

STATE OF ARIZONA
FILED

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DEPT. OF INSURANCE

REPORT OF TARGETED EXAMINATION
OF
METROPOLITAN LIFE INSURANCE COMPANY

NAIC# 65978

AS OF

MARCH 31, 2005

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CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

METROPOLITAN LIFE INSURANCE COMPANY

NAIC # 65978

The above examination was conducted by James R. Dargavel, FLMI, CIE, Examiner-in-Charge, Jerry Paugh, AIE, Senior Market Examiner, Mel Mohs, CIE, Senior Market Examiner, John Kilroy, Market Examiner and Helene I. Tomme, CPCU, AIE, Examinations Analyst.

The examination covered the period of October 1, 2004 through March 31, 2005.

As a result of that examination, the following Report of Examination is respectfully submitted.

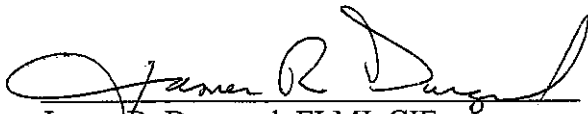
Sincerely yours,

Paul J. Hogan, JD, FLMI, ALHC, CIE
Market Oversight Administrator
Market Oversight Division

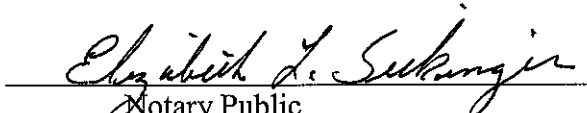
AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

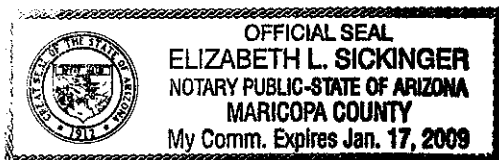
I, James R. Dargavel, FLMI, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Jerry Paugh, AIE, Senior Market Examiner, Mel Mohs, CIE, Senior Market Examiner, John Kilroy, Market Examiner and Helene I. Tomme, CPCU, AIE, Examinations Analyst, the Examination of Metropolitan Life Insurance Company, hereinafter referred to as the "Company." was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management, as the Examination was not finalized. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and that any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.


James R. Dargavel, FLMI, CIE
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 22nd day of June, 2006.


Notary Public

My Commission Expires 1-17-09



FORWARD

This targeted market examination of Metropolitan Life Insurance Company's ("Company" or "MetLife"), was prepared by employees of the Arizona Department of Insurance ("Department") as well as independent examiners contracting with the Department. A targeted market examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S. §§20-142, 20-156, 20-157, 20-158, and 20-159). The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following components of the Company's life and annuity business:

1. Provide a proper "free look period" for annuity contracts.
2. Communicate all of the required disclosures relative to annuity contracts.
3. Use of proper replacement practices.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market examination of the Company covered the period from October 1, 2004 through March 31, 2005 for the business reviewed. The purpose of the examination was to determine: (1) if the Company uses annuity applications and contracts that contain the appropriate notice regarding Free Look and premium refund requirements; (2) if the Company utilizes life and annuity replacement procedures and practices, and provides training to its producers that complies with the applicable statutes; (3) if the Company uses compliant procedures for processing life insurance and annuity refunds requested during the Free Look and 30 day option period; and (4) if the Company provides the required disclosure documents, buyer's guide and annual reports on all annuity applications in compliance with the applicable statutes. This examination targeted the top 75% of the Arizona individual life and annuity insurance market.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by

sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examination by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of life and annuity new business files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Robert DiLorenzo, Assistant Vice President Regulatory Matters. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met". The standard in the areas of procedures, forms and policy forms use will not be met if any exception is identified.

EXECUTIVE SUMMARY

This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page seven.

The Company failed Standard No. 1 by using seven annuity application forms that failed to state that upon written request, the insurer is required to provide within a reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder, and failed to contain a statement notifying contract holders age 65 years or older on the date of the application that they had 30 days after delivery in which to return the annuity contract for a full refund of all monies paid.

The Company failed Standard No. 3 because:

1. It failed upon receipt of a request to borrow policy values to send a notice advising the policy owner that a release of policy values may affect the guaranteed elements, nonguaranteed elements, face amount or surrender value of the policy from with the values are released.

2. It failed on 39 applications to notify the existing insurer that may be affected by the proposed replacement within five business days of the receipt of a completed application indicating replacement.

The Company passed Standards No. 2, 4 and 5.

STANDARD 1

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.	A.R.S. § 20-1233(A), (B) & (C)

The Examiners reviewed MetLife's annuity application and policy forms to determine if those forms contained notices that state the policyholder's right to request information regarding benefit and contract provisions, and the right to return the contract for a refund of premium.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed five annuity application forms, four annuity contact forms and a random sample of 25 of 369 MetLife annuity new business application files. During the Phase II Examination, the examiners reviewed an additional 40 annuity external replacement new business files selected randomly from the above listed population.

The Examiners reviewed the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories, and follow-up requests.

Finding:

The Examiners issued a preliminary finding on three annuity application forms that failed Standard 1. The application forms found in these files failed to include a Free Look notice that stated, on written request, an insurer is required to provide within a reason time reasonable factual information regarding the benefits and provisions of the annuity contract to the policy holder, and failed to contain a statement notifying contract holders age 65 years or older on the date of the application that they had 30 days after delivery in which to return the annuity contract for a full refund of all monies paid. During their review of 65 annuity files the Examiners identified four additional annuity application forms that failed to contain the required notice.

Form Number	Form Number
PPSAPP (0902)	1900024288 (0504)
MFFSVER1APP-SS (0304)	FFS-4308-APP-VERI (0802)
MFFSVER2APP-SS (0304)	FFS-ASAR (0902)
PPSAPP (1001)	

**COMPANY REQUIREMENTS REGARDING ANNUITY APPLICATION AND
CONTRACT FORMS**

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
7	11	63.6%	A.R.S. §20-1233(A)

An error ratio greater than 5% does not meet standards; therefore recommendations are warranted.

Recommendation No. 1

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company uses annuity application forms that contain a compliant Free Look notice.

STANDARD 3

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
3	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.	A.R.S. § 20-1241.02; 20-1241.04, 20-1241.05, 20-1241.06, and 1241.07.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories, and follow-up requests.

During the Phase I Examination, the Examiners reviewed a random sample of 20 of 364 MetLife annuity new business application files selected from the issued new business and external replacement new business populations. During the Phase II Examination, the examiners reviewed an additional 40 annuity external replacement new business files selected randomly from the above listed population.

During the Phase I Examination, the Examiners reviewed a random sample of 30 of 567 MetLife's life new business application files selected from the issued new business, external replacement new business and internal replacement new business populations. During the Phase II Examination, the examiners reviewed an additional 48 life external replacement new business files selected randomly from the above listed population.

Finding:

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 3 since upon receipt of a request to borrow life insurance policy values, the Company failed to send a notice advising the policy owner that a release of policy values may affect the guaranteed elements, nonguaranteed elements, face amount or surrender value of the policy from with the values are released.

Sixteen of 50 (32.0%) annuity external replacement new business files failed Standard 3 because the files contained documents that indicated the Company failed to notify the existing insurer that may be affected by the proposed replacement within five business days of the receipt of a completed application indicating replacement.

Twenty-three of 58 (39.7%) life external replacement new business files failed Standard 3 because the files contained documents that indicated the Company failed to notify the existing insurer that may be affected by the proposed replacement within five business days of the receipt of a completed application indicating replacement.

COMPANY AND PRODUCER REQUIREMENTS REGARDING REPLACEMENT

PHASE I and PHASE II

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
1	Procedures	N/A	A.R.S. §20-1241.06(A)(3)
16	50	32.0%	A.R.S. §20-1241.05(C)
23	58	39.7%	A.R.S. §20-1241.05(C)

An error ratio greater than 5% does not meet standards; therefore recommendations are warranted.

Recommendation No. 2

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company provides a) a notice advising the life insurance policy owners that a release of policy values may affect the guaranteed elements, nonguaranteed elements, face amount or surrender value of the policy from with the values are released and b) a notice to existing insurers of the proposed replacement within five business days of receipt of a completed application indicating replacement.

SUMMARY OF STANDARDS

#	STANDARD	PASS	FAIL
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.		X
2	Company producer training procedures and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.	X	
3	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.		X
4	Company procedures for processing refunds under the "Free Look" option, or the 30 day option, if the application involved replacement of existing coverage, are in compliance with applicable statutes, rules and regulations.	X	
5	Company procedures that require disclosure documents, buyer's guides and annual reports be provided to contract owners are in compliance with applicable statutes, rules and regulations.	X	