.A.C.</u> 11:4-2.4(b)4 – Agent's requirement to submit all required replacement forms to company;
- <u>N.J.A.C.</u> 11:4-2.5(a)3i – Company requirement to obtain required replacement forms from agent especially when replacement becomes apparent after issuance;
- <u>N.J.A.C.</u> 11:4-2.5(a)3vi – Company requirement to provide policy summary if the insurer is both the replacing and the existing insurer;
- <u>N.J.A.C.</u> 11:4-2.5(a)3vii – Company requirement to record all replacements and to maintain a complete replacement register;
- <u>N.J.A.C.</u> 11:4-11.5(a) – Company requirement to deliver a policy summary with a newly issued policy.

MetLife has already taken steps that will help to implement this recommendation.

6. To verify compliance with recommendation #5, the company is to provide a schedule of training sessions, as well as copies of all materials, handouts, etc. created for use in these sessions, to the NJDBI for review.

7. To ensure continued compliance with the New Jersey replacement regulation, MetLife must implement a monitoring program that will readily track all new business sales for the purpose of identifying replacements and that will trace all required steps to be taken by the agent and the insurer. The company has in place a system capable of accomplishing the monitoring portion of this recommendation. MetLife has already taken steps that will help to implement this recommendation.

8. MetLife must issue written instructions to all appropriate personnel to ensure that all unreported replacements identified in this report are entered into the replacement register as required and that all missing disclosure documents are completed and provided as required for all policies cited in this report. Verification of compliance is to be sent to the NJDBI for each file cited.

9. The company should provide to each policyowner who has elected an APP option, an explanatory notice in advance of premium billing any time the dividends fall below the actual premium due, or the actual dividends paid will cause the policy to no longer qualify for the APP. MetLife has already taken steps that will help to implement this recommendation.

C. AGENT DISCIPLINARY REVIEW

10. MetLife should record and track all instances of agent investigations and discipline. The record must be accurate, consistent and complete. Written procedures must be put into place to ensure that all instances are promptly and properly recorded. A written instructive memo establishing such record keeping should be issued to all appropriate personnel.

11. MetLife should institute procedures to begin an agent investigation and/or discipline, if appropriate, against any agent who is accused of, is suspected of being, or is found to be involved in an improper replacement sale. These procedures should include but not be limited to, using information from the recaptured commissions system as a potential investigation trigger. The company should implement progressive disciplinary measures if appropriate, when any agent has one or more recaptured commissions for undisclosed replacements that should ultimately result in termination for multiple violations or other improper sales related practices. MetLife has already taken steps that will help to implement this recommendation.

12. The company should implement progressive disciplinary measures ultimately resulting in termination for multiple violations or other improper sales related practices.

13. A written policy statement of progressive discipline which will occur from certain abusive sales practices and all other violations of state law and regulation should be distributed to and be signed by every agent, sales manager, manager and broker.

14. To eliminate any misunderstandings, MetLife should issue a written notice to its agents regarding its policy on payment of commissions whenever a sale involves the use of borrowing on an existing policy.

15. MetLife's retired agent contracts and all instructional materials that include anything relative to replacements of any kind, should be amended to define all replacements, specifically including all types as defined in the current New Jersey Replacement Regulation.

16. All agent-training materials should explain the replacement definition, the replacement window and the commission structure for paying and reducing commissions for replacement transactions.

17. To address policyholders who may have been harmed by one or more of the improper sales practices referenced throughout this report, MetLife should establish a remediation plan to identify those harmed, and to provide relief. The 1999 Class Action settlement of the Metropolitan Life Insurance Company Sales Practices Litigation would appear to satisfactorily address this recommendation if applied uniformly and fairly to all New Jersey individuals who file a claim under the remediation plan.

18. The company should require written monthly reports from senior marketing executives to the Chief Compliance Officer itemizing the level of non-compliant replacements and financed sales of each agent.

19. To enhance compliance efforts and accountability, MetLife should issue written instructions to appropriate personnel that all promotions of field, sales personnel must first be cleared by the Chief Compliance Officer, or his or her designate, after considering the agent's complaint history and compliance record for replacements. MetLife has already taken steps that will help to implement this recommendation.

20. MetLife should implement measures to initiate an agent investigation and/or discipline if appropriate, when allegations of wrongdoing are made in a complaint file. MetLife has already taken steps that will help to implement this recommendation.

21. MetLife should issue written directives to appropriate staff that establish that in its training program:

- The company's Chief Compliance Officer must assure that sales personnel are provided with compliance training in addition to that provided to other company personnel;
- The company's Chief Compliance Officer shall provide such training as a part of the pre-licensing program and regularly at company meetings, conventions or seminars;
- Such training shall cover all relevant areas of state replacement regulations, requirements pertaining to financing new policies with policy values from existing policies, potential misrepresentations and state requirements regarding sales proposals and illustrations.

MetLife has already taken steps that will help to implement this recommendation.

22. MetLife should establish procedures to extend accountability for improper sales practices to its sales management and agency executives. The company has already taken steps to implement this recommendation through recent adjustments to its compensation program.

E. ADVERTISING, SALES AND TRAINING MATERIAL AND POLICY FORMS

23. MetLife is to issue written instructions to all appropriate personnel involved in the creation of new advertising materials, that as required by N.J.S.A.17B:18-48, whenever assets are listed, liabilities must also be included in the manner determined for annual reporting to the commissioner. Assets under management can be included only if the liabilities are also referenced as required, or as suggested in this report. Assets without those under management must also be shown on an annual statement basis. In addition, the term "capital" cannot be used to describe a mutual company.

24. The company is to take all necessary steps to ensure that the advertisement discussed in this report is not used again. Any and all existing stock is to be destroyed.

F. AGENT LICENSING

25. MetLife is to contact the Licensing Division of the NJDBI as quickly as possible and work with them to clarify and resolve the discrepancies within the licensing records of both Met and the NJDBI. The results to be reported to the Market Conduct Unit as verification of compliance with this recommendation. MetLife has agreed to this recommendation.

26. The company must instruct all appropriate personnel in writing that they are required by New Jersey statute to provide termination notices to the NJDBI within 15 days of an agent termination according to N.J.S.A. 17:22A-15b. The instructions must also state that unless and until the NJDBI has been properly notified of an agent's termination, the agent's contract with the insurer remains in effect. MetLife has implemented new reporting procedures to bring it into compliance with this requirement.

27. MetLife must provide written instructions to all appropriate personnel that the reasons itemized on an agent termination notice must be accurate and that if additional investigation causes the termination reason to change, even subsequently, the NJDBI must be notified by amended written notice.

28. MetLife must remind all staff responsible for maintaining the agent licensing records, current and terminated, of the following:

- N.J.S.A. 17:22A-15c requires all licensees to be appointed to the company, and the NJDBI officially notified, in order to sell New Jersey business.
- N.J.S.A. 17:22A-3 requires that anyone soliciting, effecting or negotiating insurance contracts or collecting commissions must be properly licensed; and
- N.J.A.C. 11: 17A-1.3 states that the company cannot legally pay commissions to an unlicensed producer.

G. GENERAL FINDINGS

29. MetLife must issue written instructions instructing all appropriate personnel that

N.J.S.A. 17:23-1 requires insures to respond promptly in writing to all inquiries from the

Commissioner of the Department of Banking and Insurance.

VERIFICATION PAGE

1. I, Phyllis A. Sabino, am examiner-in-charge of the Market Conduct Examination of the Metropolitan Life Insurance Companies conducted by the examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

2. The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct Examination of the Metropolitan Life Insurance Companies as of December 31, 1998.

3. I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

________________________	________________________________
Date	Phyllis A. Sabino Examiner-in-Charge New Jersey Department Banking and Insurance