

OHIO DEPARTMENT OF INSURANCE

**A
MARKET CONDUCT EXAMINATION
OF
GRANGE LIFE INSURANCE COMPANY
NAIC #71218**

As Of

June 30, 2002



TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
METHODOLOGY	2
SAMPLING	3
COMPANY HISTORY	3
COMPANY OPERATIONS.....	3
CERTIFICATE OF AUTHORITY.....	5
MARKETING.....	5
ILLUSTRATIONS	6
REPLACEMENTS	10
POLICYHOLDER SERVICES	19
UNDERWRITING	20
SINGLE PREMIUM DEFERRED ANNUITIES.....	23
PAID CLAIMS	24
DENIED CLAIMS.....	32
ADDITIONAL EXAMINATION FINDINGS.....	36
SUMMARY	36
ATTACHMENT	39

SCOPE OF EXAMINATION

The Market Conduct Division of the Ohio Department of Insurance commenced an examination of the Grange Life Insurance Company (the Company) on or about June 3, 2002 with the call letter and initial requests for information. The on-site portion of the examination of the Company's non-financial business practices commenced on September 3, 2002 at the Company's statutory home office in Columbus, Ohio. The examination was restricted to Company activities for individual ordinary life and annuity business in Ohio from the period of January 1, 2000 through June 30, 2002. The examination is a report 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. Underwriting
- I. Single Premium Deferred Annuities
- J. Paid Claims
- K. Denied Claims

METHODOLOGY

The examination was conducted through a review of the Company's individual ordinary life insurance and annuity policy and claim files. A review was also conducted on the Company's corresponding procedure manuals. This information was supplemented 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 Ohio's insurance statutes, rules and regulations. These tests are described and the results noted in this report.

The Examiners used the NAIC's 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. Responses to these inquiries were returned to the Examiners with notes as to whether the Company:

- Concurred with the findings;
- Had additional information for the Examiners to consider; and/or
- Proposed remedial action(s) to correct the apparent deficiency.

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 used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies.

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 select the sample.

COMPANY HISTORY

Grange Life Insurance Company was incorporated on March 5, 1968 and commenced business on July 1, 1968. Grange Mutual Casualty Company has always owned 100% of all shares outstanding. There have been no mergers, acquisitions or affiliations.

COMPANY OPERATIONS

The Company is licensed and actively marketing in Georgia, Illinois, Indiana, Kentucky, Michigan, Ohio, Pennsylvania and Tennessee. The Company is licensed but not marketing in Iowa, Kansas, Missouri and Wisconsin. The statutory home office is located in Columbus, Ohio. The Company has no regional offices. The Company does not use any Third Party Administrators or Managing General Agencies.

The Company's reported year-end Ohio life direct premiums written, annuity considerations, and direct claims and benefits paid during the examination period as reported on Life Insurance Part 1 of the Company's Financial Annual Statements are as follows:

2000		Ohio	Ohio	National	National
	<u>Line</u>	<u>Ordinary</u>	<u>Total</u>	<u>Ordinary</u>	<u>Total</u>
	Life insurance	\$13,809,782	\$14,901,091	\$25,587,158	\$26,678,467
	Annuity Considerations	<u>3,738,885</u>	<u>3,738,885</u>	<u>5,320,474</u>	<u>5,320,474</u>
	Totals (direct premiums and annuity considerations)	<u>\$17,548,668</u>	<u>\$18,639,977</u>	<u>\$30,907,632</u>	<u>\$31,998,941</u>
	Totals (direct claims and benefits paid)	<u>\$7,943,926</u>	<u>\$8,180,926</u>	<u>\$14,750,536</u>	<u>\$14,987,536</u>
2001		Ohio	Ohio	National	National
	<u>Line</u>	<u>Ordinary</u>	<u>Total</u>	<u>Ordinary</u>	<u>Total</u>
	Life insurance	\$14,334,112	\$15,533,419	\$27,614,460	\$28,813,767
	Annuity Considerations	<u>2,316,766</u>	<u>2,316,766</u>	<u>4,004,656</u>	<u>4,004,656</u>
	Totals (direct premiums and annuity considerations)	<u>\$16,650,878</u>	<u>\$17,850,185</u>	<u>\$31,619,116</u>	<u>\$32,818,423</u>
	Totals (direct claims and benefits paid)	<u>\$8,568,376</u>	<u>\$9,050,376</u>	<u>\$16,594,664</u>	<u>\$17,076,664</u>

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

President:	Thomas Howard Welch
Chief Financial Officer & Vice President	Randall Joseph Montelone
Secretary & Vice President	David Trufant Roark
Actuary	Actuarial Management Resources
Vice President	Martin James Dinehart
Vice President	Walter Loren Neff

CERTIFICATE OF AUTHORITY

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

MARKETING

The Company's products include whole life, universal life, term life, fixed annuities and individual disability income. No new lines have been introduced during the past five (5) years, though new products have been introduced for every product line. The Company has introduced products for work-site marketing in the last several years. Work-site sales now account for about 10% of the Company's total sales.

Life insurance, annuity and disability income products are marketed primarily through the Grange agency force. The Grange agency force consists of approximately 1100 independent multiple-line insurance agencies. The vast majority of agencies are also licensed to market the personal and commercial lines products of Grange Mutual Casualty Company and subsidiaries, as well as products of The Grange Bank. The Company's marketing efforts are focused on cross-selling to property/casualty clients.

Twenty-eight (28) Regional Sales Managers manage the Grange agencies. Each has an assigned geographic territory. Six (6) Life Sales Specialists, who provide life insurance sales and product expertise, support the Regional Sales Managers. All sales are made by independent agents. Approximately 70% of life insurance and annuity sales made by Grange agencies are sales made to property/casualty clients, 10% are individual policies sold in the work-site and paid for via payroll deduction, and 20% are individual sales to prospects responding to mail solicitations.

The Company has appointed a limited number of agencies that are not also appointed by Grange affiliated property/casualty companies. Sales from such agencies account for about 5% of total sales.

ILLUSTRATIONS

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

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

Methodology:

- The Company supplied the following data files:
 1. Individual Ordinary Life new business written, declined, withdrawn, and not taken during the examination period for Ohio insureds.
 2. A data file of all of the policy forms and plan codes used to write new Individual Ordinary Life business in Ohio. The file was reviewed with the Company to confirm whether or not these policy forms used illustrations.
- The Company supplied copies of the Annual Life Illustration Certifications filed in Ohio for the years covered in the examination period.
- A spreadsheet listing all of the Company's policy forms used in Ohio was generated from the data files. The list contained 12 separate policy forms with 54 plan code combinations.
- Each policy form was manually checked against the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.
- The Company was notified of a possible exception if a policy form was listed in the Company supplied data files as using an illustration but was not listed on the Company-supplied Annual Life Illustration Certifications (hereinafter referred to as "Certification").

Findings:

- All policy forms utilizing illustrations were listed on the Certification.
- The Company was in compliance.

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 Ohio Administrative Code §3901-6-04?

Methodology:

- The Company supplied for review, all written policies and procedures that instructed the agents on the Company's illustrations procedures and requirements.
- The Company supplied a data file containing Individual Ordinary Life new business written, declined, withdrawn, and not taken during the examination period for Ohio.
- A sample of one hundred (100) new Individual Ordinary Life files, indicating the use of illustrations, was pulled for review. Ohio Administrative Code §3901-6-04 does not require the Company to maintain copies of the illustration for policies declined or withdrawn. These policies were not separately identifiable in the data file. Where policies declined or withdrawn were selected in the random sample, the files were removed and replaced from the sample when found during the actual file review.
- Twenty-four (24) files were removed and replaced for the following reasons:
 1. Thirteen (13) files were removed and replaced due to being declined by the company or withdrawn by the applicant prior to being issued.
 2. Ten (10) files were removed and replaced due to having illustrated benefit amounts not greater than \$10,000.
 3. One (1) file was removed as the issue state was determined to be Indiana.
- Each policy file was reviewed to verify that all required information was contained in the illustration and, where applicable, that it was delivered according to the law.

- The illustration submitted with the application was tested. If the policy file contained a signed certification acknowledging that an illustration was not provided, the first illustration issued by the company to the applicant was tested.
- If the policy was issued other than applied for, the revised illustration was also tested.
- A file was considered an exception if it did not comply with the portion of the illustration law tested.

Findings:

Test	Population	Sample	Yes	No	Standard	Compliance
Was an illustration or certification submitted with the application?	15,698	100	84	16	90%	84%
Was the agent issued illustration or certificate signed as of the application date?	15,698	100	72	28	90%	72%
Was the illustration clearly labeled "Life Insurance Illustration", did it contain the name, age, and sex of the insured, the name and business address of the agent, the underwriting/rating class, the generic policy name, product name and form number, initial death benefit, and when applicable, the dividend election option or application of non-guaranteed elements and were the terms defined in language understood by the typical public?	15,698	100	54	46	90%	54%
Did the basic illustration contain all parts required?	15,698	100	46	54	90%	46%
Did the Narrative Summary contain all parts required?	15,698	100	7	93	90%	7%
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 correspond 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?	15,698	100	41	59	90%	41%
Did the illustration not contain prohibited language, terms or misrepresentations?	15,698	100	45	55	90%	45%
Was any revised illustration marked "Revised Illustration", signed/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?	15,698	100	60	40	90%	60%

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

Examiners' Additional Comments:

The low level of compliance to the eight tests were principally the result of four procedural errors by the company:

1. Sixteen (16) files contained no documentation of any compliance with the illustration requirement. The company either failed to require the illustration or certification at the time of the application or failed to maintain documentation of the illustration or certification.
2. The company failed to maintain the entire illustration in the file. In most instances when a partial illustration was in file, only the signed numeric summary was in file. Forty-three (43) files contained only a partial copy of the illustration submitted with the application. While this was enough information to pass the first two tests, this generally resulted in failure of the third through seventh tests due to the unavailability of the original illustration. It is important to keep a copy of the illustration viewed by the consumer, since the purpose of the illustration regulation is to assure that consumers are receiving accurate illustrations.
3. Ohio Administrative Code §3901-6-04 (G) (2) requires that the Narrative Summary include the following statement: *"This illustration assumes that the currently illustrated non-guaranteed elements used will not change for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown."* This required wording was found only on seven (7) Universal Life illustrations and is not included on any of the whole life or term policy illustrations.
4. When revised illustrations were sent, the company failed to stamp each page "Revised".

Examiners' Recommendations:

1. The Company should put in place procedures to maintain complete copies of all illustrations and certifications provided to applicants, whether provided with the application or provided later by the Company.
2. The Company should include all wording in illustrations as required by Ohio Administrative Code §3901-6-04 (G) (2).
3. The Company should place "Revised" on each page of revised illustrations.

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 Ohio Administrative Code §3901-6-05?

Methodology:

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Examiners requested the replacement register for all policies replaced during the exam period. The Company supplied a replacement register that tracked external replacements only. The Company advised that it did not track internal replacements.
- The Company supplied the following data files:
 1. The Company's external replacement register for life and annuity business replaced in Ohio during the examination period.
 2. Individual Ordinary Life and Annuity new business written in Ohio during the examination period. This data file stated for each policy whether it was

an external replacement for another existing life insurance policy owned by the insured.

- A file was produced for review containing:
 1. A random sample of fifty (50) life insurance policies listed in the replacement register. One (1) file was removed and replaced when it was determined that it was not an external replacement.
 2. A random sample of fifty (50) annuity policies listed in the replacement register. One (1) file was removed and replaced when it was determined that it was not an external replacement.
- A file was considered an exception if it did not comply with the portion of the agent requirement sections of the replacement rule tested.

Findings: External 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?	1348	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?	1348	50	50	0	90%	100%
Did the agent present to the applicant a "Notice Regarding Replacement"?	1348	50	43	7	90%	86%
Was the "Notice Regarding Replacement" signed on or before the application date?	1348	50	33	17	90%	66%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	1348	50	48	2	90%	96%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	1348	50	48	2	90%	96%
Did the agent submit a completed application to the replacing company?	1348	50	50	0	90%	100%
Did the agent obtain a list of all existing life insurance to be replaced and did the list properly identify replaced policies by insurer name, insured name and contract number?	1348	50	47	3	90%	94%

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

Examiners' Recommendations:

1. The Company should establish procedures to require agents to present a "Notice Regarding Replacement" to the applicant for signature in all cases where a policy is being replaced.
2. The Company should establish procedures to require that the "Notice Regarding Replacement" be signed on or before the application date.

Findings: External 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?	123	50	43	7	90%	86%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	123	50	47	3	90%	94%
Did the agent present to the applicant a "Notice Regarding Replacement"?	123	50	19	31	90%	38%
Was the "Notice Regarding Replacement" signed on or before the application date?	123	50	16	34	90%	32%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	123	50	20	30	90%	40%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	123	50	20	30	90%	40%
Did the agent submit a completed application to the replacing company?	123	50	50	0	90%	100%
Did the agent obtain a list of all existing life insurance to be replaced and did the list properly identify replaced policies by insurer name, insured name and contract number?	123	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in five (5) tests.

Examiners' Recommendations:

1. The Company should establish procedures to require agents to present a "Notice Regarding Replacement" to the applicant for signature in all cases where a policy is being replaced.
2. The Company should establish procedures to require that the "Notice Regarding Replacement" be signed on or before the application date.
3. The Company should require agents to submit a copy of the "Notice Regarding Replacement" to the replacing company.
4. The Company should require agents to secure a "Notice Regarding Replacement" signed by both the applicant and the agent.

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 Ohio Administrative Code §3901-6-05?

Methodology:

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- The Examiners requested the replacement register for all policies replaced during the exam period. The Company supplied a replacement register that tracked external replacements only. The company advised that it did not track internal replacements.
- The Company supplied the following data files:
 1. The Company's external replacement register for life and annuity business replaced in Ohio during the examination period.
 2. Individual Ordinary Life and Annuity new business written in Ohio during the examination period. This data file stated for each policy whether it was an

external replacement for another existing life insurance policy owned by the insured.

- A file was produced for review containing:
 1. A random sample of fifty (50) life insurance policies listed in the replacement register. One (1) file was removed and replaced when it was determined it was not an external replacement.
 2. A random sample of fifty (50) annuity policies listed in the replacement register. One (1) file was removed and replaced when it was determined it was not an external replacement.
- A file was considered an exception if it did not comply with the company requirement sections of the replacement rule tested.

Findings: External Life Insurance Policy Replacements

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement signed by the applicant as to whether the proposed insurance would replace existing life insurance?	1348	50	50	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement could be involved?	1348	50	50	0	90%	100%
Did the Company require its agents to obtain a list of all existing life insurance and annuities to be replaced and to properly identify them by name of the insurer, insured, and contract number?	1348	50	47	3	90%	94%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	1348	50	42	8	90%	84%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement"?	1348	50	48	2	90%	96%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	1348	50	0	50	90%	0%
Did the Company notify the existing insurer of possible replacement within 3 working days of receiving the life insurance application?	1348	50	15	35	90%	30%
Did the Company identify the file as a replacement on its replacement log?	1348	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 Company should require from the agent, with the application, a signed copy of the "Notice Regarding Replacement".
2. The Company should provide notification in or with the policy concerning the 20-day free look period and premium refund.
3. The Company should establish procedures to assure that written communication is sent to each existing insurer advising of the replacement within three (3) working days of receipt of the application.

Findings: External Annuity Policy Replacements

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement signed by the applicant as to whether the proposed insurance would replace existing life insurance?	123	50	43	7	90%	86%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement could be involved?	123	50	47	3	90%	94%
Did the Company require its agents to obtain a list of all existing life insurance and annuities to be replaced and to properly identify them by name of the insurer, insured, and contract number?	123	50	50	0	90%	100%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	123	50	16	34	90%	32%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement"?	123	50	20	30	90%	40%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	123	50	50	0	90%	100%
Did the Company notify the existing insurer of possible replacement within 3 working days of receiving the life insurance application?	123	50	9	41	90%	18%
Did the Company identify the file as a replacement on its replacement log?	123	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in four (4) tests.

Examiners' Recommendations:

1. The Company should require a statement signed by the applicant acknowledging that the proposed insurance replaces existing life insurance.
2. The Company should require from the agent, with the application, a signed copy of the "Notice Regarding Replacement".
3. The Company should maintain evidence in the file of the "Notice Regarding Replacement", the policy or contract summary or any ledger statement used.
4. The Company should send written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application.

Individual Ordinary 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. Individual Ordinary Life new business written in Ohio during the examination period.
 2. Life policies terminated in Ohio during the examination period.
 3. Life policy loans granted in Ohio during the examination period.
- All of the data files supplied were compared to each other in order to identify possible unreported internal replacements.

- The Individual Ordinary Life new business file was compared, by insured tax identifiers 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. There were 998 unique insured tax identification numbers in the population.
- A file was produced for review containing a random sample of fifty (50) Individual Ordinary Life unique insured tax identification numbers from the population of 998 insured tax identification numbers.
- The Individual Ordinary Life new business file was compared by insured tax identifiers to the policy loans granted file. The Examiners were able to develop a report of new business policies that were not marked as replacements for which the insured was granted a loan on a different existing policy within 60 days of the new policy's effective date. This resulted in a population of 18 unique insured tax identification numbers.
- A file was considered an exception if the review of the policy file and application showed that a replacement was involved as defined in Ohio Administrative Code §3901-6-05 and was not handled according to the rule's requirements or if the application did not confirm that a replacement was involved.

Findings:

New business with other terminated policies:

Population	Sample	Yes	No	Standard	Compliance
998	50	4	46	90%	8%

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

Examiners Additional Comments

The Company was not in compliance because its procedures do not require compliance with Ohio Administrative Code §3901-6-05 when replacing policies internally.

Examiners' Recommendation:

1. The Company should record all internal replacements in the Replacement Register and comply with all replacement requirements when replacing policies internally.

Findings:

New business with other policy loan granted:

Population	Sample	Yes	No	Standard	Compliance
18	18	11	7	90%	61%

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

Examiners Additional Comments

The Company was not in compliance because its procedures do not require compliance with Ohio Administrative Code §3901-6-05 when replacing policies internally.

Examiners' Recommendation:

1. The Company should record all internal replacements in the Replacement Register and comply with all replacement requirements when replacing policies internally.

POLICYHOLDER SERVICES

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated policies according to the policy provisions and Ohio Revised Code §3915.05 (H)?

Methodology:

- The Company supplied a computer file of all of the new business life policies that terminated in Ohio during the examination period.
- The terminations file was broken down by the type of termination. Two termination policy types were reviewed:
 1. Policies that terminated during the “free-look” period; and
 2. Policies that terminated due to lapse or surrender.

For those types that had fewer than 100 in the population, all of the policies were reviewed.

- A file was produced for review containing:
 1. The complete population of forty-one (41) life insurance new business policies that terminated during a free-look period within the examination period. Two (2) files were removed because they terminated outside of the examination period. Therefore, the population total was adjusted to thirty-nine (39).
 2. A random sample of one hundred (100) life insurance new business policies that lapsed or were surrendered during the examination period.
- 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 policy provisions;
 3. The policy was not terminated according to applicable state law; or
 4. “Free-look” periods were not observed.

Findings: Life Policies Terminating During the “Free-Look” Period

Population	Yes	No	Standard	Compliance
39	39	0	90%	100%

The standard of compliance is 90%. The Company’s performance met the minimum standard.

Findings: Life Policies Terminating Due to Lapse or Surrender

Population	Sample	Yes	No	Standard	Compliance
6375	100	100	0	90%	100%

The standard of compliance is 90%. The Company’s performance met the minimum standard.

UNDERWRITING

Declined and Withdrawn Policies

Standard: Rejections and declinations are not unfairly discriminatory.

Test: Does the Company avoid unfairly discriminatory rejection/declination reasons per Ohio Revised Code §3901.21(F)?

Methodology:

- The Company supplied a computer file of all the new business life policies terminated in Ohio during the examination period.

- The terminations file was broken down into the type of termination. Two new business life termination policy file types were reviewed:
 1. Files that terminated due to decline; and
 2. Files that terminated due to withdrawal.
- A total random sample of 50 new business files declined or withdrawn was requested for review.
- A file would be considered an exception if:
 1. The rejection/declination reason was contrary to applicable state law; or
 2. Appropriate refunds were not made to the applicant.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1861	50	50	0	90%	100%

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

Standard: File documentation adequately supports decisions made.

Test: Does the Company uphold its duty to furnish specific reasons for adverse underwriting decisions and provide applicants with a summary of rights per Ohio Revised Code §3904.10?

Methodology:

- The Company supplied a computer file of all the new business life policies terminating in Ohio during the examination period.
- The terminations file was broken down into the type of termination. Two new business life termination policy file types were reviewed:
 1. Files that terminated due to decline; and
 2. Files that terminated due to withdrawal.

- A total random sample of 50 new business files declined or withdrawn was requested for review.
- A file would be considered an exception if:
 1. The Company did not furnish, where applicable, reasons for adverse underwriting decisions; or
 2. The Company did not include a summary of rights in the declination letter to the applicant.

Findings:

Population	Sample	Yes	No	Standard	Compliance
1861	50	20	30	90%	40%

The standard of compliance is 90%. The Company's performance did not meet the minimum standard.

- The reasons for non-compliance are listed below. Each of the files that did not meet this standard failed for one or both of the following reasons:
 1. Thirty (30) files did not comply because declination letters did not contain a summary of rights.
 2. Fifteen (15) files did not comply because declination letters did not provide a general reason for the adverse underwriting decision or did not advise that a reason could be provided upon written request.

Examiners' Recommendations:

1. It is recommended that the Company consistently utilize declination letters that contain a summary of rights.
2. It is recommended that the Company consistently utilize declination letters that contain a general reason for adverse underwriting decisions or that advise that a general reason for an adverse underwriting decision can be provided upon written request.

SINGLE PREMIUM DEFERRED ANNUITIES

Standard: All mandated disclosures for individual annuity products are documented and in accordance with applicable statutes, rules and regulations.

Test: Does the Company ensure that, at the time an application is taken for a single premium deferred annuity, a disclosure form is executed by the applicant and the selling agent per Ohio Administrative Code §3901-1-47?

Methodology:

- The Company supplied a computer file of all of the Single Premium Deferred Annuity new business written in Ohio during the examination period.
- A total random sample of 50 files was requested for review. One (1) file was removed and replaced because the policy was not issued as a single premium deferred annuity.
- Each policy file was reviewed to verify that the mandated disclosure form was utilized.
- A file would be considered an exception if:
 1. A disclosure form was not utilized;
 2. The disclosure form did not include the mandated disclosure language;
 3. The disclosure form was not signed by the applicant and the selling agent; or
 4. The disclosure form was not signed at the time the application was taken.

Findings:

Population	Sample	Yes	No	Standard	Compliance
143	50	45	5	90%	90%

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

Examiners' Additional Comments:

- The five (5) files cited for non-compliance failed for one or more of the following reasons:
 1. A disclosure statement was not used in the sale of the product.
 2. A disclosure statement was not signed at the time the application was taken.
 3. A disclosure statement was not signed by the applicant.
 4. A disclosure statement was not signed by the selling agent.
 5. Mandated disclosure language was not utilized on the disclosure statement.

PAID CLAIMS

INDIVIDUAL LIFE AND ANNUITY 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 on which death claims had been paid during the exam period. The Examiners selected a random sampling of 50 life insurance paid death claim files to test for

compliance with Ohio Administrative Code §3901-1-07. The Examiners also selected the entire population of 5 annuity death claim files to test for compliance with Ohio Administrative Code §3901-1-07.

- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the claim file did not adequately document the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
227	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Findings: Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
5	5	0	93%	100%

The standard of compliance is 93%. The Company's performance met the 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 respond within fifteen (15) working days according to Ohio Administrative Code §3901-1-07(C)(2)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files on which death claims had been paid during the exam period. The Examiners

selected a random sampling of 50 life insurance paid death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(2). The Examiners also selected the entire population of 5 annuity death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(2).

- The claim files were reviewed to verify dates in the claim payment 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
227	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Findings: Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
5	5	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within the time frame required by Ohio Administrative Code §3901-1-07(C)(4)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files on which death claims had been paid during the exam period. The Examiners

selected a random sampling of 50 life insurance paid death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(4). The Examiners also selected the entire population of 5 annuity death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(4).

- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not begin investigating the claim within the time frame required by the applicable statutes, rules and regulations.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
227	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s performance met the standard.

Findings: Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
5	5	0	93%	100%

The standard of compliance is 93%. The Company’s performance met the standard.

Timely Settlement

Standard: Claims are settled in a timely manner.

Test: Was the claim settled within the time frames required in Ohio Revised Code §3915.05(K)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files on which death claims had been paid 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 payment 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
227	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s performance met the 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 the time frames required within Ohio Administrative Code §3901-1-07(C)(2)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files on which death claims had been paid during the exam period. The Examiners selected a random sampling of 50 life insurance paid death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(2). The Examiners also selected the entire population of 5 annuity death claim files to test for compliance with Ohio Administrative Code §3901-1-07(C)(2).
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not respond to claim correspondence within the required time frame of 15 days.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
227	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Findings: Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
5	5	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Claim Settlement

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

Test: Were the claims correctly paid with interest where required by Ohio Revised Code §3915.052?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims on which death claims had been paid 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 claim files were reviewed to verify dates in the claim payment 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 was considered an exception if the amount of interest paid on a claim did not comply with the interest requirements of Ohio Revised Code §3915.052.

Findings: Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
227	50	19	31	93%	38%

The standard of compliance is 93%. The Company's performance did not meet the standard.

- The reason for non-compliance is listed below:
 1. Thirty-one (31) claims for thirty-one (31) policy numbers were paid an interest amount less than that required by Ohio Revised Code §3915.052.

Examiners' Recommendations:

1. The Company should implement procedures to ensure that the calculation of interest rates on the payment of claims meets requirements of Ohio Revised Code §3915.052.

WAIVER OF PREMIUM CLAIMS

Adequate Documentation

Standard: Claim files are adequately documented.

Test: Did the Company's claim files contain sufficient documentation to follow the Company's activities in processing Waiver of Premium claims?

Methodology:

- The Company provided computer files of all Waiver of Premium claims paid during the examination period.
- The total population of 28 Waiver of Premium paid claims were requested for review.
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company's file did not contain sufficient documentation to follow the Company's activities in processing the Waiver of Premium claim.

Findings:

Population	Yes	No	Standard	Compliance
28	28	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Claim Settlement

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

Test: Did the Company correctly and completely settle Waiver of Premium claims in accordance with policy provisions?

Methodology:

- The Company provided computer files of all Waiver of Premium claims paid during the examination period.
- The total population of 28 Waiver of Premium paid claims comprised the sample of claim files requested for review.
- The claim files were reviewed to verify dates in the claim payment process.

- A claim was considered an exception if the Company did not correctly and completely settle submitted Waiver of Premium claims.

Findings:

Population	Yes	No	Standard	Compliance
28	28	0	93%	100%

The standard of compliance is 93%. The Company's performance met the 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 per Ohio Administrative Code §3901-1-07?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims denied during the exam period.
- A file was produced for review containing the complete population of ten (10) life insurance denied death claim files. Six (6) files were removed because they were not denied. Therefore, the population was adjusted to four (4).
- 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	Yes	No	Standard	Compliance
4	4	0	93%	100%

The standard of compliance is 93%. The Company's performance met the 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 respond within fifteen (15) working days according to Ohio Administrative Code §3901-1-07(C)(2)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims denied during the exam period.
- A file was produced for review containing the complete population of ten (10) life insurance denied death claim files. Six (6) files were removed because they were not denied. Therefore, the population was adjusted to four (4).
- The claim files were reviewed to verify dates in the claim payment 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	Yes	No	Standard	Compliance
4	4	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within the time frame required by Ohio Administrative Code §3901-1-07(C)(4)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims denied during the exam period.
- A file was produced for review containing the complete population of ten (10) life insurance denied death claim files. Six (6) files were removed because they were not denied. Therefore, the population was adjusted to four (4).
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not begin investigating the claim within the time frame or could not document investigating the claim within the required time frame of 15 working days of receiving notice of the claim.

Findings: Life Insurance Paid Death Claims

Population	Yes	No	Standard	Compliance
4	4	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

Timely Settlement

Standard: Claims are settled in a timely manner.

Test: Was the claim settled within the time frames required in Ohio Revised Code §3915.05(K)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims denied during the exam period.
- A file was produced for review containing the complete population of ten (10) life insurance denied death claim files. Six (6) files were removed because they were not denied. Therefore, the population was adjusted to four (4).
- The claim files were reviewed to verify dates in the claim payment process.
- A claim was considered an exception if the Company did not settle the claim within the required time frame.

Findings:

Population	Yes	No	Standard	Compliance
4	4	0	93%	100%

The standard of compliance is 93%. The Company’s performance met the 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 the time frames required within Ohio Administrative Code §3901-1-07(C)(2)?

Methodology:

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims denied during the exam period.
- A file was produced for review containing the complete population of ten (10) life insurance denied death claim files. Six (6) files were removed because they were not denied. Therefore, the population was adjusted to four (4).
- The claim files were reviewed to verify dates in the claim payment process.

- A claim was considered an exception if the Company did not respond to claim correspondence within the required time frame of 15 days.

Findings:

Population	Yes	No	Standard	Compliance
4	4	0	93%	100%

The standard of compliance is 93%. The Company's performance met the standard.

ADDITIONAL EXAMINATION FINDINGS

1. The Company's complaint handling procedures for both departmental and non-departmental complaints were requested and reviewed. Both complaint types appeared to be handled in a timely and adequate manner.
2. The Examiners found one instance in which the applicant's signature appeared to be inconsistent on two separate documents. The file was referred to the Company for investigation.
3. Endorsements provided in the file for the examiners did not include policy numbers. The Company was requested to verify that procedures would be implemented to include policy numbers on endorsements.

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 or Certification Submitted with App	90%	84%
Illustration or Certification Signed as of Application Date	90%	72%
Clearly Labeled and Containing All Required Information	90%	54%
Basic Illustration Contains All Parts	90%	46%
Narrative Summary Contains All Parts	90%	7%
Numeric Summary Contains Required Statements	90%	41%

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
Does Not Contain Prohibited Language, Terms or Misrepresentations	90%	45%
Revised Illustrations Marked "Revised"	90%	60%
REPLACEMENTS (External)		
Life Insurance - Agent Requirements		
"Notice Regarding Replacement" Presented to Applicant	90%	86%
"Notice Regarding Replacement" Signed as of Application Date	90%	66%
Annuities - Agent Requirements		
Submitted Statement from Applicant Confirming Replacement	90%	86%
"Notice Regarding Replacement" Presented to Applicant	90%	38%
"Notice Regarding Replacement" Signed on or before App Date	90%	32%
"Notice Regarding Replacement" Submitted to Replacing Company	90%	40%
"Notice Regarding Replacement" Signed by Applicant and Agent	90%	40%
Life Insurance - Company Requirements		
Require from Agent Signed Copy of "Notice Regarding Replacement"	90%	84%
Provide Notification of 20 day Free Look and Premium Refund	90%	0%
Sent a Written Communication to Existing Insurer within 3 Days	90%	30%
Annuities - Company Requirements		
Required Statement from Applicant Confirming Replacement	90%	86%
Required from Agent a Copy of "Notice Regarding Replacement"	90%	32%
Maintained Evidence of "Notice Regarding Replacement"	90%	40%
Sent a Written Communication to Existing Insurer within 3 days	90%	18%
REPLACEMENTS (Internal)		
Life Insurance New Business with Terminations		
Company Procedures Comply with Replacement Rules	90%	8%
Life Insurance New Business with Policy Loan Granted		
Company Procedures Comply with Replacement Rules	90%	61%
UNDERWRITING		
Company Provides Specific Reasons for Adverse Underwriting Decisions and Summary of Rights	90%	40%
PAID CLAIMS		
Correct Payment of Interest	93%	38%

This concludes the report of the Market Conduct Examination of the Grange Life Insurance Company. The Examiners would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.

Daniel J. Atkisson

Daniel J. Atkisson, CPCU, CIDM, CIE

Insurance Compliance Supervisor

January 7, 2004

Date

ATTACHMENT



September 22, 2003

Mr. Daniel J. Atkisson, CPCU, CIDM, CIE
Insurance Compliance Supervisor
Ohio Department of Insurance
2100 Stella Court
Columbus, OH 43215-1067

Dear Mr. Atkisson,

Thank you for the opportunity to respond to your August 15th draft Market Conduct Examination report. Our responses follow in the same order as your findings.

Illustrations

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

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company's performance was below the minimum standard in eight of eight tests.

Company response:

The Company agrees with the Examiners' findings in part and disagrees in part, and responds as follows to the Examiners' Additional Comments and Recommendations:

Additional Comment 1: We reminded our agency force on August 27th and again on September 15th that they must submit either a complete, signed illustration or a

*Grange Mutual Casualty Co., Grange Life Insurance Co., Grange Indemnity Insurance Co.,
Grange Insurance Co. of Michigan, Trustgard Insurance Co., Integrity Mutual Insurance Co., The Grange Bank*
650 South Front Street, P.O. Box 1218, Columbus, OH 43216-1218 614/445-2900 or 1-800-422-0550
www.grangeinsurance.com

9-114 (HO/2-02)

signed certification indicating no illustration was provided at the same time as an application; and that the illustration or certification must be signed and dated concurrently with the application it accompanies. Failure to comply will result in the application being returned to the agent. This procedure was also reinforced with our internal processing staff. This addresses the Company's failure to meet minimum performance standard on the first two tests.

Additional Comment 2: The Company's historical practice has been to maintain a photocopy of only the signed numeric summary page of the illustration, because the other pages of the illustration can be replicated on demand by our administrative systems. We believe this practice meets both the requirements and the intent of the Ohio code, and enables the Examiners to confirm "that consumers are receiving accurate illustrations." This practice is the primary reason the Examiners found the Company's performance to be below minimum standard on tests 3 through 7. Although we disagree with the Examiners' position, in accordance with the Examiners comments, we have begun copying and maintaining all pages of the illustration.

Additional Comment 3: Many of the deficiencies noted have been corrected. The illustration system is being reprogrammed to ensure illustrations include all required language on all policies. Programming will be completed by November 1, 2003.

Additional Comment 4: Revised illustrations, which are prepared in the Home Office, are now stamped "Revised." This resolves test 8.

Recommendation 1: Procedures are now in place to maintain complete copies of all illustrations and certifications.

Recommendation 2: The illustration system is being reprogrammed to ensure illustrations include all required language on all policies, and that no prohibited language appears. Programming will be completed by November 1, 2003.

Recommendation 3: The word "Revised" now appears on each page of revised illustrations.

Replacements

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

Findings:

External Life Insurance Policy Replacements: The Company's performance was below the minimum standard in two of eight tests.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendations:

Recommendations 1 and 2: We reminded our Agency Force on September 9th a “Notice Regarding Replacement” must be signed by the applicant in all cases where a policy is being replaced, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. This procedure was also reinforced with our internal processing staff.

Findings:

External Annuity Policy Replacements: The Company’s performance was below the minimum standard in five of eight tests.

Company response: The Company agrees with the Examiners’ findings, and responds as follows to the Examiners’ Recommendations:

Recommendations 1 through 4: The Company reminded our Agency Force on September 9th a “Notice Regarding Replacement” must be signed by the applicant in all cases where a policy is being replaced, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. This procedure was also reinforced with our internal processing staff.

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

Findings:

External Life Insurance Policy Replacements: The Company’s performance was below the minimum standard in three of eight tests.

Company response: The Company agrees with the Examiners’ findings, and responds as follows to the Examiners’ Recommendations:

Recommendation 1: The Company reminded our Agency Force on September 9th a “Notice Regarding Replacement” must be signed by the applicant in all cases where a policy is being replaced, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. This procedure was also reinforced with our internal processing staff.

Recommendation 2: The Company has implemented an endorsement for every replacement policy extending the free look and premium refund provision to thirty (30) days.

Recommendation 3: The Company has modified our internal procedures to ensure written notification of replacement is sent to each existing insurer within three working days of receipt of the application.

Findings:

External Annuity Policy Replacements: The Company's performance was below the minimum standard in four of eight tests.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendations:

Recommendation 1 and 2: The Company reminded our Agency Force on September 9th a "Notice Regarding Replacement" must be signed by the applicant in all cases where a policy is being replaced, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. This procedure was also reinforced with our internal processing staff.

Recommendation 3: The Company has modified internal procedures to ensure copies of the "Notice Regarding Replacement" are maintained in our files.

Recommendation 4: The Company has modified our internal procedures to ensure written notification of replacement is sent to each existing insurer within three working days of receipt of the application.

Findings:

Individual Ordinary Life New Business – New Business with other terminated policies: The Company's performance was below this standard.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendation:

Recommendation: The Company reminded our Agency Force on September 9th a "Notice Regarding Replacement" must be signed by the applicant in all cases where a policy is being replaced, including both external and internal replacements, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. In addition, the Company has modified internal procedures to ensure internal replacements are handled identically to external replacements.

Findings:

Individual Ordinary Life New Business – New business with other policy loan granted: The Company's performance was below this standard.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendation:

Recommendation: The Company reminded our Agency Force on September 9th a "Notice Regarding Replacement" must be signed by the applicant in all cases

where a policy is being replaced, including both external and internal replacements, that the Notice must be signed and dated not later than the application, and that failure to submit the Notice with the application will result in the application being returned to the agent. In addition, the Company has modified internal procedures to ensure internal replacements are handled identically to external replacements.

Policyholder Services

Standard: Policy transactions are processed accurately and completely.

Findings: The Company was in compliance with both findings.

Company response: The Company agrees with the Examiners' findings.

Underwriting

Standard: Rejections and declinations are not unfairly discriminatory.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

Standard: File documentation adequately supports decisions made.

Findings: The Company's performance did not meet the minimum standard.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendations:

Recommendation 1: The Company has modified all declination letters to contain a summary of rights.

Recommendation 2: The Company has modified all declination letters to provide a general reason for the adverse underwriting decision.

Single Premium Deferred Annuities

Standard: All mandated disclosures for individual annuity products are documented and in accordance with applicable statutes, rules and regulations.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings. Although the Company was in compliance, we have implemented additional internal procedures to ensure the required disclosure is signed at the time of the application and submitted to the Home Office.

Paid Claims

Standard: Claim files are adequately documented.

Findings: The Company was in compliance for both life insurance and annuity paid death claims.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company was in compliance for both life insurance and annuity paid death claims.

Company response: The Company agrees with the Examiners' findings.

Standard: Investigations are conducted in a timely manner.

Findings: The Company was in compliance for both life insurance and annuity paid death claims.

Company response: The Company agrees with the Examiners' findings.

Standard: Claims are settled in a timely manner.

Findings: The Company was in compliance for both life insurance and annuity paid death claims.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company was in compliance for both life insurance and annuity paid death claims.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company's performance did not meet the standard.

Company response: The Company agrees with the Examiners' findings, and responds as follows to the Examiners' Recommendation:

Recommendation: The Company has implemented procedures to ensure the interest on death proceeds is calculated in accordance with Ohio Revised Code §3915.052. Non-compliance occurred because the Company has computed interest as the greater of the current rate of interest on proceeds left on deposit with the Company or the *adjusted* annual short-term applicable federal rate for purposes of section 1274(d) of the Internal Revenue Code (*emphasis added*). The correct federal rate is the annual short-term rate, not the *adjusted* annual short-term rate. We have examined every death claim paid since the effective date of ORC §3915.052 and sent checks to the beneficiaries of all policies for which the original interest paid was less than that required.

Waiver of Premium Claims

Standard: Claim files are adequately documented.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

Denied Claims

Standard: Claim files are adequately documented.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

Standard: Investigations are conducted in a timely manner.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

Standard: Claims are settled in a timely manner.

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

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

Findings: The Company was in compliance.

Company response: The Company agrees with the Examiners' findings.

We believe the Company has resolved each issue raised by the Examiners. If you have any questions, please call me at 445-2681.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin J. Dinchart". The signature is stylized with a large initial "M" and a long horizontal stroke.

Martin J. Dinchart, FLMI
Vice President

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

IN THE MATTER OF : **CONSENT ORDER**
GRANGE 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 Grange 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 life 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 submitted with the application, agent-issued illustrations or certificates were not signed at the date of the application, illustrations were not labeled and/or were incomplete, narrative and numeric summaries were incomplete, and revised illustrations were not clearly marked.
- B. The Company accepted and processed life insurance replacement policy applications from its agents that were defective or incomplete; to wit, notices were not presented to the applicant and/or were not signed at the date of the application as required under O.A.C. 3901-6-05(E). Further, the Company accepted and processed annuity replacement policy applications from its agents that were defective or incomplete; to wit, notices were not presented to the applicant, notices were not signed at the date of the application, notices did not contain the required signatures, and notices were not submitted to the replacing company as required under O.A.C. 3901-6-05(E). By accepting and processing incomplete life insurance and annuities replacement policy applications from its agents without informing the agents of the defects in these applications, 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).
- 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 and annuity 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.

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 \$22,500 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 \$24,198.08 administrative costs incurred by the Department to perform the Market Conduct examination. The Department will submit an invoice to the Company for payment.
- I. The Company has recalculated the amount of interest paid on all paid claims files for the period June 1, 1994 to present to ensure compliance with R.C. 3901.052. All underpayments with interest have been paid to the affected beneficiaries.
- 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.

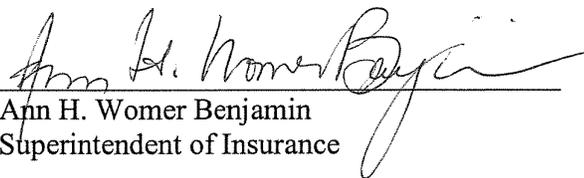
- K. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- L. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by 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: 5/3/04



Thomas Howard Welch
President
Grange Life Insurance Company

Date: 5/18/04



Ann H. Womer Benjamin
Superintendent of Insurance