

**State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
Insurance Division
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920**

IN THE MATTER OF:

CAPITOL LIFE INSURANCE COMPANY
Applicant.

DBR No. 2021-IN-010

CONSENT AGREEMENT

It is hereby agreed between the Department of Business Regulation (“Department”) and Capitol Life Insurance Company (NAIC Company Code 61581) (“Applicant” or the “Company”) as follows:

1. Applicant applied to reactivate its license in January 2018 in order to conduct business in the Rhode Island marketplace.
2. In consultation with the Department’s Company Licensing Unit, the Department’s Market Conduct Unit reviewed the Company’s national Market Conduct Annual Statement (“MCAS”) data as well as the data for its affiliated company, Liberty Bankers Life Insurance Company (cocode 68543). The initial review of the Department included analysis of the national MCAS data of the company and its affiliate combined, from 2015 through 2017, and the Department noted that the combined ratios were more than 80% above the national averages in numerous areas. Those ratio outliers showed an unusually high proportion of replacements to

new business, an unusually high proportion of replacements with owners ages 65 or higher, an unusually high proportion of claims denied, and an unusually high proportion of delayed payments on claims. Based upon that review, the Department initially suggested that the Company try to improve upon their national MCAS scores and come back to the Department to discuss again in a couple years.

3. The Company asked for further information and discussion, and the Company and the Department had several interactions during March and April 2019. The Department offered that the state could perform more detailed testing on the Company to determine whether or not it should be authorized to sell again in Rhode Island; but that time the Market Conduct unit would spend on the company would be paid for by the company. In May 2019, the Company requested that the Department perform this additional testing.
4. The Department identified that the Company had higher premium volumes in Texas and Massachusetts, and those states had similar (but not identical) laws, so they would serve as a good proxy for testing purposes. In June 2019, the Department selected a sample of 64 Texas and Massachusetts annuity replacements (from the data period 2015 through 2017) for detailed testing.
5. For each of the sampled replacement contracts, the Department requested: (a) the completed application (including suitability information, reasons for the client's purchase, an explanation of why the replacement is being recommended, signed paperwork when the client is ignoring a recommendation, etc.) and (b) policy details (including paperwork, when available) for both the original contract and the replacement contract (including guaranteed and estimated interest rates). The Company provided the documentation as

requested without delay.

6. Beginning July 2019, data elements were identified and reviewed by the Department's examiners for each of the sampled replacements. A summary of the findings is available in the Department's final examination report (the "Report").
7. As a result of this review, the Department adopted the Report on May 21, 2021 that includes numerous recommendations that are the subject of this agreement between the Company and Applicant.

THEREFORE, based on the foregoing, Applicant and the Department have decided to resolve this matter without further administrative proceedings and hereby agree to the following:

- I. Applicant and the Department agree to the following provisions, which were recommended in the Report and agreed to by the Company.
 - 1) Before marketing annuities in Rhode Island, the Company has agreed to provide to the Department written procedures in compliance with 230-RICR-20-25-4.4 to ensure that a) replacement forms are filled out correctly and signed by the applicant and producer and b) sales material certification statements are filled out correctly and signed by the producer. In addition, the Company has agreed to provide all copies of its replacement forms and sales certification forms utilized by the Company in compliance with 230-RICR-20-25-4.4.

- Per the Company's supplied addendum to the Report:

As previously indicated, Capitol Life's Compliance Department currently conducts 100% manual review of suitability, including replacements and advertising certification. The Compliance Review is in addition to the New Business review that verifies the case is "in good order". However, Capitol Life is aware of issues that can result from human error, and Capitol Life is now in the process of

implementing an automated system where new business cases may only be submitted to Capitol Life after all replacement and sales certification requirements have been met. Capitol Life anticipates implementation will be completed during 2021, and would apply to its Rhode Island business.

- 2) The Company agrees develop and provide to the Department, by August 1, 2022, written procedures in compliance with 230-RICR-20-25-4.6(A) to more proactively monitor timeliness issues between application date and issue date.
- 3) Before marketing annuities in Rhode Island, the Company agrees to confirm to the Department that it has adopted a system in compliance with 230-RICR-20-25-1.6(G)(6) to provide senior management a written report regarding its suitability supervision system, the audits and tests that it has conducted of the system.

- Per the Company's supplied addendum to the Report:

As of today's date, Capitol Life has a variety of written reports that range in frequency depending on the distribution channel and regulatory requirements. For its anticipated bank channel distribution in Rhode Island, Capitol Life:

- 1) *previously provided Rhode Island with a copy of a bank channel annual suitability certification;*
- 2) *would then conduct a compliance audit at least annually that includes a written report; and*
- 3) *would likely also conduct general audits of the bank channel distribution that are designed to detect deficiencies.*

- 4) Before marketing annuities in Rhode Island, the Company has agreed to provide to the Department written procedures outlining the Company's system to monitor and detect twisting and churning, as required by R.I. Gen. Laws § 27-29-4.7. As noted in the Report, "This recommendation is based upon a market wide push for compliance in this area and is not being included due to a specific finding with the Company."

5) The Company has agreed to perform and provide, by August 1, 2022, to the Department an internal audit to confirm that the Company's improved processes are properly identifying replacement contracts.

- Note: The Company has provided a small description of this audit and represented that this description contains the entirety of the audit findings regarding replacements and suitability.
- Per the Company's supplied addendum to the Report:

As previously indicated, Capitol Life's Compliance Department currently conducts 100% manual review of suitability, including replacements and advertising certification. The Compliance Review is in addition to the New Business review that verifies the case is "in good order". However, Capitol Life is aware of issues that can result from human error, and Capitol Life is now in the process of implementing an automated system where new business cases may only be submitted to Capitol Life after all replacement and sales certification requirements have been met. Capitol Life anticipates implementation will be completed during 2021, and would apply to its Rhode Island business.

6) The Company has agreed to provide to the Department, by August 1, 2022, its updated policies and procedures implemented to ensure that its MCAS data reported to the NAIC is accurate and reliable.

- Per the Company's supplied addendum to the Report:

Capitol Life now has a centralized database that captures data in a consistent manner across the various operating systems use to administer its business that Capitol Life uses for its data queries, including future MCAS reporting.

7) If the Company's business plan changes in the next thirty-six (36) months to add a distribution channel in Rhode Island other than bank-channel annuities, the Company has agreed to affirmatively notify the Department of such change via

email within sixty (60) calendar days of the change.

- 8) The Company has agreed that the notification requirement in part 7 (above) will trigger discussions between the Department and the Company over what procedural adjustments will be needed in order to gain the Department's approval of an additional distribution channel.

II. The Department agrees to reauthorize the Company to market insurance products in Rhode Island based on its certificate of authority approved lines, contingent upon the Company's continued compliance with the provisions in Part I.

III. Waiver of Hearing and Appeal. By agreeing to resolve this matter through the execution of this Consent Agreement, Applicant knowingly and voluntarily waives any right to an administrative hearing and waives any right to pursue an appeal to the Superior Court under the Rhode Island Administrative Procedures Act, R.I. Gen. Laws § 42-35-1 et seq. 8.

IV. Enforcement. If the Applicant fails to comply with any term or condition of this Consent Agreement within any applicable time period set forth herein, the Applicant will be in violation hereunder and the Department shall be entitled to immediately to take enforcement or other action in accordance with applicable law.

V. Compliance; Other Laws. Compliance with the terms of this Consent Agreement does not relieve the Applicant of any obligation to comply with other applicable laws or regulations administered by or through the Department or any other governmental agency.

Counsel for the Department and Applicant hereby consent and agree to the foregoing on behalf of their respective clients this 29th day of September 2021.

Department of Business Regulation
By its Legal Counsel,



Matthew Gendron, Esq.

Capitol Life Insurance Company
By its Counsel,



Errick Phillips
Senior Vice President of Compliance