

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF THE REPORT
OF EXAMINATION OF
MERRILL LYNCH LIFE
INSURANCE COMPANY

AID NO. 2005- 050

ADOPTION ORDER

Now on this day the matter of the Report of Examination ("Report" or "Report of Examination") as of December 31, 2004 of Merrill Lynch Life Insurance Company ("MLLIC" or "Company"), of Little Rock, Arkansas, NAIC #79022, a domestic stock insurance company, is taken under consideration by Julie Benafield Bowman, Insurance Commissioner for the State of Arkansas ("Commissioner"), as presented by the Chief Counsel, Ms. Jean Langford, and the Finance Division of the Arkansas Insurance Department ("Department"). From the facts, matters and other things before her, the Commissioner finds as follows:

FINDINGS OF FACT

1. That the Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. That the Company is an Arkansas-domiciled stock insurance company authorized to transact life and disability (accident and health and sickness) insurance and variable contracts in the State of Arkansas.
3. That pursuant to Ark. Code Ann. §23-61-201, et seq., and other applicable laws, the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records and assets of the Company as of December 31, 2004.
4. That said examination was commenced by the Department on March 28, 2005, and completed on June 24, 2005.

5. That the verified Report of Examination was filed with the Department on July 14, 2005; it was then forwarded to the Company via certified mail on July 14, 2005. The Report was received by the Company on July 18, 2005, according to the certified mail return receipt returned to the Department.

6. That the Report of Examination contains the following comments on discrepancies or deficiencies concerning the Company's operations:

a) The Company's state license files were not available for the Examiners' review when requested; the Examiners recommend access be given by the Company to more than one (1) person or employee to ensure timely availability upon request; and

b) The Company's complaint register did not initially include complaint inquiries received from the Department. The Company's failure to maintain a complete register is in violation of Department Rule 44, §8, and a violation of Ark. Code Ann. §23-66-206(4) (A),(B) (Supp. 2003). Additionally, the Company did not provide a timely written response to the Commissioner after receipt of a written inquiry.

7. That the Company via its Arkansas counsel sent the Department its formal letter or rebuttal as to the Report of Examination, received by the Department on August 18, 2005. The cover letter acknowledged the Company's receipt of the verified Report of Examination on July 18, 2005. Counsel filing the request asked that the Report of Examination be modified or corrected in accordance with Company comments and corrections, pursuant to Ark. Code Ann. §23-61-205(a)(3)(A). The major comments were:

a) The comments asked for a corrected listing of the Company's Administrative Office address as 1300 Merrill Lynch Drive, Building 3, Pennington, New Jersey, on page one of the Report cover letter (for filing with the Commissioner).

b) On page 6 of the Report, the Company asked us to reflect that the Company's special purpose obligations were dissolved as of December 31, 2004 (hence the carrying value of \$0 as reported therein).

c) That on page 11 of the Report, the Company asked that affiliate “Merrill Lynch Insurance Group Services, Inc.” be inserted into the Organizational chart halfway down the left column of two on that same page, above the listing for “Merrill Lynch International Finance Corporations”.

d) On page 14 of the Report, the Company asked that a more detailed paragraph be added in order to correct the wording of the second paragraph under “Insurance Products and Related Services”.

That proposed language would read:

“The Company’s master complaint register did include complaint inquiries received from the Arkansas Insurance Department, but the 2 complaints received from the Arkansas Insurance Department during the period under examination were not originally produced for the examiners; because the master log is coded by state of residence; and the contract owners involved were, in one case, a resident of New York, and in the other case, a person who was originally a Texas resident; and the coding had inadvertently not been changed when the contract owner moved from Texas to Arkansas . As a result of discussions with the Department during the examination, the Company added an additional column to the Company’s complaint register to capture the state(s) from which Department of Insurance complaints emanate. The complaint register now not only maintains a column for state of origin, but a separate column for Departments of Insurance; so that the Company can sort its complaint register for all complaints received as to Arkansas residents, as well as the Arkansas Department of Insurance. However, despite the sorting issue, these two complaints were at all times present in the Company’s main complaint’s register. In the case of one complaint, the Company did not provide a written response to the Commissioner upon receipt of a written inquiry from the Commissioner in a timely manner. “

The Department took that comment under advisement.

e) On pages 15 and 16, the Company asked that the Department correct the "Reinsurer Limit" line for two (2) entries for Ace Tempest Life Reinsurance Ltd., Hamilton Bermuda. In the first paragraph on page 17, the Company proposed the language:

"Beginning in March 2005, the Company shall shift its life policy administrative function to IBM Insurance Outsourcing Services (formerly Liberty Insurance Services Corporation), in Greenville, South Carolina. The Company's existing data and record systems will be shifted rather than converted to the systems Liberty currently uses. "

f) On Page 22, under the first paragraph, labeled "SUMMARY OF FINDINGS", the Company proposed a new paragraph to conform the Finding to that of its proposed change in Item (d) above, both of which the Department took under advisement.

8. That the Company also sent another letter dated August 22, 2005, with corrections, to the Department. The Company's counsel stated that in his later review of the Company letter of August 17th to this Department, an error was made in the last paragraph on letter page 3. The total number of complaints for the 5-year period covered by the examination report was 8, not 6. There were two (2) complaints received from the Department and six (6) complaints received directly from complainants, for a total of eight (8).

THEREFORE, pursuant to the provisions of Ark. Code Ann. §23-61-205, the Commissioner hereby orders:

1. That the Examination Report, as filed with the Department, shall be modified; the textual changes proposed by the Company in Order Sections 7, Subsections (a), (b), (c), (e) and (f) shall be adopted. Company proposals for changes in Section 7 (d) and (g) and Section 8 are declined. However, as an alternative to the Company proposals for changes in Order Section 7 (d) and (g) and in Order Section 8, the Examiners determined that it is appropriate to remove from the modified Report of Examination the wording as to the complaint register entries, inasmuch as the original register did contain information on the two consumer complaints in question.

2. That the Report of Examination as modified, with the specific amendments as directed herein, including all changes suggested by the Company with the exceptions listed, is hereby adopted;

3. That the Department shall forward a copy of this Order and the adopted Examination Report, as modified, to the Company via Arkansas counsel, by certified mail. The mailing to the Company shall include specimen affidavit forms for the Company's Directors to use in acknowledgement of receipt of the adopted Report of Examination, as modified, and this Order;

4. That within thirty (30) days of receipt of this Order and the adopted Examination Report, as modified, the Company shall file with the Department affidavits executed by each of its Directors, stating under oath or affirmation that each has received a copy of this Order and the adopted Examination Report, as modified, pursuant to Ark. Code Ann. §23-61-205(b)(1), et seq.; and

5. That the adopted Examination Report, as modified, shall be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order.

IT IS SO ORDERED this 16th day of September, 2005.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS