

OHIO DEPARTMENT OF INSURANCE

**A
TARGETED
MARKET CONDUCT EXAMINATION
OF
MOTORISTS LIFE INSURANCE COMPANY
NAIC #66311**

As Of

June 30, 2002





Bob Taft, Governor

Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a target market conduct examination was conducted on the Ohio business of:

Motorists Life Insurance Company
NAIC Company Code 66311

The examination was conducted at the Company's statutory home office located at:

471 E. Broad Street, Columbus, Ohio 43215-3861

A report of the examination is enclosed.

Respectfully submitted,

A handwritten signature in black ink that reads 'David R. Beck'.

David R. Beck

Date: 2-23-2004

Chief, Market Conduct Division



Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

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SCOPE OF EXAMINATION

The examination of Motorists Life Insurance Company (the Company) commenced on September 16, 2002 at the Company's home office in Columbus, Ohio. The examination was restricted to Company activities for individual ordinary life and annuity business from the period of January 1, 2000 through June 30, 2002. The examination is reported by test.

This examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and Ohio's applicable statutes, rules, and regulations. Accordingly, the examination included the following areas of the Company's operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Marketing
- E. Illustrations
- F. Replacements
- G. Policyholder Services
- H. Paid Claims
- I. Denied Claims
- J. Single Premium Deferred Annuities

METHODOLOGY

The examination was conducted through a review of the Company's ordinary individual life and individual annuity insurance policy files and claim files. A review was also conducted on the Company's corresponding procedure manuals. This information was supplemented, as necessary, with interviews with Company managers and written inquiries to the Company requesting clarification and/or additional information.

Only files with Ohio insureds, policyholders or claimants were reviewed. A series of tests were designed and applied to the files reviewed to determine the Company's level of compliance to the Ohio insurance statutes, rules and regulations. These tests are described and the results noted in this report.

The Examiners used the National Association of Insurance Commissioners' standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test.

The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply.

In any instance where errors were noted, the Examiners submitted to the Company a request for information describing the apparent error. Response to these inquiries were returned to the Examiners with notes as to whether the Company:

- concurred with the findings, and/or
- had additional information for the Examiners to consider, and/or
- proposed remedial action(s) to correct the apparent deficiency.

The Company's responses and the Examiners' recommendations, as applicable, are included in this report.

SAMPLING

The Examiners requested, and the Company supplied, reports of policy and claim data in file formats specified by the Examiners, which could be reviewed on an IBM compatible personal computer. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. These samples were selected using a standard business database application that provides a true random sample since it supplies a random starting point from which to pull the sample.

COMPANY HISTORY

Motorists Life Insurance Company was founded in 1967 as a stock subsidiary of Motorists Mutual Insurance Company who maintains ownership of 70% of the company. American Hardware Mutual Insurance Company owns the other 30% of the company.

The original purpose of Motorists Life Insurance Company was to provide the parent company's property and casualty agents with an outlet for life products. This method of product distribution remains today. In addition, a life only (no property and casualty affiliation) distribution system has been developed through the appointment of Personal Producing General Agents. During the last three years, a network of Managing General Agents was established to sell the company's final expense products.

COMPANY OPERATIONS

Motorists Life Insurance Company operates in eight states including Ohio, Kentucky, Pennsylvania, West Virginia, Indiana, Wisconsin, Michigan and Tennessee. The company does not have any regional offices.

The Company's reported life and annuity direct premiums written and direct losses paid during the examination period are as follows:

2000 Life Insurance	<u>Ohio Ordinary</u>	<u>Ohio Total</u>	<u>National Ordinary</u>	<u>National Total</u>
Life insurance	\$ 9,505,396	\$ 9,831,938	\$15,560,565	\$15,887,357
Annuity Considerations	<u>6,532,958</u>	<u>6,532,958</u>	<u>9,831,848</u>	<u>9,831,848</u>
Totals (direct premiums and annuity considerations)	<u>\$16,038,354</u>	<u>\$16,364,896</u>	<u>\$25,392,413</u>	<u>\$25,719,205</u>
Totals (direct claims and benefits paid)	<u>\$ 7,478,698</u>	<u>\$ 7,572,866</u>	<u>\$14,304,490</u>	<u>\$14,493,658</u>
2001 Life Insurance	<u>Ohio Ordinary</u>	<u>Ohio Total</u>	<u>National Ordinary</u>	<u>National Total</u>
Life insurance	\$11,335,924	\$11,635,383	\$19,385,429	\$19,687,149
Annuity Considerations	11,668,417	11,668,417	20,208,337	20,208,337
Deposit-type funds	<u>54,477</u>	<u>54,477</u>	<u>104,460</u>	<u>104,460</u>
Totals (direct premiums and annuity considerations)	<u>\$23,058,818</u>	<u>\$23,358,277</u>	<u>\$39,698,226</u>	<u>\$39,999,946</u>
Totals (direct claims and benefits paid)	<u>\$ 8,503,782</u>	<u>\$ 8,506,321</u>	<u>\$13,396,366</u>	<u>\$13,398,904</u>

Sources: 2000 and 2001 Financial Annual Statement pages for Direct Business in the state of Ohio and National Totals.

As of December 31, 2001, the officers of the Company were:

President:	John Jacob Bishop
Treasurer:	Michael Lee Wiseman
Secretary:	Thomas Charles Ogg
Actuary:	Peter Alan Hitchcock

CERTIFICATE OF AUTHORITY

The Company operates under Certificates of Authority issued in accordance with the statutes, rules and regulations of Ohio. In the course of the examination, the Examiners found the Ohio operation of the Company to be in compliance with its Certificates of Authority for the state.

MARKETING

The Company markets its products through 23 Managing General Agents, 495 Personal Producing General Agents and 550 Property and Casualty Agents.

The Company's product line is comprised of universal life, non-par and participating whole life, level term insurance, joint decreasing term insurance, a simplified issue universal life and term insurance product designed for the worksite market, simplified issue whole life and graded benefit whole life products designed for the final expense market, and fixed annuities including two single premium deferred annuities, a flexible premium retirement annuity, and a single premium immediate annuity. In addition, the company sells a number of riders and benefits including waiver of premium, disability income, accelerated benefits, option to purchase, children's term insurance, and accidental death. While target markets have changed over the years and the products are periodically updated for competitive pricing purposes, the basic portfolio has remained constant.

A review of the Company's marketing materials was also conducted during this exam. This review was done to assure the Company was not engaging in any unfair or deceptive practices, in compliance with Ohio Revised Code §3901.21. A review of the Disability Income Rider Product Guide, Form ML-350 7/00, appears to indicate that homemakers without an earned income are not eligible for the Disability Income Rider. Section 3901.21 (N) of the Ohio Revised Code indicates it is an unfair and deceptive act or practice to refuse to make available disability income insurance solely because the applicant's principal occupation is that of managing a household.

Examiner' Recommendation:

1. The Company should change the wording of Form ML-350 7/00 so that it is in compliance with the Ohio Revised Code.

The review of the remaining marketing materials did not indicate any statement or representation that appeared to be untrue, deceptive or misleading.

LIFE INSURANCE

ILLUSTRATIONS

Standard: The Company files all illustration certifications with the Department of Insurance as required by statutes, rules, and regulations.

Test: Did the Company file the Annual Life Illustration Certifications as required by Rule 3901-6-04 (K) (4) of the Ohio Administrative Code and did the Certifications accurately state which policies were being marketed with illustrations?

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written during the examination period.
 2. A file of all policy forms and plan codes used to write new Ordinary Individual Life business.
- The Company supplied copies of the Annual Life Insurance Illustration Certifications for the years covered in the examination period.
- Each policy form was manually checked against the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.

- A file was considered an exception if either:
 1. A policy form was listed in the Company supplied data files as using an illustration but was not listed as using an illustration per the Company-supplied Annual Life Illustration Certifications.
 2. A policy form was listed on the Annual Life Insurance Illustration Certification, but not marked accordingly in the Company supplied data files.

Findings: Life Insurance Illustrations

The examiners found no illustrated policy forms that were not identified on the Annual Life Insurance Illustration Certification.

Standard: An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations.

Test: Did the Company's illustrations comply with the life insurance illustration requirements of Rule 3901-6-04 of the Ohio Administrative Code?

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written during the examination period.
 2. A file of all the policy forms and plan codes used to write new Ordinary Individual Life business.
- The Company supplied copies of the Annual Life Insurance Illustration Certifications for the years covered in the examination period.
- A sample of one hundred (100) new Ordinary Individual Life policies, indicating the use of illustrations, was pulled for review. A sample of ninety-nine (99) files was actually reviewed due to the fact that the Department requested a duplicate file in the replacement process.
- Each policy file was reviewed to verify that all required information was contained in the illustration and that it was delivered according to the illustration law.
- A file was considered an exception if it did not comply with the portion of the illustration laws tested.

Findings: Life Insurance Illustrations. Please refer to page 9 of 58.

Test	Population	Sample	Yes	No	Standard	Compliance
Did the file contain the required illustration?	8,426	99	94	5	90%	95%
Was the agent issued illustration or certification signed at the date of the application?	8,426	99	49	50	90%	49%
Was the illustration clearly labeled "Life Insurance Illustration", did it contain the name of the insurer, the name, age, and sex of the insured, the name and business address of the agent or other authorized representative, the underwriting/rating class, the generic policy name, product name and form number, the initial death benefit, when applicable the dividend option election or application of non-guaranteed elements and were the terms defined in language understood by the typical public?	8,426	99	72	27	90%	73%
Did the illustration not include prohibited misleading representations?	8,426	99	94	5	90%	95%
Did the basic illustration contain all parts required?	8,426	99	94	5	90%	95%
Did the Narrative Summary contain all parts required?	8,426	99	94	5	90%	95%
Did the Numeric Summary contain the required statements that were signed and dated by both the agent and the policy owner; include policy maturity and final expiration if premium was to change; contain the correct guaranteed death benefit and surrender value corresponding to the policy year for which the contract premium has been paid; and were non-guaranteed elements shown for the same duration as guaranteed elements?	8,426	99	85	14	90%	86%
Was the revised illustration sent with the policy marked as "Revised Illustration", signed and dated by the applicant or policy owner no later than the policy delivery date and did the Company receive a signed copy of the revised illustration?	8,426	99	98	1	90%	99%

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

Examiners' Recommendations:

1. The agent, at the time of policy application, should either provide a copy of the illustration that will be used in the sale of the life insurance policy or certify on a company form that no illustration was used in the sale of the life insurance policy or the policy was illustrated other than applied for.
2. The illustration or certification should be signed at the time of policy application.
3. The illustration should contain the correct policy form number.
4. The illustration should be signed and dated by the applicant and the agent.
5. The basic illustration should contain all parts required.
6. The Narrative Summary should contain all parts required.
7. The Company should institute agent training and awareness of the illustration requirements of Rule 3901-6-04 of the Ohio Administrative Code.

REPLACEMENTS

Standard: Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company require their agents to comply with the replacement requirements for life insurance according to Rule 3901-6-05 of the Ohio Administrative Code?

Methodology:

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company's replacement register for life business replaced in Ohio.
 2. Ordinary Individual Life new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 3. Life Policies terminated in Ohio during the examination period.
- All of the data files supplied were compared to each other, looking for possible unreported life insurance replacements.
- A file was produced for review containing:
 1. A random sample of fifty (50) life insurance policies listed in the replacement register. An additional sample of five (5) policies were pulled because the original sample included life insurance policies that did not replace existing life insurance policies.
- A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement laws tested.

Findings: Life Insurance Policy Replacements

Agent requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	2321	50	49	1	90%	98%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	2321	50	46	4	90%	92%
Did the agent present to the applicant a "Notice Regarding Replacement"?	2321	50	49	1	90%	98%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	2321	50	39	11	90%	78%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	2321	50	49	1	90%	98%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	2321	50	0	50	90%	0%
Did the agent submit a completed application to the replacing company?	2321	50	49	1	90%	98%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number?	2321	50	39	11	90%	78%

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

Examiners' Recommendations:

1. The Notice Regarding Replacement Form should be revised to include a space for the agent's signature.
2. The Notice Regarding Replacement should be signed at the time of policy application.
3. It is also recommended in every situation where a replacement is involved, the agent should present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement."
4. It is also recommended that the Company should require from the agent with the application a list of all the applicant's existing life insurance to be replaced, and properly identified by the name of the insurer, insured and contract or policy number.
5. In particular, it is also recommended that the Company institute new policies and procedures to insure that both the agent and applicant sign the "Notice of Replacement" before any application is accepted.

Standard: Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company's practices of handling replacement policies comply with the replacement requirements for life insurance according to Rule 3901-6-05 of the Ohio Administrative Code?

Methodology:

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company's replacement register for life business replaced in Ohio.
 2. Ordinary Individual Life new business written in Ohio during the examination period.
This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 3. Life Policies terminated in Ohio during the examination period.
- All of the data files supplied were compared to each other, looking for possible unreported life insurance replacements.
- A file was produced for review containing:
 1. A random sample of fifty (50) life insurance policies listed in the replacement register.
An additional sample of five (5) policies was pulled because the original sample included life insurance policies that did not replace existing life insurance policies.
- A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules and regulations.
- A file was considered an exception if it did not comply with the company requirement section of the replacement laws tested.

Findings: Life Insurance Policy Replacements Please refer to page 15 of 58.

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?	2321	50	49	1	90%	98%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	2321	50	46	4	90%	92%
Did the Company require from the agent, with the application, a list of all the applicant's existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number?	2321	50	39	11	90%	78%
Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?	2321	50	49	1	90%	98%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	2321	50	49	1	90%	98%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	2321	50	50	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	2321	50	43	7	90%	86%
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	2321	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in two (2) tests.

Examiners' Additional Comments:

1. The review of the actual replacement register showed that the Company was maintaining the register as required.

Examiners' Recommendations:

1. It is recommended that the Company should require from the agent with the application a list of all the applicant's existing life insurance to be replaced, and properly identified by the name of the insurer, insured and contract or policy number.
2. It is also recommended that the Company should send a written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application.

Ordinary Individual Life New Business

Standard: Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company's practices of handling new business applications properly identify policies that were replacing other existing policies?

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 2. Policies terminated in Ohio during the examination period.
- The Ordinary Individual Life new business file was compared, by insured social security number, to the policies terminated file. The Examiners were able to develop a report of new business policies that were not marked as replacements for which the insured also had another policy with the Company that terminated within 60 days of the new policy's effective date. This resulted in a population of 120 unique insured tax identification numbers. The Examiners reviewed the entire population to test whether the Company correctly identified policies as replacements when a replacement was involved.
- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- A file was considered an exception if the review of the policy file and application showed that a replacement was involved, as defined in Rule 3901-6-05 of the Ohio Administrative Code, and was not handled according to the law's requirements or if the application did not confirm that a replacement was not involved.

Findings:

New business with other terminated policies:

Population	Sample	Yes	No	Standard	Compliance
120	120	93	27	90%	78%

The standard of compliance is 90%. The Company's performance was below this standard.

Examiners' Recommendation:

1. The Company should record all internal replacements in the Replacement Register.

POLICYHOLDER SERVICES

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated new business life insurance policies according to the policy provisions and Ohio Revised Code §3904.10?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all life insurance new business terminations that occurred during the exam period.
- From the data file, an individual population of life insurance new business terminations was developed.

- A terminated file would be considered an exception if:
 1. The Company did not provide the specific reason(s) for the adverse underwriting decision or advise this information may be requested.
 2. The Company did not provide the individual with a summary of his rights regarding the adverse underwriting decision.

Findings: Did the Company provide the specific reason(s) for the adverse underwriting decision or advise this information may be requested?

Population	Sample	Yes	No	Standard	Compliance
2,359	50	31	19	90%	62%

The standard of compliance is 90%. The Company's performance was below the minimum standard.

Findings: Did the Company provide the individual with a summary of his rights regarding the adverse underwriting decision?

Population	Sample	Yes	No	Standard	Compliance
2,359	50	29	21	90%	58%

The standard of compliance is 90%. The Company's performance was below the minimum standard.

Examiners' Recommendations:

1. The Company should provide the specific reason(s) for an adverse underwriting decision or advise this information may be requested for all life insurance new business terminations.
2. The Company should provide the individual with a summary of his rights regarding the adverse underwriting decision for all life insurance new business terminations.

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated life insurance policies according to the policy provisions and Ohio Revised Code §3915.071?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all life insurance terminations that occurred during the exam period.
- From the data file, individual populations of lapsed and miscellaneous terminated life insurance policies were developed.
- A terminated file would be considered an exception if:
 1. Cash surrender values were not calculated correctly or not provided when required.
 2. Nonforfeiture benefits were not offered to the policyholder according to the policy provisions.
 3. The policy was not terminated according to policy provisions.

Findings: Lapsed Life Insurance Policies

Population	Sample	Yes	No	Standard	Compliance
4,218	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

Findings: Miscellaneous Life Insurance Policy Terminations

Population	Sample	Yes	No	Standard	Compliance
1,392	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

PAID CLAIMS

Adequate Documentation

Standard: Claim files are adequately documented.

Test: Were the claim files adequately documented to determine the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.

- A claim was considered an exception if proper documentation could not be found within the claim file.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s performance was above the minimum standard.

Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Upon receiving notification of claim, did the Company contact the claimant within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (5) of the Ohio Administrative Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 (C) (5) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured’s death.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (4) of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 (C) (4) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not begin investigating the claim within the required time frame or could not document investigating the claim with the required time frame.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Timely settlement

Standard: Claims are settled in a timely manner.

Test: Was the claim settled not later than two months after the receipt of due proof of death according to §3915.05 (K) of the Ohio Revised Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected a random sampling of 50 life insurance paid death claim files to test for compliance with Ohio Revised Code §3915.05 (K).
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not settle the claim within the required time frame.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Timely response to Correspondence

Standard: The Company responds to claim correspondence in a timely manner.

Test: Did the Company respond to all claim correspondence within 15 days according to Rule 3901-1-07 (C) (2) of the Ohio Administrative Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 (C) (2) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the file showed that the Company did not respond to subsequent, not the initial contact, claim correspondence within the required time frame.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s performance was above the minimum standard.

Claim handling

Standard: Claim files are handled in accordance with policy provisions and state law.

Test: Were the claims correctly paid with interest from the date of the death of the insured to the date of the payment of the proceeds according to §3915.052 of the Ohio Revised Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected a random sampling of 50 life insurance paid death claim files to test for compliance with Ohio Revised Code §3915.052.
- The Company provided computer files of all claims paid during the examination period.
- The claim files were reviewed to verify dates in the claim process, the insured’s resident state at the time of death and the issue state of the policy.
- A payment set up as a separate account/checking account for the beneficiary was considered a lump sum payment.
- A claim file was considered an exception if the Company did not accurately calculate interest payments due.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	39	11	93%	78%

The standard of compliance is 93%. The Company’s performance was below the minimum standard.

Examiners’ Recommendations:

1. During the exam period, the Department acknowledges that the Company used an interest rate that was higher than the rate that is statutorily required but failed to consistently calculate interest from the date of death to the date of payment. The result was that an insufficient amount of interest was paid on some claims.
2. The Company should pay any additional interest due to claimants.
3. The Company should send a report of claims that were not paid in accordance with their Death Claim Procedures and the amount of additional interest paid per claim.

Cancelled checks and drafts

Standard: Canceled benefit checks and drafts reflect appropriate claim handling practices.

Test: Do the canceled checks and drafts show that the claim was paid according to Company policies, policy provisions, beneficiary requests and documentation within the claim file?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code.
- Canceled benefit checks were reviewed and compared to claim files to verify correct payee, payment amounts and payment dates.
- A claim was considered an exception if the Company did not follow Company procedures for claim payments or the provisions in the initial policy and if information on the canceled benefit check did not match information in the claim file itself.
- A claim was also considered an exception if a copy of the canceled check was not available.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
291	50	49	1	93%	98%

The standard of compliance is 93%. The Company’s performance was above the minimum standard.

DENIED CLAIMS

Adequate Documentation

Standard: Claim files are adequately documented.

Test: Were the claim files adequately documented to determine the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 53 life insurance denied death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if proper documentation could not be found within the claim file.

Findings:

Population	Sample	Yes	No	Standard	Compliance
53	53	53	0	93%	100%

The standard for compliance is 93%. The Company's performance was above the minimum standard.

Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Upon receiving notification of claim, did the Company contact the claimant within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (5) of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 53 life insurance denied death claims files to test for compliance with Rule 3901-1-07 (C) (5) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured's death.

Findings:

Population	Sample	Yes	No	Standard	Compliance
53	53	53	0	93%	100%

The standard for compliance is 93%. The Company's performance was above the minimum standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (4) of the Ohio Administrative Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected the entire population of 53 life insurance denied death claims files to test for compliance with Rule 3901-1-07 (C) (4) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not begin investigating the claim within the required time frame or could not document investigating the claim with the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
53	53	53	0	93%	100%

The standard for compliance is 93%. The Company’s performance was above the minimum standard.

Timely settlement

Standard: Claims are settled in a timely manner.

Test: Was the claim settled not later than two months after the receipt of due proof of death according to §3915.05 (K) of the Ohio Revised Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all life insurance death claims files that had been denied during the exam period. The Examiners’ selected the entire population of 53 life insurance denied death claim files to test for compliance with Ohio Revised Code §3915.05 (K).

- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not settle the claim within the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
53	53	53	0	93%	100%

The standard for compliance is 93%. The Company’s performance was above the minimum standard.

Timely response to Correspondence

Standard: The Company responds to claim correspondence in a timely manner.

Test: Did the Company respond to all claim correspondence within 15 days according to Rule 3901-1-07 (C) (2) of the Ohio Administrative Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all life insurance death claim files that had been denied during the exam period. The Examiners’ selected the entire population of 53 life insurance denied death claims files to test for compliance with Rule 3901-1-07 (C) (2) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the file showed that the Company did not respond to subsequent, not the initial contact, claim correspondence within the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
53	53	53	0	93%	100%

The standard for compliance is 93%. The Company's performance was above the minimum standard.

ANNUITIES

REPLACEMENTS

Standard: Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company require their agents to comply with the replacement requirements for annuities according to Rule 3901-6-05 of the Ohio Administrative Code?

Methodology:

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company's replacement register for annuity business replaced in Ohio.
 2. Ordinary Individual Annuity new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing insurance policy owned by the insured.
 3. Annuity Policies terminated in Ohio during the examination period.

- All of the data files supplied were compared to each other, looking for possible unreported replacements.
- A file was produced for review containing:
 1. A random sample of fifty (50) annuity policies listed in the replacement register. An additional sample of thirty-five (35) policies was pulled because the original sample included annuity policies that did not replace existing annuity policies.
- A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement laws tested.

Findings: Annuity Policy Replacements

Agent requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	437	50	50	0	90%	100%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	437	50	50	0	90%	100%
Did the agent present to the applicant a "Notice Regarding Replacement"?	437	50	38	12	90%	76%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	437	50	45	5	90%	90%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	437	50	38	12	90%	76%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	437	50	0	50	90%	0%
Did the agent submit a completed application to the replacing company?	437	50	50	0	90%	100%
Did the agent obtain a list of all existing annuities to be replaced and was the list properly identified by name of insurer, the insured and contract number?	437	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

Examiners' Recommendations:

1. The Notice Regarding Replacement Form should be revised to include a space for the agent's signature.
2. It is also recommended in every situation where a replacement is involved, the agent should present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement."
3. It is also recommended in every situation where a replacement is involved, the agent should submit a copy of the "Notice Regarding Replacement" to the replacing insurer.
4. In particular, it is also recommended that the Company institute new policies and procedures to insure that both the agent and applicant sign the "Notice of Replacement" before any application is accepted.

Standard: Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company's practices of handling replacement policies comply with the replacement requirements for annuities according to Rule 3901-6-05 of the Ohio Administrative Code?

Methodology:

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company's replacement register for annuity business replaced in Ohio.
 2. Ordinary Individual Annuity new business written in Ohio during the examination period.
This data file stated for each policy whether it was a replacement for another existing insurance policy owned by the insured.
 3. Annuity Policies terminated in Ohio during the examination period.
- All of the data files supplied were compared to each other, looking for possible unreported replacements.
- A file was produced for review containing:
 1. A random sample of fifty (50) annuity policies listed in the replacement register. An additional sample of thirty-five (35) policies was pulled because the original sample included annuity policies that did not replace existing annuity policies.
- A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules and regulations.
- A file was considered an exception if it did not comply with the company requirement section of the replacement laws tested.

Findings: Annuity Policy Replacements Please refer to page 37 of 58.

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing annuity?	437	50	50	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	437	50	50	0	90%	100%
Did the Company require from the agent, with the application, a list of all the applicant's existing annuities to be replaced and was that list properly identified by the name of the insurer, insured and contract number?	437	50	50	0	90%	100%
Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?	437	50	38	12	90%	76%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	437	50	38	12	90%	76%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	437	50	50	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	437	50	46	4	90%	92%
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	437	50	6	44	90%	12%

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

Examiners' Recommendations:

1. It is recommended that the Company should include in the written communication to the existing insurer a policy or contract summary or ledger statement.
2. It is also recommended that the Company should require from the agent a copy of the "Notice Regarding Replacement."
3. It is also recommended that the Company should maintain evidence in the file of the "Notice Regarding Replacement", the policy or contract summary or any ledger statement used.

Ordinary Individual Annuity New Business

Standard: Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

Test: Did the Company's practices of handling new business applications properly identify policies that were replacing other existing policies?

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Annuity new business written in Ohio during the examination period.
This data file stated for each policy whether it was a replacement for another existing annuity policy owned by the insured.
 2. Policies terminated in Ohio during the examination period.
- The Ordinary Individual Annuity new business file was compared, by insured social security number, to the policies terminated file. The Examiners were able to develop a report of new business policies that were not marked as replacements for which the insured also had another policy with the Company that terminated within 60 days of the new policy's effective date. This resulted in a population of 20 unique insured tax identification numbers. The Examiners reviewed the entire population to test whether the Company correctly identified policies as replacements when a replacement was involved.
- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- A file was considered an exception if the review of the policy file and application showed that a replacement was involved, as defined in Rule 3901-6-05 of the Ohio Administrative Code, and was not handled according to the law's requirements or if the application did not confirm that a replacement was not involved.

Findings:

New business with other terminated policies:

Population	Sample	Yes	No	Standard	Compliance
20	20	20	0	90%	100%

The standard of compliance is 90%. The Company's performance was above this standard.

POLICYHOLDER SERVICES

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated new business annuity policies according to company procedures?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all annuity policy new business terminations that occurred during the exam period.
- From the data file, an individual population of annuity policy new business terminations was developed.
- A terminated file would be considered an exception if the policy was not terminated according to company procedures.

Findings:

Population	Sample	Yes	No	Standard	Compliance
46	35	35	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

Examiners' Additional Comments:

- 1. Eleven (11) policies were removed from the population because the policy had been annuitized.

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated annuity policies according to the policy provisions and Ohio Revised Code §3915.071?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all annuity terminations that occurred during the exam period.
- From the data file, individual populations of surrendered and converted annuity policies were developed.
- A terminated file would be considered an exception if:
 - 1. Cash surrender values were not calculated correctly or not provided when required.
 - 2. Nonforfeiture benefits were not offered to the policyholder according to the policy provisions.
 - 3. The policy was not terminated according to policy provisions.

Findings: Surrendered Annuity Policies

Population	Sample	Yes	No	Standard	Compliance
338	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

Findings: Annuity Conversion Policies

Population	Sample	Yes	No	Standard	Compliance
21	21	21	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

PAID CLAIMS

Adequate Documentation

Standard: Claim files are adequately documented.

Test: Were the claim files adequately documented to determine the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 59 annuity death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code. .
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if proper documentation could not be found within the claim file.

Findings: Annuity Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
59	47	47	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Twelve (12) annuity death claim files were removed from the population of 59 files either because the annuity was paid out in installments prior to death or the policy was a Joint and Survivor Annuity or the resident state was not Ohio at the time of death.

Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Upon receiving notification of claim, did the Company contact the claimant within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (5) of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 59 annuity death claim files to test for compliance with Rule 3901-1-07 (C) (5) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured's death.

Findings: Annuity Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
59	47	47	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Twelve (12) annuity death claim files were removed from the population of 59 files either because the annuity was paid out in installments prior to death or the policy was a Joint and Survivor Annuity or the resident state was not Ohio at the time of death.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within fifteen (15) working days of receiving notice of the claim according to Rule 3901-1-07 (C) (4) of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 59 annuity death claims files to test for compliance with Rule 3901-1-07 (C) (4) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not begin investigating the claim within the required time frame or could not document investigating the claim with the required time frame.

Findings: Annuity Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
59	47	47	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Twelve (12) annuity death claim files were removed from the population of 59 files either because the annuity was paid out in installments prior to death or the policy was a Joint and Survivor Annuity or the resident state was not Ohio at the time of death.

Timely response to Correspondence

Standard: The Company responds to claim correspondence in a timely manner.

Test: Did the Company respond to all claim correspondence within 15 days according to Rule 3901-1-07 (C) (2) of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 59 annuity death claims files to test for compliance with Rule 3901-1-07 (C) (2) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the file showed that the Company did not respond to subsequent, not the initial contact, claim correspondence within the required time frame.

Findings: Annuity Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
59	47	47	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Twelve (12) annuity death claim files were removed from the population of 59 files either because the annuity was paid out in installments prior to death or the policy was a Joint and Survivor Annuity or the resident state was not Ohio at the time of death.

Cancelled checks and drafts

Standard: Canceled benefit checks and drafts reflect appropriate claim handling practices.

Test: Do the canceled checks and drafts show that the claim was paid according to Company policies, policy provisions, beneficiary requests and documentation within the claim file?

Methodology:

- The Examiners' requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners' selected the entire population of 59 annuity death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code.
- Canceled benefit checks were reviewed and compared to claim files to verify correct payee, payment amounts and payment dates.
- A claim was considered an exception if the Company did not follow Company procedures for claim payments or the provisions in the initial policy and if information on the canceled benefit check did not match information in the claim file itself.
- A claim was also considered an exception if a copy of the canceled check was not available.

Findings: Annuity Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
59	47	47	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

Twelve (12) annuity death claim files were removed from the population of 59 files either because the annuity was paid out in installments prior to death or the policy was a Joint and Survivor Annuity or the resident state was not Ohio at the time of death.

SINGLE PREMIUM DEFERRED ANNUITIES

Standard: All mandated disclosures for single premium deferred annuities are documented and in accordance with applicable statutes, rules and regulations.

Test: Was the disclosure form signed by the applicant and the selling agent at the time an application was taken for a single premium deferred annuity as required by Rule 3901-1-47 of the Ohio Administrative Code?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all Ohio Single Premium Deferred Annuity new business written during the examination period.
- From the data file, an individual population of Single Premium Deferred Annuity new business was developed.
- A file was considered an exception if the disclosure form was not signed by the applicant and the selling agent at the time an application was taken for a single premium deferred annuity.

Findings:

Population	Sample	Yes	No	Standard	Compliance
646	50	31	19	90%	62%

The standard for compliance is 90%. The Company's disclosure form practices were below this standard.

Examiners' Recommendations:

1. The disclosure form should be signed at the time of policy application.
2. The disclosure form should be signed and dated by the applicant and the agent.
3. The Company should institute agent training and awareness of the disclosure requirements of Rule 3901-1-47 of the Ohio Administrative Code.

ADDITIONAL EXAMINATION FINDINGS

The Examiners conducted a review of the Company's complaint register. The Company received a total of twelve (12) complaints during the exam period. The review was conducted to assure the complaint register was being maintained adequately and to uncover any problem areas or negative trends in service. The exam findings went as follows:

- Five (5) of the complaints were from members of the deceased person's family regarding denial of the death claim. In each case, there was misrepresentation on the application and the death occurred during the policy's contestable period.
- Two (2) of the complaints involved lapsed policies canceled for nonpayment of premium.

- One (1) of the complaints involved a counter offer to an application for insurance due to the applicant's medical history.
- One (1) of the complaints involved a verbal altercation between a broker and a prospective client.
- One (1) of the complaints involved the representation of a life insurance policy as a pre-need arrangement for final burial expenses and the beneficiary designation. The beneficiary was changed from a funeral home to the insured's daughter.
- One (1) of the complaints involved a request for reimbursement for a stop payment charge on a checking account.
- One (1) of the complaints was received from the manager of Senior Citizen housing complex who complained an agent kept stopping by one of her tenant's home and leaving his business card in the door when she was not home. The manager wanted the agent to stop contacting her tenant.

Examiners' Recommendations:

1. The company should periodically review their complaint register to find possible problems with the policyholder service area of their business.

SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
Illustrations		
Illustration/Certification Signed as of Application Date	90%	49%
Illustration clearly labeled and containing all required information	90%	73%
Numeric Summary contained all required information	90%	86%
Life Insurance Replacements – Agent Requirements		
“Notice Regarding Replacement” signed as of Application Date	90%	78%
“Notice Regarding Replacement” signed by applicant and agent	90%	0%
Obtained list of existing life insurance to be replaced containing all required information	90%	78%
Life Insurance Replacements – Company Requirements		
Obtained list of existing life insurance to be replaced containing all required information	90%	78%
Sent a written communication to existing insurer within 3 days	90%	86%
Annuity Replacements – Agent Requirements		
“Notice Regarding Replacement” presented to applicant	90%	76%
“Notice Regarding Replacement” submitted to replacing company	90%	76%
“Notice Regarding Replacement” signed by applicant and agent	90%	0%
Annuity Replacements – Company Requirements		
Required from agent a copy of “Notice Regarding Replacement”	90%	76%
Maintained evidence of “Notice Regarding Replacement”, policy or contract summary or any ledger statement	90%	76%
Included in written communication a policy or contract summary or ledger statement	90%	12%
Life Insurance New Business		
Company procedures for handling new business applications identified policies that replace existing policies	90%	78%

Policyholder Services

Company provides specific reason(s) for adverse underwriting decision or advises this information may be requested	90%	62%
Company provides individuals with summary of rights regarding adverse underwriting decision	90%	58%

Claims

Correct payment with interest	93%	78%
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Single Premium Deferred Annuity

Disclosure form signed by applicant and agent at time of application	90%	62%
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This concludes the report of the Market Conduct Examination of the Motorists Life Insurance Company. The examiners, Bob Baker, Judith Martin, Cheryl Davis, and Robert Stroup would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

Bob Baker
Bob Baker
Examiner in Charge

February 23, 2004
Date

ATTACHMENT



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MOTORISTS LIFE INSURANCE COMPANY
MARKET CONDUCT EXAMINATION
COMPANY'S RESPONSE TO FINDINGS

JANUARY 21, 2004

(Revised February 19, 2004)

Marketing

Disability Income Rider Language (pg. 6 of 52)

Response: We acknowledge the examiner's findings and have made the necessary language change to the product guide (MI-350 7/00). Information provided to prospective insureds and clients, through the Client Brochure, has been and remains correct. Further, it should be noted that in practice, no applicant has ever been refused coverage solely because their occupation is that of managing a household.

Illustrations

Illustration/Certification Signed as of Application Date: (pg. 9 of 52)

Response:

A new application was submitted and approved by the Ohio Department of Insurance in August 2003. Previously, we had asked the agents to indicate in the Remarks section if an illustration was not used. The application now contains a certification box for the agent to check-off when an illustration is not used.

It should be noted that 95 percent of all files examined by the Department contained the required complaint illustration.

Illustration clearly labeled and containing all Required Information: (pg. 9 of 52)

Response:

Motorists Life Insurance Company makes great effort to provide the consumer with a compliant illustration when and required by law. In all cases where an illustration is required (for an inforce, issued and paid policy), all required information was supplied to the insured.

Twenty-four (24) policies of 27 listed as non-compliant in this test, had an incorrect Policy Form number listed on the illustration. This error has been corrected.

Eighty percent (80%) of our business is fully guaranteed and, therefore, does not require illustrations.

for all the seasons of your life
Our fourth decade
of superior service



Numeric Summary contained all required information: (pg. 9 of 52)

Response:

We disagree with the Department's findings. We have not been shown errors in our narrative summaries and maintain there are none.

Response to the examiners' recommendations: (pg. 10 of 52)

We agree with the examiners' recommendations numbers one, two, three and seven. A certificate of no illustration or an actual illustration should be presented at the time of application. We have modified our application to allow for a "certificate of no illustration". Additionally, during 2003, we held 25 Ethics and Basic Life Insurance training meetings with our agents.

In regard to items four, five and six, we fail to realize why this was an examiners' recommendation as we currently, and have always, fully complied with these requirements. Your test noted us 95 percent compliant in these areas. The standard of compliance is 90 percent.

Life Insurance Replacements – Agent Requirements

"Notice Regarding Replacement" signed as of Application Date: (pg. 12 of 52)

Response:

Replacement forms will now be included in the Application/New Business packet, and this requirement will continually be reinforced with our independent agents.

"Notice Regarding Replacement" signed by applicant and agent: (pg. 12 of 52)

Response:

All replacement forms were signed by the applicants. As of November 2002, Motorists Life Insurance Company's Ohio Replacement form contains a place for the agent's signature.

Obtained list of existing life insurance to be replaced containing all required information: (pg. 12 of 52)

Response:

Motorists Life Insurance Company notifies its independent agents that this information is required to be submitted at time of application. When complete information is not obtained by the agent (at times, clients are not able to locate the specific information), Motorists Life Insurance Company will continue to notify the company being replaced as soon as is reasonably possible

Response to the examiners' recommendations: (pg. 13 of 52)

Motorists Life Insurance Company makes great effort to see that all of its independent agents follow regulations pertaining the policy replacements. Motorists Life Insurance Company has revised its replacement forms to include a place for the agent to sign. As well, replacement forms will now be included in the Underwriting/New Business packet.

Life Insurance Replacements -- Company Requirements

Obtained list of existing life insurance to be replaced containing all required information: (pg. 15 of 52)

Response:

This question refers to the same policies and issue as stated in the agent requirement for Life Insurance replacements.

Motorists Life Insurance Company notifies its independent agents that this information is required to be submitted at time of application. When complete information is not obtained by the agent (at times, clients are not able to locate the specific information), Motorists Life Insurance Company will continue to notify the company being replaced as soon as is reasonably possible.

Sent a written communication to existing insurer within 3 days: (pg. 15 of 52)

Response:

Motorists Life Insurance Company will review internal procedures and implement corrective measures to ensure clerical accuracy.

Response to the examiners' recommendations: (pg. 16 of 52)

Motorists Life Insurance Company repeatedly informs its independent agency force of all requirements in regard to replacement, and will continue to do so, in accordance with regulations. Motorists Life Insurance Company will take steps internally to see that clerical errors are reduced to a minimum to prevent any future time delays in notification to replacing institutions.

Annuity Replacements -- Agent Requirements

"Notice Regarding Replacement" presented to applicant: (pg. 34 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner's findings. We will now require Replacement forms, regardless of the financial institution or type of transaction.

“Notice Regarding Replacement” submitted to replacing company: (pg. 34 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner’s findings. We will now require Replacement forms, regardless of the financial institution or type of transaction.

“Notice Regarding Replacement” signed by applicant and agent: (pg. 34 of 52)

Response:

Replacement forms have always been signed by the applicant. Motorists Life Insurance Company acknowledges the examiners findings and has taken appropriate corrective action to ensure that the form now includes signature lines for both the applicant and agent.

Response to the examiners’ recommendations: (pg. 35 of 52)

Motorists Life Insurance Company has revised the recommended Replacement Form to include the agent’s signature. As aforementioned, Motorists Life Insurance Company makes great efforts to ensure that all its independent agents follow proper procedures in regard to replacements and will continue to do so.

Annuity Replacements – Company Requirements

Required from agent a copy of “Notice Regarding Replacement”: (pg. 37 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner’s findings. We will now require Replacement forms, regardless of the financial institution or type of transaction.

Maintained evidence of “Notice Regarding Replacement”, policy or contract summary of any ledger statement: (pg. 37 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner’s findings. We will now require Replacement forms, regardless of the financial institution or type of transaction.

Included in written communication a policy or contract summary or ledger statement: (pg. 37 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiners findings and has taken appropriate corrective action. Along with the appropriate replacement forms, which have always been sent, illustrations will now be sent to all replacing companies on annuity replacements.

Life Insurance New Business

Company procedures for handling new business applications identified policies that replace existing policies: (pg. 18 of 52)

Response:

We disagree with the Department's findings.

- The 27 policies cited were all internal replacements of existing Motorists Life Insurance Company policies;
- During processing, these policies were not coded as replacements on the Administrative system, and therefore did not appear on the data file that was sent to the Ohio Department of Insurance;
- When the 27 policies were reviewed, it was found that 16 of the files did, in fact, contain replacement forms, the applications were noted as replacements and the replacement forms and applications were dated concurrently.

Response to the examiners' recommendations: (pg. 18 of 52)

Motorists Life Insurance Company has instituted actions to modify internal record keeping in regard to internal replacements.

Policyholder Services

Company provides specific reason(s) for adverse underwriting decision or advises this information may be requested: (pg. 19 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner's findings and will make modifications to the declination letter as necessary.

Company provides individuals with summary of rights regarding adverse underwriting decision: (pg. 19 of 52)

Response:

Motorists Life Insurance Company acknowledges the examiner's findings and will make modifications to the declination letter as necessary.

Response to the examiners' recommendations: (pg. 20 of 52)

Motorists Life Insurance Company acknowledges the examiner's findings and will make modifications to the declination letter as necessary.

Claims

Correct payment with interest: (pg. 26 of 52) (Revised February 19, 2004)

Response:

Motorists Life disagrees with the Department's findings.

When testing the sample of 50 policies, only four claims failed to meet the standards set forth by Ohio Revised Code § 3915.052. They are as follows:

<u>Claim No.</u>	<u>Paid Interest</u>	<u>Required Interest</u>	<u>Difference</u>
	\$311.32	\$343.38	\$32.06
	4.77	22.61	17.84
	64.78	81.11	16.33
	12.52	16.72	4.20
TOTAL	\$393.39	\$463.82	\$70.43

This is a 92 percent compliance rate (94 percent when eliminating Claim 1964.)

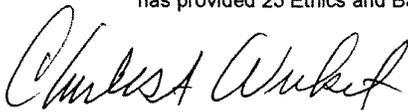
At the Department's request, Motorists Life Insurance Company will review all claims paid from January 1, 2000 through June 30, 2002, to assure that the amount of interest paid on death claims meets the minimum requirements of ORC §3915.052.

Single Premium Deferred Annuity

Disclosure form signed by applicant and agent at time of application: (pg. 48 of 52)

Response

Motorists Life Insurance Company acknowledges the examiner's findings and has made the necessary procedural changes as recommended. Furthermore, Motorists Life Insurance Company has provided 25 Ethics and Basic Life Insurance training courses in 2003.



Motorists Life Insurance Company
Charles A. Wickert
Senior Vice President, Agency and Life Operations

STATE OF OHIO
DEPARTMENT OF INSURANCE
2100 Stella Court
Columbus, Ohio 43215

IN THE MATTER OF : **CONSENT ORDER**
MOTORISTS LIFE INSURANCE COMPANY :
MARKET CONDUCT EXAMINATION :

The Superintendent of the Ohio Department of Insurance ("Department") is responsible for administering Ohio insurance laws pursuant to Section 3901.011 of the Ohio Revised Code ("R.C."). The Department conducted a market conduct examination of Motorists Life Insurance Company ("Company"). The Company is authorized to engage in the business of insurance in the State of Ohio and, as such, is under the jurisdiction of the Superintendent and the Department. The Department examined the Company's individual ordinary and annuity insurance business in the State of Ohio for the period of January 1, 2000 through June 30, 2002.

SECTION I

As a result of the market conduct examination, the Superintendent alleges:

- A. The Company failed to comply with the illustration requirements of Ohio Administrative Code ("O.A.C.") 3901-6-04; to wit, agent-issued illustrations or certificates were not signed at the date of the application, illustrations were not labeled and/or were incomplete, and numeric summaries were incomplete.
- B. The Company accepted and processed some life insurance replacement forms from its agents that were defective or incomplete; to wit, notices that were not signed at the date of the application and/or that lacked the required agent signatures, and lists of existing life insurance policies to be replaced were not obtained or did not contain all of the information required under O.A.C. 3901-6-05(E). By accepting and processing incomplete replacement forms from its agents without informing the agents of the defects in these forms, and/or without insuring proper documentation was maintained, the Company failed to meet its statutorily imposed duties outlined in O.A.C. 3901-6-05(F) and (G). Further, when a replacement of an existing policy was involved, the Company failed to ensure that its practices of handling new business life applications properly identified those policies in violation of O.A.C. 3901-6-05.
- C. The Company failed to comport with the "three business days" notification requirement of O.A.C. 3901-6-05(G) to existing insurers regarding life replacement policies.
- D. Terminated new business life applications did not comport with R.C. 3904.10 in that the Company did not provide specific reason(s) for adverse underwriting decisions, advise an applicant that adverse underwriting decisions may be requested, and/or provide an applicant with his/her summary of rights.
- E. The Company did not calculate interest on individual life death claims based on the date of death to the date of payment due to the claimant as required by R.C. 3915.052.
- F. The Company accepted and processed annuity replacement policy forms from its agents that were defective or incomplete; to wit, notices that were not signed at the date of the application, that lacked the required signatures, and/or that were not submitted to the

replacing company as required under O.A.C. 3901-6-05(E). By accepting and processing incomplete replacement forms from its agents without informing the agents of the defects in these forms, and/or without insuring proper documentation was maintained, the Company failed to meet its statutorily imposed duties outlined in O.A.C. 3901-6-05(F) and (G). Further, the Company failed to include a policy, contract summary or ledger statement.

- G. For single premium deferred annuities, the Company did not ensure that its selling agents complied with the disclosure requirements of O.A.C. 3901-1-47.

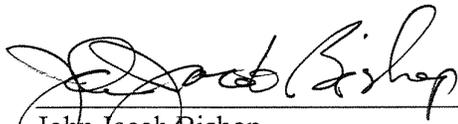
SECTION II

It is hereby agreed to by the parties that:

- A. The Superintendent and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Company admits to the allegations set forth in Section I.
- B. The Company has been advised that it has a right to a hearing before the Superintendent pursuant to R.C. Chapter 119; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.
- C. The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- D. The Company will continue to institute policies, procedures and controls to ensure compliance with the illustration requirements of O.A.C. 3901-6-04 and the replacement requirements of O.A.C. 3901-6-05.
- E. The Company will continue to institute policies, procedures and controls to ensure compliance with the underwriting notification requirements found in R.C. 3904.10 and single premium annuity disclosure requirements found in O.A.C. 3901-1-47.
- F. The Company will continue to institute policies, procedures and controls to ensure that interest calculation on paid claims comports with R.C. 3915.052.
- G. The Company will pay an administrative fine in the amount of \$20,000 by check or money order made payable to the "Ohio Department of Insurance" no later than thirty (30) days after the date of execution of this Consent Order.
- H. The Company will pay \$16,552.76 administrative costs incurred by the Department to perform the Market Conduct examination. The Company will be invoiced by the Department for said costs.

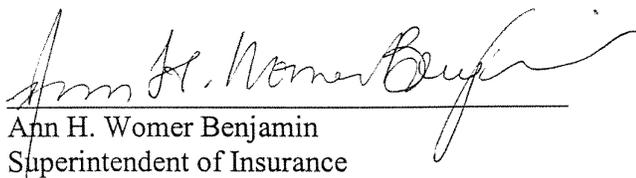
- I. The Company will recalculate the amount of interest paid on all paid claims files for the period January 1, 2000 to present to ensure compliance with R.C. 3901.052. Any and all underpayment of interest on claims shall be promptly corrected. However, if the amount of underpaid interest totals one dollar (\$1.00) or less, the Company need not pay the affected beneficiaries. This information shall be submitted to the Department no later than thirty (30) days after the date of execution of this Consent Order.
- J. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms arising out of this matter.
- K. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- L. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by the terms of this agreement shall constitute an actionable violation in and of itself without further proof and may subject the Company to any and all remedies available to the Superintendent.
- M. This Consent Order shall be entered in the Journal of the Ohio Department of Insurance. All parties understand and acknowledge that this Consent Order is a public document pursuant to R.C. 149.43.

Date: May 24, 2004



John Jacob Bishop
President
Motorists Life Insurance Company

Date: 6/23/04



Ann H. Womer Benjamin
Superintendent of Insurance