

**DELAWARE DEPARTMENT  
OF INSURANCE**

**MARKET CONDUCT EXAMINATION REPORT**

**ON**

**THE LINCOLN NATIONAL LIFE  
INSURANCE COMPANY**

**December 31, 2007**

I, Karen Weldin Stewart, CIR-ML, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of December 31, 2007 of the

**THE LINCOLN NATIONAL LIFE INSURANCE COMPANY**

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



ATTEST BY: \_\_\_\_\_

DATE: April 7, 2010



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 7TH DAY OF APRIL 2010.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**THE LINCOLN NATIONAL LIFE INSURANCE COMPANY**  
AS OF  
**AUGUST 29, 2005**

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

Consideration has duly been 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.



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS 7TH DAY  
OF APRIL 2010.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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## **SALUTATION**

April 16, 2009

Honorable Karen Weldin Stewart, CIR-ML  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 08-710, 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 examination was performed as of December 31, 2007. The Lincoln National Life Insurance Company, hereinafter referred to as the "Company" or as "Lincoln National Life," is incorporated under the laws of Indiana. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

1300 S. Clinton St., Fort Wayne, IN 46801

The off-site examination phase was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or "DDOI," or other suitable locations.

The report of examination herein is respectfully submitted.

## **The Lincoln National Life Insurance Company**

### **EXECUTIVE SUMMARY**

The Lincoln National Life Insurance Company was founded on June 12, 1905 in Indiana. Its home office and principal executive offices are located at 1300 S. Clinton St., Fort Wayne, IN 46801. Lincoln National Life operates in all 50 states, Puerto Rico and the District of Columbia.

The examination was a market conduct examination of the following business areas: Company Operations/Management; Complaint Handling; Marketing/Sales; Producer Licensing, Policyholder Service; Underwriting; and Claim/Settlements. This was a targeted examination of the Company's annuity operations.

One area of concern was noted during the examination. This issue is more fully discussed under:

#### **Complaints – Complaint Handling Procedures**

The Company failed to maintain adequate complaint handling procedures in violation of 18 Del. C. §2304(17). Inconsistencies were noted between the complaint handling procedures used by different business units within the Company. In addition, the examiners found no evidence of adequate monitoring of the Company's complaint handling responsibilities delegated to its producers.

A recommendation has been made to remedy this concern.

### **SCOPE OF EXAMINATION**

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type on insurer. For all insurers these may include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims/Settlements

This examination report is a report by exception rather than a report by test. This means that only those areas where recommendations are suggested are described and results indicated.

### **HISTORY AND PROFILE**

The Lincoln National Life Insurance Company ("Company") was founded in Fort Wayne, Indiana on June 12, 1905. Between 1913 and 1962, the Company acquired Michigan State Life, Pioneer Life, Reliance Life Insurance Company of Pittsburgh and American States Insurance

## **The Lincoln National Life Insurance Company**

Companies of Indianapolis. The Company also acquired a controlling interest in the Dominion Life Assurance Company of Waterloo, Ontario in 1957.

In 1968 Lincoln National Corporation (“LNC”) was formed under the laws of Indiana and Lincoln National Life Insurance Company became a wholly owned subsidiary of LNC. Lincoln National Investment Management Company was formed in 1973 initiating the Company’s administration of mutual funds and investment advisory services for the Lincoln affiliates.

Another series of acquisitions took place between 1979 and 1986 as Lincoln National Corporation 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.

In 1985, Lincoln’s Dominion Life Assurance Company affiliate was sold to Manufacturers Life Insurance Company of Toronto, Ontario. In 1992, K&K Insurance Specialties was sold to AON Corporation when the decision was made to exit the managed health care business.

Lincoln National Corporation acquired Delaware Management Holdings, Inc. in 1995 and organized Lincoln National Investment Cos. Inc., a holding company for investment affiliates, Delaware Group, Vantage Global Advisors and Lynch & Mayer.

In 1996, Lincoln National Life acquired the group tax-deferred annuity business from UNUM Corp. and established a new company, Lincoln Life and Annuity Company of New York. The sale of American States Insurance to SAFECO was completed in 1997. The Company also purchased the individual life and annuity businesses of CIGNA Corp. in 1997.

Lincoln National Corporation introduced its marketing name, *Lincoln Financial Group* (“LFG”) in 1998 to increase its recognition as a financial services company. Also in 1998, Lincoln National signed an agreement with Aetna to buy its domestic individual life insurance operations and the Board of Directors of LNC voted to move the corporation’s headquarters to Philadelphia.

In 1999, LNC reorganized the Lincoln National Life Insurance Company to separate its life insurance and annuity businesses into two distinct operations.

Lincoln Financial Distributors was formed in 2001 as the wholesaling distribution organization of Lincoln Financial Group. In 2002, LFG acquired The Administrative Management Group, Inc., an employee benefits recordkeeping firm.

In 2006, LNC completed its merger with Jefferson Pilot Financial, branding the new company Lincoln Financial Group. Jefferson Pilot Communications and Jefferson Pilot Sports were also acquired and renamed. Lincoln Financial Advisors introduced its new marketing name, *Lincoln Financial Network*, to include both Lincoln Financial and Jefferson Pilot retail distribution outlets.

## The Lincoln National Life Insurance Company

As of December 31, 2007, the Company owned 100% of the common stock of two insurance company subsidiaries and seven non-insurance company subsidiaries. The Company recorded gross premiums of over \$20.6 billion in 2007.

### METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of an Annuity Insurer found in the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Regulation Handbook* (2007 edition).

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Regulation Handbook*. Samples of complaint files, underwriting files and settlement files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

In this examination, the standards were tested through a combination of "generic" review and direct observation of the processes used.

**Each Standard contains a brief description of the purpose or reason for the Standard. The examiners' "Observations" are noted following each Standard tested. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate corresponding Standard.**

**A. COMPANY OPERATIONS/MANAGEMENT**

**Standard A 08**

<p><i>NAIC's Market Regulation Handbook - Chapter XVI, §A, Standard 8</i> <b>The Company is licensed for the lines of business that are being written.</b> 18 Del. C. §318(a), §505(b),</p>
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The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s Certificate of Authority.

*Results:* **Pass**

*Observations:* The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company’s Delaware Certificate of Authority.

*Recommendations:* None

**Standard A 09**

<p><i>NAIC's Market Conduct Examiners' Handbook - Chapter VIII. §A, Standard 9</i> <b>The Company cooperates on a timely basis with the examiners performing the examination.</b> 18 Del. C. §318(a), §320(c), §520(b)3</p>
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The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing cost.

*Results:* **Pass**

*Observations:* The Company responded timely to examiner inquiries and data requests. The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged and appreciated.

*Recommendations:* None

## B. Complaints

### Standard B 02

*NAIC's Market Regulation Handbook - Chapter XVI. §B, Standard 2*  
**The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.**

18 Del. C. §2304(17)

The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is in compliance with state complaint handling statutes.

#### *Results: Fail*

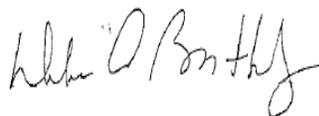
*Observations:* The Company’s complaint handling procedures are inadequate and are non-compliant with 18 Del. C. §2304(17). The examiners found inconsistencies in procedures used by different business units regarding the Company’s definition of a complaint. Upon presentation of the finding, the Company agreed and stated that it will correct the inconsistencies in its procedures.

The Company also failed to provide evidence of adequate monitoring of the complaint handling responsibilities delegated to its producers. No audits of Delaware producers were performed during the examination period to ensure proper tracking and reporting of all complaints as required by the Company’s written procedures.

*Recommendations:* The Company must provide the DDOI with documentation of their revised complaint handling procedures. These procedures must demonstrate consistency within the Company’s business units and compliance with 18 Del. C. §2304(17). The Company must demonstrate compliance with its own procedures and provide evidence of actions taken to ensure adequate oversight and monitoring of the complaint handling responsibilities delegated to producers transacting business in Delaware.

## CONCLUSION

The examination was conducted by Debra Boothby, Steve Misenheimer, Parker Stevens, Jack Rucidlo, Gwendolyn Douglas, Susanna Stevens, supervised by Shelly Schuman and is respectfully submitted,



Debra A. Boothby, CIE, MCM  
Market Conduct Examiner-in-Charge  
Insurance Department  
State of Delaware