



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

125 South Webster • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 268-9935
E-Mail: ocl.complaints@wisconsin.gov
Web Address: oci.wi.gov

Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

The Northwestern Mutual Life Insurance Company
720 East Wisconsin Avenue
Milwaukee, WI 53202

dated June 4, 2013, and served upon the company on August 22, 2013, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 23rd day of August, 2013.

A handwritten signature in black ink, appearing to read 'Theodore K. Nickel', written over a horizontal line.

Theodore K. Nickel
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
FRANKLIN, WISCONSIN**

JUNE 3-4, 2013

TABLE OF CONTENTS

I. INTRODUCTION.....	1
II. PURPOSE AND SCOPE	2
III. CURRENT EXAMINATION FINDINGS.....	4
CLAIMS	4
IV. CONCLUSION.....	16
V. ACKNOWLEDGMENT.....	17



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

June 4, 2013

Bureau of Market Regulation
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
(608) 266-3585 • (800) 236-8517
Fax: (608) 284-8115
E-Mail: ocicomplaints@wisconsin.gov
Web Address: ocd.wi.gov

Honorable Theodore K. Nickel
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted from June 3 to June 4, 2013, of:

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY
Franklin, Wisconsin

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

The Northwestern Mutual Life Insurance Company (the company) is a mutual company that was organized in 1857 as The Mutual Life Insurance Company of the State of Wisconsin. The name was changed in 1865 to The Northwestern Mutual Life Insurance Company and the company is licensed in all 50 states and the District of Columbia.

The major product marketed by the company is ordinary (individual) life insurance written on a participating basis. Individual annuities, disability income insurance, and variable life insurance and annuities are also marketed through the company's career agents.

The company's subsidiaries include: Northwestern Long Term Care Insurance Company, Northwestern Mutual Investment Services, LLC (NMIS), Northwestern Mutual Wealth Management Company, and Russell Investments.

II. PURPOSE AND SCOPE

A targeted examination was conducted to review the company's procedures regarding its use of the Social Security Public Death Master File (DMF) from the Social Security Administration (SSA) in individual life and annuity claim handling, including retained asset accounts (the company refers to its retained asset account program as the Northwestern Mutual "Access Fund"). The examination focused on the period from January 1, 2009, through May 31, 2013. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The DMF is a file of all deaths reported to the SSA from sources other than states going back to 1936 when SSA began. A fact sheet provided on the Social Security Web site states the DMF is not a complete file of all deaths, and the SSA cannot guarantee the accuracy of the DMF. Further, the absence of a particular person on the file is not proof that the individual is alive and, in rare circumstances, it is possible for the record of a person who is not deceased to be erroneously included in the DMF. This file includes the following information on each decedent if the data is available to the SSA: tax identification number (TIN), otherwise known as Social Security Number (SSN), name, date of birth (DOB), date of death (DOD), state or country of residence (February 1988 and prior), ZIP code of last residence, and ZIP code of lump sum payment.

The DMF was created in 1980 as a result of a 1978 Freedom of Information Act (FOIA) lawsuit. The SSA makes the DMF available through an agreement with the National Technical Information Service (NTIS), which is part of the U.S. Department of Commerce. Death records are received by the SSA via family members of the deceased, funeral homes, hospitals, states, federal agencies, postal authorities and financial institutions.

The SSA determined that it was no longer able to disclose certain protected state records that had been provided on the DMF since 2002. Effective November 1, 2011, the DMF data no longer contained these protected state death records. Section 205(r) of the Freedom of

Information Act prohibits the SSA from disclosing state death records it receives through its contracts with states, except in limited circumstances. This means that state death certificates are no longer to be used and resulted in removal of approximately 4.2 million records from its historical DMF data plus another 1 million annually thereafter. Per the SSA, state vital statistics offices are the first point of contact for death data.

Most states, including Wisconsin, have not adopted specific rules yet governing the use of the DMF or other databases to crosscheck an insurer's life policies, annuities and retained asset accounts. Although some states have recently initiated various standard-setting processes in this area, no uniform, consistent and industry-wide standards have yet emerged.

Significant concerns related to the use of the DMF by insurance companies had been raised as a result of investigations commenced by insurance regulators and unclaimed property administrators in various states. Information seemed to indicate some companies were using the DMF to stop annuity payments but failing to use the same information to investigate claims for life insurance proceeds to the detriment of policyholders and beneficiaries.

Our examination included, but was not limited to, a review of the company's processes, both current and past, in the use of the DMF for individual life and individual annuity claims opened between January 1, 2009, and May 31, 2013. It also included a review of the company's procedures regarding its use of the DMF.

The report is prepared on an exception basis.

III. CURRENT EXAMINATION FINDINGS

Claims

The Life Benefits Support Team in the Life Benefits Division performs the death claims setup process. The company uses its Benefit Administration System (BAS) for the handling of death claims under life policies, annuities, variable products and for the termination of lifetime payments. The Client Services System (CSS) contains the insurance information for all of its clients.

A Life ID Number is assigned at the time of application input. Internally, at the time of application input, the company's systems will search for other policies with identical names, birth dates and sex codes. If there is a match, the new Life ID Number will be dropped and the new policy will chain with other life policies, all having the same Life ID Number.

If any area within the company becomes aware of the death of an insured, annuitant or retained asset account holder via any means (DMF crosscheck match, notification from family, etc.) and determines that there is not yet a pending claim, the Life Benefits Division is notified of the death and is provided with any supporting documentation. Occasionally, the company learns of a death via returned mail. The Life Benefits Support Team uses the information supplied to establish a claim case which is then assigned to a claims analyst.

The claim setup process by the Life Benefits Support Team includes a client search, which involves querying the company's client database to search for any insurance products not yet associated with that individual's Life ID Number. This process encompasses active life policies, annuities, payment plans, income plans and retained asset accounts. The client search process does not include securities investment accounts which are held through NMIS, the company's wholly owned broker/dealer, as these accounts are covered through a separate process described in the following.

If notification of death is received by NMIS, the Account Transfers & Legal Custody unit of the Retail Investment Operations department conducts a name search within the CSS

databases to determine whether the NMIS accountholder is associated with any in-force insurance products with the company. If so, notice is provided to a distribution list within the Life Benefits Division that includes, among other things, the client name, contract number and a death certificate, if one had been received. Likewise, if notification of a death is received by the Life Benefits Division, the analyst assigned to the case notifies NMIS by sending an e-mail with the insured's last name, date of birth, taxpayer ID number and date of death. Once received, the death certificate is also forwarded to NMIS for their claim.

Once the claim case is established, the claims analyst receives an "Analyze Claim" task. The analyst reviews the incoming communication to determine if there is an outstanding requirement needed to pay the claim. The basic claim requirements include a Certified Death Certificate and the Beneficiary Claim Statement.

The claim analyst assigned to the case reviews the information provided and, if necessary, conducts additional research before sending either an exploratory letter to locate a contact or a claim kit letter if beneficiary contact information is available in the contract records or other sources.

If the claims analyst is unable to verify a current address for the beneficiary or if all designated beneficiaries are deceased, the analyst attempts to locate a family member or other contact (often someone named in the obituary) and will send an exploratory letter to that individual. The exploratory letter informs the beneficiary that during a recent audit the company has learned that the insured passed away and on what date. More information on the audits is discussed in further detail later.

If no contact is found, that letter is sent to the last known address of the insured. This letter requests assistance authenticating the death of the insured and verifies the identity of the beneficiary. It does not contain policy or value information.

To obtain information needed to process a claim the company sends a claim kit to the beneficiary(ies) of the policy once contact has been made. The kit includes a Settlement

and Tax Information (STI) sheet and requests a certified copy of the death certificate as well as a signed claim statement (form provided by the company). The Settlement and Tax Information sheet is unique to the policy in that it provides the policy number, type, total proceeds, any loans/premiums due and the net proceeds as well as a description of the settlement options available (added to the STI in June 2012). Prior to adding settlement option descriptions to the STI, the company used a Beneficiary Settlement Brochure and sent that along with the STI sheet as well as a separate document which requested the death certificate and claim statement (March 2010–June 2012). Prior to the use of the Beneficiary Settlement Brochure, until March 2010 the company used a Beneficiary Settlement Guide which was sent along with the STI.

Once the Certified Death Certificate is received, the claims system is updated to reflect that. If the Certified Death Certificate is unavailable, the beneficiary designation did not change within one year of death, and the total amount of proceeds payable is less than \$100,000, two of the following items can be accepted as verification of death for those under 80 and only one of the following is required for those 80 and over:

- Confirmation call to the funeral home
- Obituary notice
- Death verification online or using Lexis Nexis Accurint
- Prayer card
- Letters of Testamentary from the client's estate
- Funeral home assignment

The beneficiary(ies) is given the following three options to settle the claim: lump sum check, Access Fund, or they can elect an income plan (Interest Income, Period Certain, Specified Amount, Single Life, Single Life Refund, or Joint Life). A description of each of these options is provided in the STI.

Once the claim is in good order having received all outstanding requirements, the claim is processed. The company pays interest on proceeds from the date of death.

When an annuitant cannot be located as of the maturity date or if the company is notified that an annuitant has become "lost," the Annuity Customer Service Team attempts to locate the annuitant via several channels, to obtain any new contact information. Resources include contacting the financial representative, completing a "White Pages" and Lexis Nexis Accurint search, and soliciting the help of the company's Special Investigations Unit (SIU). If no additional contact information is found, funds are escheated to the state of residence of the annuitant/owner.

If the search for additional information indicates that the annuitant may still be living, two courses of action are possible depending on the type of payout mode:

1. If the plan is a non-life income plan (e.g., Interest Income, Period Certain or Specified Amount Plan), the company will escheat any outstanding payments as well as the commuted value of the contract to the state of residence of the annuitant/owner.
2. For life income plans (Single or Joint Life Plans) the company will continue to make payments to an internal account referred to as the "Due and Unpaid Account." The company attempts to locate all clients in the "Due and Unpaid Account" annually. As long as the company's search continues to indicate that the annuitant/owner is still living, payments will continue to be made to the "Due and Unpaid Account." After two years of checks being deposited in the "Due and Unpaid Account," the contract accumulated deposits in the "Due and Unpaid Account" are escheated to the state of residence of the annuitant/owner.

In situations where the annuitant did not consent to an extension of the maturity date, but the company unilaterally extends the date, the Annuity Customer Service Team sends a letter notifying the client of the maturity and advises the client of options available, which include

extending the maturity date. For Series QQ and RR annuities, the contract language provides that the maturity date will automatically be extended if no response from the client is received. For all series of contracts, the client can exercise the option to annuitize the contract at any time during the maturity extension.

Also, if an annuitant reaches the contractually defined limiting age, the Annuity Customer Service Team contacts the client via letter at least 80 days prior to the limiting age, which notifies the client of the options available to begin receiving payments.

Death Master File Matching

In or about 1996, the company first began accessing the DMF to identify potentially deceased Access Fund accountholders. To do so, the company performed, and continues to perform, regular crosschecks of the DMF against Access Fund accounts within its database.

Beginning in 2002, in response to a request from one of its financial representatives, the company began accessing the DMF to perform sporadic, ad-hoc crosschecks against a specific list of clients serviced by the financial representative and only for certain corporate or business-owned life insurance (COLI/BOLI). This practice was discontinued in May 2011.

Beginning in 2003, the company has utilized the DMF with its life-contingent insurance products (such as annuities in the payout phase or payments made under a life policy payment plan). This was done to ensure that such payments were not erroneously or improperly made after an annuitant or payment plan recipient had died. Where such payments were made, the company attempted to recover those funds from the family or individuals who improperly received the money.

If, through this process, the company determines that a beneficiary or annuitant who has been receiving life-contingent payments is deceased, the company will also search its databases for any other company-issued life-contingent products which may have been owned by, or which may have insured, the decedent. The company refers to this process of searching for other products relating to the decedent as "chaining." Once notified of a death on a payout

annuity contract (including income plans and life benefit payment plans), the Life Benefits Division at the company establishes a claim case and puts the contract in a "death pending" status. This status automatically suspends any future payments. If values are exhausted after the date of death but before the company is notified that the insured died, a claim is established based on the policy value as of the date of death.

The examiners asked the company to provide information on instances in which it was using the DMF to stop annuity payments while the individual receiving payments was also insured under a life policy.

The company explained that when it verifies that a potential or "raw" match against the DMF is in fact its annuitant or beneficiary, the company opens a claim on its BAS system in order to terminate the payments under the life-contingent product. As part of the claim setup process in BAS, the Life Benefits Support Team initiates a client search, which involves querying the company's client database to search for any insurance products not yet associated with that individual's Life ID Number. If additional policies or contracts are identified through the client search process, adjustments are made so that all associated contracts are linked by the same Life ID Number which results in those contracts being automatically pulled into the claim event within the BAS system and included in the overall benefits to be paid. To conduct DMF crosschecks of its life-contingent products databases, the company previously used two sets of matching criteria. The first was a "Name Match," which generated a hit when both the TIN and name on the company's records matched exactly to a TIN and name on the DMF. The second set of matching criteria was a "Name Mismatch," which generated a match when the TIN for the company's insured/annuitant appeared on the DMF but the name was not an exact match. These reports were typically run in the second quarter (April/May) each year.

The company's Life Benefits Division reviewed the available reports (2009 to 2012) from the matches produced by crosschecking the DMF against the company's database of payment plans and annuities in the pay-out phase. The company completed the review of all

such matches with the 2012 crosscheck of life-contingent products that was conducted in April 2012. The company then moved its life-contingent product crosscheck into its broader quarterly crosscheck, which included life policies, annuities, Access Funds, as well as annuities in the pay-out phase and payment plans. This will be discussed in more detail later. Based on its review of these matches, the company identified four instances in which annuity payments were stopped as a result of a DMF crosscheck and a life insurance policy was first identified for the same insured/annuitant through the client search/chaining process. The summary information is provided in the table below.

Match Report	Raw Matches	Verified Matches	Matches with Chained Life Policies
	<i>Initial matches from crosscheck of Annuity and Income Plan databases</i>	<i>Matches that resulted in a death claim being set up for recipient of Annuity or Payment Plan</i>	<i>Matches where Life Policy was identified by chaining</i>
2012 Name Match	78	17	0
2012 Name Mismatch	74	7	1
2011 Name Match	35	32	1
2011 Name Mismatch	505	16	0
2010 Name Match	56	37	2
2010 Name Mismatch	88	*	0
2009 Name Match	30	*	0
2009 Name Mismatch	24	*	0
Total	890	109	4

With respect to the cells with asterisks, the two reports from 2009 (Name Match and Name Mismatch) and the 2010 Name Mismatch reports in which there was no data, the company confirmed there were no situations in which a chained (associated) life policy was first discovered for an insured/annuitant whose life-contingent payments had been terminated following a DMF crosscheck.

To confirm this, the company crosschecked the Life ID Number of all its annuity or payment plan clients from these reports against its CSS database to determine whether there were any life policies associated with each client. If there were, the company reviewed the data to determine whether it had processed a claim for death benefits on any such life policies. If a claim for death benefits on a life policy had been processed, the company then reviewed the death claim records to determine whether the company had first learned of the insured's death as a result of a crosscheck against its annuity and payment plan database. Based on the review, the company determined that there were no such cases in either of the two 2009 results (i.e., Name Match and Name Mismatch) and none for the 2010 Name Mismatch results.

The examiners reviewed the four claim files in which there were verified matches with the DMF that the company halted the annuity payments on and there was also a life insurance policy for that person. The company became aware of two of the deaths via the 2010 "Name Match" report, one via the 2011 "Name Match" report, and one via the 2012 "Name Mismatch" report. The examiners were able to verify that since 2009 the company has been reaching out to the beneficiaries of the life policies when there was a chained life policy with an annuity or income plan. No areas of noncompliance were noted.

Beginning in approximately 2004 and until April 2012, the company began crosschecking death claims against the DMF to confirm the deaths of individuals who were insured under life policies and on whose policies a claim for benefits had been submitted. The purpose was to ensure protection against payment of fraudulent claims.

As previously noted, since May 2011, the company began performing periodic (at minimum, quarterly) crosschecks of all of its product lines: life policies (in force and those that terminated within the prior two years), life policies which contain nonforfeiture or Automatic Premium Loan (APL) provisions, annuities, disability income policies, long-term care policies, and Access Fund accounts dating back to January 1, 1992, to identify potentially deceased insureds, annuitants and accountholders upon whose policies, contracts or accounts no claim

for benefits had been made. The disability income and long-term care product lines were included in the initial 2011 crosscheck; however, they were not included going forward on the quarterly searches. The company ceased utilizing the "Name Match" and "Name Mismatch" reports in April 2012 since the reports have been replaced by this more detailed quarterly DMF matching process.

The company explained that the DMF matching process is broken down into three parts: matching, identity verification, and a determination of whether or not benefits are due.

Matching

Beginning in 2012, the company began utilizing Unclaimed Property Consulting & Reporting, LLC (UPCR) to assist in performing the DMF crosschecks against the company's database of in-force and terminated contracts. UPCR was last utilized for the April 2013 crosscheck. The company is transitioning this work to another vendor, MIB Solutions, Inc., and is planning to use this vendor for the July 2013 crosscheck.

UPCR used its own software program to perform crosschecks of the company's contract records against the latest, updated version of the DMF, and provided a timely report with detailed results of each data match. MIB Solutions, Inc., will provide similar reports with detailed results of each data match, with formatting as the only substantial difference.

In the quarterly crosschecks, the company's Information Systems (IS) Department provides its vendor with the necessary data to conduct the matching, otherwise known as cross-matching. The IS Department then filters the results received from the vendor to eliminate any previously reviewed matches or other matches that do not require analysis (e.g., policies issued after DMF date of death provided, policies where a claim was already paid, etc.).

The matches generated by both vendors are determined based on a review of the "Pru Agreement categories," otherwise known as Pru criteria, that the company has used as a guide for its DMF matching. The Pru Agreement categories establish a method of classifying

matches into categories based on combinations of exact and "fuzzy" matches of Name, DOB and TIN. The company believes that the Pru criteria are very comprehensive.

A category 1, "Exact" match is an exact match to all four data elements used (TIN, DOB, first name and last name). A category 2, "TIN" match indicates that the TIN was an exact match and that other data elements matched on some combination of an exact or a fuzzy basis. A category-3, "Non-TIN" match indicated that (a) the TIN either matched on a fuzzy basis or that the TIN was missing or invalid, and (b) the other data elements matched on some combination of an exact or fuzzy basis.

Fuzzy matches are those matches that are not exact matches; the company has used the fuzzy match definitions in the Pru Agreements for guidance. Examples of fuzzy first names are: using the first initial, nicknames, or having data entry mistakes (missing letters) instead of the actual first name. Fuzzy last names are, for example, compound last names or spaces in last names. Fuzzy DOBs are two dates in which there is only a one-digit difference, e.g., 05/01/1964 and 05/01/1965. The table below provides a breakdown of each match type.

	TIN	DOB	Last Name	First Name
Category 1, Exact	Exact	Exact	Exact	Exact
Category 2, TIN	Exact	Exact or Fuzzy	Exact or Fuzzy	Exact or Fuzzy or no match
Category 3, Non-TIN	Fuzzy, no TIN or Invalid TIN	Exact or Fuzzy	Exact or Fuzzy	Exact or Fuzzy

Identity Verification

The company's IS Department filters the results of the list generated by the vendor and provides the filtered list to the Special Handling Research Center (SHRC), a division of the company's Policyowner Services Department, to perform identity verification. Several employees within the SHRC, the Identity Verification Process Team, review the remaining results using an identity verification process (IVP) to analyze whether each match presented is a valid match to a company insured. Similarly, a representative within the Annuity Customer Service Division of the Investment Client Services Department uses the IVP rules to evaluate potential matches on annuity and income plan matches, and a representative of the Life Benefits Division of the Policyowner Services Department uses the IVP rules to evaluate Access Fund matches. The IVP process generally takes approximately one month (but can take up to two months for some cases) for each quarterly reporting period. The individuals within the SHRC, Annuity Customer Services Department, and Life Benefits groups record the results of their analysis and then notify the Life Benefits Division when any "Yes" or "Yes, Probable" results are found.

"Yes" or "Yes, Probable" matches are those that had gone through the IVP and have either been confirmed as being a client by the company ("Yes" match) or were a match where the company's research did not turn up information that either confirmed that the individual on the DMF was a match to the company's client or that would prove the individual on the DMF was not a match to the client ("Yes, Probable" match).

Benefit Determination

The Life Benefits Division of the Policyowner Services Department then sets up a claim for any contracts that were determined to be a "Yes" or "Yes, Probable" match through the IVP review. The "Yes, Probable" matches are moved into the claim process due to a lack of evidence to disprove the match. The company's position is that it is up to the company to prove it is not a policyholder. The claims analyst follows the claim process as previously outlined.

The company stated that it has followed the standards outlined in previous settlement agreements including the quarterly DMF crosschecking and reviewing company business back to 1992. The company has implemented a regular procedure which uses search methodology and matching criteria set forth in the various Regulatory Settlement Agreements that have been executed within the industry to crosscheck quarterly all in force and terminated in the last two years life policies, annuity contracts, variable business and the Access Fund.

The examiners reviewed a random sample of 30 paid individual life and annuity claims that were opened by the company between January 1, 2009, and May 29, 2013, to verify that the company followed its claim handling procedures. In one of the annuity claims reviewed the company learned of the death via a DMF crosscheck.

The examiners were provided a review constituting how the earlier described processes utilized by the company operate, as well as how the company has been using the DMF to check its records for deceased insureds/annuitants. The examiners were also provided an overview of the IVP that is used to evaluate those matches not eliminated through the initial filtering done by the company's IS Department.

The examiners reviewed documentation provided by the company that contained the matching criteria (Pru criteria) used as a guide for its matching process, as well as a sample of one of the quarterly match result reports. No areas of noncompliance were noted.

IV. CONCLUSION

In the examiners' review of the company's processes, both current and past, in the use of the DMF, it was found that the company had been utilizing the DMF since 1996 in various ways, none of which violated existing Wisconsin Insurance Laws.

V. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Name	Title
Nate Gasser	Insurance Examiner
John Kitslaar, III	Health and Life Section Chief

Respectfully submitted,



Erin Mirza, MCM
Examiner-in-Charge