

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

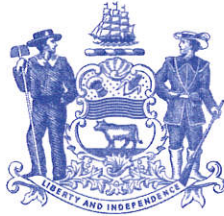
The Lincoln National Life Insurance Company

NAIC #65676
Examination Authority #15-712
1300 South Clinton Street
Fort Wayne, IN 46802

As of

May 31, 2015

Trinidad Navarro
Commissioner



Delaware Department of Insurance

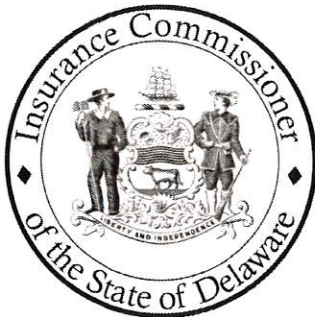
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of May 31, 2015 on

The Lincoln National Life Insurance Company

is a true and correct copy of the document filed with this Department.

Attest By: _____

A handwritten signature in blue ink, appearing to be "Trinidad Navarro", written over a horizontal line.

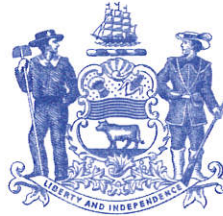


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

A handwritten signature in blue ink, appearing to be "Trinidad Navarro", written over a horizontal line.

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
The Lincoln National Life Insurance Company
AS OF
May 31, 2015

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



Trinidad Navarro
Insurance Commissioner

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Certificate of Examination Authority Number 65676-15-712, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

The Lincoln National Life Insurance Company

The re-examination was performed as of May 31, 2015 pursuant to the previous Examination of June 30, 2011, and the Company's Corrective Action Plan dated September 5, 2013.

The Lincoln National Life Insurance Company, hereinafter referred to as the "Company" or as "LNL," was incorporated under the laws of Indiana. The examination consisted of an off-site phase and was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI" or other suitable locations.

EXECUTIVE SUMMARY

The Lincoln National Life Insurance Company (the "Company") incorporated in Indiana in June 12, 1905, and commenced business there in 1905. The Company's main administrative offices are located in Fort Wayne, IN.

This examination focused on the Company's annuity business in the following areas of operation: Marketing and Sales and Underwriting and Rating.

The following exceptions were noted in the areas of operation reviewed:

- Issued Annuities – Replacements - 10 Exceptions - 18 Del. Admin. Code 1204 §7.1 Replacement of Life Insurance
 - For failure by the Company to send proper notifications to existing insurers of a pending replacement within seven days.

- Issued Annuities – Replacements – 1 Exception – 18 Del. Admin. Code 1204 §5.2.1 Replacement of Life Insurance
 - For failure to provide to the applicant a notice regarding replacement before taking the application.
- Issued Annuities – Replacements – 9 Exceptions – 18 Del. C. § 320 (d) Conduct of examination; access to records; correction.
 - For failure to correctly code and properly report all files as replacements or non-replacements as they are entered and processed into the system.
- Issued Annuities – Non-Replacements - 6 Exceptions - 18 Del. Admin. Code 1204 §5.1.1 Duties of Agents and Brokers
 - For acceptance of applications without obtaining the required response from the applicant or the applications were signed after the policy was issued..
- Issued Annuities – Non-Replacements - 6 Exceptions - 18 Del. Admin. Code 1204 §5.1.2 Duties of Agents and Brokers
 - For acceptance of applications without obtaining the required response from the producer or the applications were signed by the producer after the policy was issued.
- Issued Annuities - Non-Replacement - 1 Exception - 18 Del. C. §320 (c). Conduct of examination; access to records; correction
 - For failing to provide evidence that an application was provided.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. C. §318-322 and covered the experience period of January 1, 2014, through May 31, 2015, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware insurance laws and regulations related to the Senior annuity market place. The examination focused on the Company's annuity business in the following areas of operation: Marketing and Sales, Underwriting, and Rating. This effort was conducted to ensure compliance with 18 Del. Admin. Code 1214 Senior Protection in Annuity Transactions, 18 Del. Admin Code 1204 Replacements, and 18 Del. CODE §1716 Notification to Insurance Commissioner of termination. In 2013 the Department completed an examination of the Company on these same topics. The report was ultimately unpublished, however the Company had provided a Corrective Action Plan dated September 5, 2013 to address the issues noted. The purpose of this examination was to follow-up on the status of those previously noted issues.

METHODOLOGY

This re-examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While the examiners' report on the errors found in individual files, the examination also focuses on general business practices of the Company.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and review written summaries provided on the exceptions found.

COMPANY HISTORY AND PROFILE

The Lincoln National Life Insurance Company was incorporated in the State of Indiana on June 12, 1905. It first became licensed to transact business in Delaware in February 1935. The Company conducts business in 49 states including the District of Columbia, Guam, Puerto Rico, US Virgin Islands, North Mariana Islands and Canada.

The Lincoln Companies, which include Lincoln National Life Insurance Company, First Penn-Pacific Life Insurance Company and Lincoln Life and Annuity of New York, operate under the marketing name of Lincoln Financial Group.

During the period from 1913 to 1962 the Company acquired Michigan State Life, Pioneer Life, Reliance Life Insurance Company of Pittsburgh, American States Insurance Companies of Indianapolis. The Company also acquired a controlling interest in the Dominion Life Assurance Company of Waterloo Ontario in 1957, which the Company ultimately sold in 1985 to Manufactures Life Insurance Company of Toronto, Ontario.

Lincoln National Corporation (“LNC”) was formed under the laws of Indiana in 1968 and The Lincoln National Life Insurance Company became a wholly owned subsidiary of LNC. Another series of acquisitions took place between 1979 and 1986 as LNC acquired Security Connecticut Life Insurance Company, First Penn-Pacific Life Insurance Company, Cannon Assurance Limited, K&K Insurance Specialties and Fireman’s Fund Employers Health Insurance Company.

On January 2, 1998, the Company acquired Cigna’s life and annuity business. On October 1, 1998, Aetna Life’s business was acquired. In April 2006 a merger between Lincoln National Corporation and Jefferson-Pilot Life Insurance Company took place. As a result on April 2, 2007, Jefferson Pilot Life Insurance Company merged into Lincoln National Life Insurance Company and on July 2, 2007, Jefferson Pilot Financial Insurance Company merged into The Lincoln National Life Insurance Company.

BUSINESS LISTINGS

A) Issued Annuities – Replacements

The Company identified a universe of 893 annuities issued of which 261 files consisted of replacement files and 632 files pertained to non-replacement files. A sample of 115 replacement files were requested, received and reviewed.

The following violations were noted:

10 Exceptions - 18 Del. Admin. Code 1204 §7.1 Replacement of Life Insurance

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity contract is issued, whichever is sooner.

The written communication advising of the replacement to the existing insurer was not provided as required or was beyond 7 working days.

During the previous examination of June 30, 2011, there were 22 exceptions identified for this regulation.

The Corrective Action Plan dated September 5, 2013 reported Lincoln changed its process in late 2010 such that other companies are notified of replacements within 7 days from the time that notice is received by Lincoln, rather than Lincoln waiting to notify

until all required information regarding the replacement is received. This should ensure that DE's notification requirements are timely met. The Company attached a sample letter being used for this purpose, however the errors continue to be noted.

Recommendation: It is recommended that the Company send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy in accordance with 18 Del. Admin. Code 1204 §7.1.

1 Exception - 18 Del. Admin. Code 1204 §5.2.1 Replacement of Life Insurance

5.2 Where replacement is involved, the agent or broker shall:

5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

The replacement notice was dated after the application date for one policy.

Recommendation: It is recommended that the Company comply with 18 Del. Admin. Code 1204 §5.2 by reviewing its procedures to ensure the notice regarding replacement is presented to the applicant not later than at the time of taking the application.

9 Exceptions – 18 Del. C. § 320 Conduct of examination; access to records; correction.

(d) If the Commissioner or examiner finds any accounts or records to be inadequate or inadequately kept or posted, the Commissioner may employ experts to reconstruct, rewrite, post or balance them at the expense of the person being examined if such person has failed to maintain, complete or correct such records or accounting, after the Commissioner or examiner has given the person written notice and a reasonable opportunity to do so.

The Company miscoded replacement files when in fact the files were non-replacement files. This miscoding will lead the Company to improper reporting.

Recommendation: It is recommended that the Company properly code and report all files as they are entered and processed into the system.

B) Issued Annuities – Non Replacements

The Company identified a universe of 893 annuities issued of which 261 files consisted of replacement files and 632 files pertained to non-replacement files. A sample of 115 non-replacement files were requested and received, of which 111 files were reviewed.

The following violations were noted:

6 Exceptions - 18 Del. Admin. Code 1204 §5.1 Replacement of Life Insurance

Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:

5.1.1 statement signed by the applicant as to whether the replacement of existing life insurance or annuities are involved in the transaction;

Applications were not signed or dated by the applicant or the applications were signed after the policy was issued.

During the previous examination of June 30, 2011, there were 26 exceptions identified for this regulation.

The Corrective Action Plan dated September 5, 2013 reported Lincoln amended its process such that when an e-ticket is used for policy issuance, the Contract Verification Form prints as part of the solicitation package and the agent is to provide his/her own answers and signature to the replacement questions, as well as obtain the applicant's answers and signature to the replacement questions. This was to ensure that Lincoln has the required replacement information up front in the solicitation/issue process, however the errors continue to be noted.

Recommendation: It is recommended that the Company comply 18 Del. Admin. Code 1204 §5.1.1 by reviewing its procedures to ensure that the required response to the replacement question and signature of the applicant is obtained.

6 Exceptions - 18 Del. Admin. Code 1204 §5.1 Replacement of Life Insurance

Each agent or broker who initiates the application shall, on the request of the prospective purchaser, furnish the Buyers Guide as described by Regulation 29 and shall submit to the insurer to which an application for life insurance or annuity is presented, with or as a part of each application:

5.1.2 a signed statement as to whether the agent or broker knows replacement is or may be involved in the transaction.

Applications were not signed or dated by the agent or the applications were signed by the

agent after the policy was issued.

During the previous examination of June 30, 2011, there were 26 exceptions identified for this regulation.

The Corrective Action Plan dated September 5, 2013 reported Lincoln amended its process such that when an e-ticket is used for policy issuance, the Contract Verification Form prints as part of the solicitation package and the agent is to provide his/her own answers and signature to the replacement questions, as well as obtain the applicant's answers and signature to the replacement questions. This was to ensure that Lincoln has the required replacement information up front in the solicitation/issue process, however the errors continue to be noted.

Recommendation: It is recommended that the Company comply 18 Del. Admin. Code 1204 §5.1.2 by reviewing its procedures to ensure that the required response to the replacement question from the producer is obtained.

1 Exception - 18 Del. C. §320. Conduct of examination; access to records; correction

(c)Every person being examined, the person's officers, attorneys, employees, agents and representatives, shall make freely available to the Commissioner, or the Commissioner's examiners, the accounts, records, documents, files, information, assets and matters of such person, in the person's possession or control, relating to the subject of the examination and shall facilitate the examination.

The Company did not maintain the application in the file that was necessary for the review.

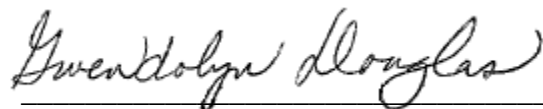
Recommendation: It is recommended that the Company maintain applications in all files as they are entered and processed into the system.

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the Exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy in accordance with *18 Del. Admin. Code 1204 §7.1*. (Issued Annuities – Replacements)
2. It is recommended that the Company review its procedures to ensure the notice regarding replacement is presented to the applicant not later than at the time of taking the application as required by *18 Del. Admin. Code 1204 §5.2*. (Issued Annuities – Replacements)
3. It is recommended that the Company properly code and report all files as they are entered and processed into the system pursuant to *18 Del. C. § 320*. (Issued Annuities – Replacements)
4. It is recommended that the Company review its procedures ensure that the required response to the replacement question and signed by the applicant is obtained as required by *18 Del. Admin. Code 1204 §5.1.1*. (Issued Annuities – Non-Replacements)
5. It is recommended that the Company review its procedures to ensure that the required response to the replacement from the producer is obtained in accordance with *18 Del. Admin. Code 1204 §5.1.2*. (Issued Annuities Non-Replacements)
6. It is recommended that the Company review its procedures to ensure that applications are maintained in all files as they are entered and processed into the system pursuant to *18 Del. C. § 320 (c)*. (Issued Annuities – Non Replacements)

The examination conducted by Shelly Schuman, Gwendolyn Douglas, and James Hartsfield is respectfully submitted.



Gwendolyn J. Douglas, CIE, MCM, CFE,
CFE (Fraud)
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance