

OHIO DEPARTMENT OF INSURANCE

**A
TARGETED
MARKET CONDUCT EXAMINATION
OF
J.C. PENNEY LIFE INSURANCE COMPANY
NAIC #65021**

As Of

December 31, 2001





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:

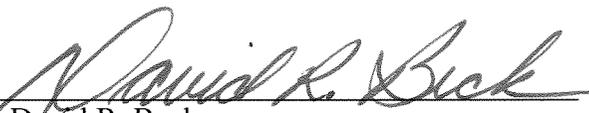
J.C. Penney Life Insurance Company
NAIC Company Code 65021

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

2700 Plano Parkway
Plano, Texas 75075

A report of the examination is enclosed.

Respectfully submitted,


David R. Beck
Chief, Market Conduct Division


Date



Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIIP Hotline: 1-800-686-1578

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SCOPE OF EXAMINATION

The examination of J.C. Penney Life Insurance Company (the Company) commenced on or about January 15, 2002 with the call letter and initial requests for information. The actual on-site portion of the examination of the Company's non-financial business practices commenced on May 6, 2002 at the Company's regional office in Plano, Texas. The examination was restricted to Company activities for individual ordinary life insurance business from the period of January 1, 2000 through December 31, 2001. 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 applicable state 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. Replacements
- F. Policyholder Services
- G. Paid Claims

METHODOLOGY

The examination was conducted through a review of the Company's ordinary individual life insurance policy 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. Illustrations were not tested because the Company does not market individual life insurance with illustrations, nor does it offer policies with non-guaranteed elements.

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

The Company was chartered as the Vermont Accident Insurance Company by the Vermont legislature in 1900 and incorporated on November 19, 1900. The Company officially commenced business on May 7, 1906 writing business on the advance premium mutual plan until February 15, 1949 at which time the Company converted to a stock company. In 1967 the Company was acquired by J.C. Penney Company, Inc. and subsequently renamed J.C. Penney Life Insurance Company. Effective January 1, 1979, J.C. Penney Insurance Company, domiciled in California, and J.C. Penney Life Insurance Company (Vermont) were merged, with the surviving company being domiciled in Vermont.

On June 18, 2001, J.C. Penney Company, Inc. completed its sale to Commonwealth General Corporation, a U.S. subsidiary of AEGON N.V., of J.C. Penney Life Insurance Company. Concurrent with the closing, J.C. Penney Company entered into a 15-year licensing and marketing agreement with Commonwealth General Corporation designed to offer an expanded range of financial and membership services products to J.C. Penney customers.

Effective April 1, 2002, Stonebridge Insurance Company, a subsidiary of J.C. Penney Life Insurance Company, was merged into J.C. Penney Life Insurance Company, with J.C. Penney Life Insurance Company surviving. Regulatory authorities have approved a name change effective April 1, 2002 or "such later date as appropriate". The new company name will be Stonebridge Life Insurance Company.

COMPANY OPERATIONS

The Company is licensed in all states. Their statutory home office is in Rutland, Vermont but their primary location of financial books and records for this exam is in Plano, Texas.

The Company's reported life direct premiums written and direct losses paid during the examination period as reported on Life Insurance Part 1 of the Company's Financial Annual Statements are as follows:

| | Ordinary Direct Written Premium | | Ordinary Direct Claims and Benefits Paid | |
|----------|------------------------------------|--------------|---|--------------|
| | <u>2000</u> | <u>2001</u> | <u>2000</u> | <u>2001</u> |
| Ohio | \$9,596,324 | \$9,746,532 | \$5,843,639 | \$6,145,995 |
| National | \$65,584,921 | \$66,032,800 | \$46,218,348 | \$48,665,782 |

| Total Life Direct Written Premium | | |
|-----------------------------------|---------------|---------------|
| | <u>2000</u> | <u>2001</u> |
| Ohio | \$11,004,033 | \$11,134,784 |
| National | \$219,709,188 | \$216,620,453 |

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

| | |
|--------------------------|--------------|
| Chief Executive Officer: | None |
| President: | Marilyn Carp |
| Assistant Treasurer: | Paul Heleski |
| Secretary: | John Camillo |

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 operation of the Company to be in compliance with its Certificate of Authority for the state.

MARKETING

The Company is licensed in all fifty states, the District of Columbia, and Canada. The Company solicits business primarily through direct response and telemarketing methods. The Company has a strong base of business in the holders of the J.C. Penney credit cards and has regularly expanded its market share through additions to its relationships with other credit card issuers to solicit their customers. The Company presently has business relationships with over forty companies in the United States. These companies are primarily banks, oil companies and other retailers.

The Company's life product line includes both whole life, graded benefit life and term life products on a nonparticipating basis.

All individual life insurance is marketed through direct response methods and administered at the Company's administrative offices in Plano and Richardson, Texas, with the exception of one general agency used to market term life for a brief time during the examination period.

A review of the Company's marketing materials was also conducted during this exam. This review was done to assure that the Company was not engaging in any unfair or deceptive practices, in compliance with Ohio Revised Code §3901.21 and Ohio Administrative Code §3901-6-01, §3901-6-02, and §3901-6-03.

The Examiners found two new business applications, IUL018-C and IGL014-F, that were not in compliance with Ohio Administrative Code §3901-6-05. These applications did not include the required question concerning whether the proposed insurance would replace another policy. A third application, IUL020-C, had been modified to include the question, but had never been filed with the Ohio Department of Insurance.

Company's response:

“Application IUL020-C, used to solicit Individual Term Life Policy D538R, is not currently in use in either version and no policies were issued using this form number. We are unable to locate a file showing the approval from the Ohio Department of Insurance for this form. This form is

substantially like IUL018-C and that the Company's files indicate these applications were printed in these solicitations in error. Form IGL014-F was re-filed as IGL014-F(02) on 12-2-96 and was approved on 06/03/02, with the replacement question included. The Company held any applications until the approval was received, then began using this application upon approval."

PRODUCER LICENSING

The Examiners requested and the Company supplied a report of all Ohio agent terminations processed between January 1, 2000 and December 31, 2001. The Examiners reviewed all 426 terminations to determine whether any agents were terminated for cause. If so, did the Company notify the Ohio Department of Insurance of the complete statements and facts surrounding the termination in compliance with Ohio Revised Code §3905.012 (B)?

The Examiners identified no agents that had been terminated for cause during the exam period. However, it was found that the Company does not keep documentation in its files indicating reason for the agent's termination. The Examiners recommend that a procedure be implemented to include enough documentation in agent termination files to indicate whether or not the agent was terminated for cause.

Company Response:

"The Company has implemented a procedure to include sufficient documentation in agent termination files to indicate whether or not the agent was terminated for cause."

REPLACEMENTS

Replacement Register Agent Requirements

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 (E)?

Methodology:

The Examiners requested, and the Company supplied, the replacement register for all policies replaced during the exam period. The Examiners selected the entire population of replacements and tested for compliance with §3901-6-05 (E) of the Ohio Administrative Code.

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company’s replacement procedures and requirements.
- A file was considered an exception if it did not comply with all of the requirements of the replacement laws. For the purposes of this test, a file could be considered out of compliance with multiple sections but would only fail the entire test once.

Findings:

| Test | Population | Sample | Yes | No | Standard | Compliance |
|--|------------|--------|-----|----|----------|------------|
| Did the agent submit a statement signed by the applicant as to whether a replacement was involved? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the statement signed by the applicant confirm that a replacement was involved? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the agent present to the applicant a “Notice Regarding Replacement”? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the agent present to the applicant a “Notice Regarding Replacement” at the time the application was completed? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company? | 12 | 12 | 12 | 0 | 90% | 100% |
| Was the “Notice Regarding Replacement” signed by both the applicant and the agent? | 12 | 12 | 12 | 0 | 90% | 100% |

| Test | Population | Sample | Yes | No | Standard | Compliance |
|---|------------|--------|-----|----|----------|------------|
| Did the agent submit a completed application to the replacing company? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identify by name of insurer, the insured and contract number? | 12 | 12 | 12 | 0 | 90% | 100% |

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

Replacement Register Company Requirements

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 (F), (G), and (H)?

Methodology:

The Examiners requested, and the Company supplied, the replacement register for all policies replaced during the exam period. The Examiners selected the entire population of replacements and tested for compliance with §3901-6-05 (F), (G), and (H) of the Ohio Administrative Code.

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- A file was considered an exception if it did not comply with all of the requirements of the replacement laws. For the purposes of this test, a file could be considered out of compliance with multiple sections but would only fail the entire test once.

Findings:

| 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? | 12 | 12 | 12 | 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? | 12 | 12 | 12 | 0 | 90% | 100% |
| 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? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"? | 12 | 12 | 12 | 0 | 90% | 100% |
| Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statements used? | 12 | 12 | 12 | 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? | 12 | 12 | 9 | 3 | 90% | 75% |
| Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer? | 12 | 12 | 12 | 0 | 90% | 100% |

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

- The reasons for non-compliance are listed below.
 1. Three (3) files did not comply because the Company did not send the Notice of Replacement within 3 days.

Examiners' Comments:

1. The review of the actual replacement register showed that the Company was maintaining the register as required.
2. The Company's procedure indicates that the Company used the received date in the Underwriting Department, not the received date with Company.

Examiners' Recommendations:

1. It is recommended that the Company's rules and procedures pertaining to company requirements in connection with replacements comply with applicable statutes, rules and regulations.
2. It is also recommended that the Company establish a procedure to utilize the received date that the application is received with the Company per Ohio Administrative Code §3901-6-05 (G) (2) (b).

Company's Response:

Procedures will be revised to begin utilizing the received date as the initial contact date with the Company, not in the Underwriting department.

New Business With Household Termination Within 90 days

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 completed applications for which there was a recent termination in the household 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 exam period.

The Ordinary Individual Life new business file was compared, by policyholder name, 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 policyholder also had another policy with the Company that terminated within 90 days of the new policy’s effective date. The Examiners selected a random sampling of 50 files 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:
 1. A replacement was involved, as defined under Ohio Administrative Code §3901-6-05, and the Company did not comply with all of the requirements of that regulation.
 2. The policy file and application did not adequately document compliance.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 92 | 50 | 50 | 0 | 90% | 100% |

The standard of compliance is 90%. The Company’s performance met this standard. The Examiners found no unreported replacements.

Examiners’ Comments:

The Company indicated that their systems do not maintain insureds’ or policy owners’ tax ID numbers. That information is normally used to develop a population of possible unreported replacements for on-site review by comparing insured tax ID’s in the new business table with insured tax ID’s in the terminations table. All policy terminations occurring within 90 days of the

issuance a new policy for the same tax ID's are considered to be possible unreported replacements.

In order to develop a population and sample to check for unreported replacements, names were matched instead of tax ID's. This comparison did produce a population of new business incepting within 90 days of another Company policy or policies terminating with the same insured name. A sample was drawn from those items to check while on-site.

This type of comparison is much less accurate than matching tax ID numbers. Unlike tax ID's, names are not unique, are subject to change, and can easily be entered inconsistently. There is also a possibility of matching names when there is no relationship, especially common names.

Life Insurance companies should be checking for possible internal replacements on new business and any additional policies in force on the life of a deceased insured. The use of the tax ID will provide for more efficient administration of replacements.

Review of All 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 completed applications comply with the replacement requirements for life insurance according to Ohio Administrative Code §3901-6-05 (F), (G), and (H)?

Methodology:

The Examiners requested, and the Company supplied, a report of all new business policies issued during the exam period. The Examiners selected a random sampling of 100 new business files to test for compliance with §3901-6-05 of the Ohio Administrative Code.

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.

- A file was considered an exception if it did not comply with all of the requirements of the replacement laws concerning completed applications. For the purposes of this test, a file could be considered out of compliance with multiple sections but would only fail the entire test once. The Examiners' Comments will list the more detailed explanation of the findings.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 696 | 100 | 68 | 32 | 90% | 68% |

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

The reasons for non-compliance are listed below:

- Fifteen (15) of the files did not comply because they included applications that did not have the replacement question on the application.
- Seventeen (17) of the files did not comply because the application did not have a response to the replacement question.

Examiners' Recommendations:

1. It is recommended that the Company's rules and regulations pertaining to Company requirements with replacements comply with applicable statutes, rules, and regulations.
2. It is recommended that the Company revise its procedures concerning applications on which the replacement question is not completed. The Company must obtain a fully completed application with a response to the replacement question in order to be in compliance with applicable replacement rules and regulations.

Company' Response:

1. Applications that were in violation of code have either been discontinued or re-filed with the Ohio Department of Insurance in May 2002.
2. The Company is amenable to changing procedures on handling of applications with replacement question unmarked. The Company will begin returning applications to agent/policyholders to get the replacement question answered yes or no.

POLICYHOLDER SERVICES

Policy Loans

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process policy loans according to the policy provisions and Ohio Revised Code §3915.05 (G), and §3915.051?

Methodology:

The Examiners requested, and the Company supplied, the report of all policy loans that occurred during the exam period. The Examiners selected a random sampling of 50 cash loans and 50 automatic premium loans (APL) to test for compliance. It was indicated by the Company that a system conversion was done between June and September 2000 that prevented accurate identification of cash loans. Therefore, the exam period was limited to October 2000 to December 2001.

- A policy loan file would be considered an exception if:
 1. The file did not document prior written authorization by the policyholder in either the request for the cash loan or in the policy application for automatic premium loans.
 2. There was not a minimum of three (3) years of premium payments before the loan was given.
 3. The file did not document interest rates used according to the policy provisions.
 4. Interest was not paid according to policy provisions or Ohio regulations.
 5. The rate of interest on the loan exceeded 8% per year.
 6. The policyholder was not notified at the time the cash loan was made of the initial rate of interest on the loan.

Findings:

| Type | Population | Sample | Yes | No | Standard | Compliance |
|------|------------|--------|-----|----|----------|------------|
| APL | 2349 | 50 | 50 | 0 | 90% | 100% |
| Cash | 523 | 50 | 50 | 0 | 90% | 100% |

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

Examiners Comments:

1. It was noted during the exam that the Company has never sold a policy form that contains adjustable loan interest rates.
2. The Company provided procedures on the conversion process from the Thomas system to the Ingenium systems. That is the system conversion that caused the problems on the cash loans referred to in methodology.

Terminated Policies

Standard: Policy transactions are processed accurately and completely.

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

Methodology:

The Examiners requested, and the Company supplied, the report of all terminations that occurred during the exam period. The Examiners selected a random sampling of 50 terminated files to test for compliance with Ohio Revised Code §3915.071.

- 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:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 6253 | 100 | 98 | 2 | 90% | 98% |

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

- Two (2) of the files contained incorrect expiry dates provided to the policyholder.

Examiners' Comments:

The Examiners recommend that a quality control procedure be implemented to assure that the correct expiry dates are provided to the policyholders.

Company's Response:

"System maintenance caused a problem with the dates that we had not noticed. We have opened a system's priority ticket so a programmer can correct the logic to print the correct date on the notification letter. Thank you for alerting us to these errors."

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 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 proper documentation could not be found within the claim file.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

The standard of compliance is 93%. The Company's performance met this 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 the required time frame as required by Ohio Administrative Code §3901-1-07(C)(5)?

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 files to test for compliance with Ohio Administrative Code §3901-1-07(C)(5).

- 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.
- In instances where unique claim numbers contained multiple policy numbers, all policies were tested. A single claim number with multiple policies may have had multiple errors, but each claim number could fail the test only once.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

The standard of compliance is 93%. The Company's performance met this 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 paid on them during the exam period. The Examiners selected a random sampling of 50 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 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.
- In instances where unique claim numbers contained multiple policy numbers, all policies were tested. A single claim number with multiple policies may have had multiple errors, but each claim number could fail the test only once.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

The standard of compliance is 93%. The Company’s performance met this 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 paid on them during the exam period. The Examiners selected a random sampling of 50 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 provide settlement within the required time frame.
- In instances where unique claim numbers contained multiple policy numbers, all policies were tested. A single claim number with multiple policies may have had multiple errors, but each claim number could fail the test only once.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

The standard of compliance is 93%. The Company’s performance met this 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 paid on them during the exam period. The Examiners selected a random sampling of 50 files to test for compliance with Ohio Administrative Code §3901-1-07(C)(2).

- The Company provided computer files of all claims paid during the examination period.
- The Examiners selected a random sampling of 50 claims files for review.

- 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 claim correspondence subsequent to the initial contact within the required time frame.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

The standard of compliance is 93%. The Company’s performance met this 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 policy provisions and Ohio Revised Code §3915.052?

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 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 Examiners selected a random sampling of 50 claims files for review.
- 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.

- In instances where unique claim numbers contained multiple policy numbers, all policies were tested. A single claim number with multiple policies may have had multiple errors, but each claim number could fail the test only once.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 44 | 6 | 93% | 88% |

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

- Six (6) files did not comply because the interest computation was incorrect due to the Company’s not using the higher of the annual short-term applicable federal rate in effect at the time of death or the current Company rate in effect at the date of payment.

Examiners’ Comments:

It is the Company’s procedure to check the applicable laws for the policy issue state, the insured’s resident state and the beneficiary’s state and use the law that provides the highest interest rate.

Examiners’ Recommendations:

1. It is recommended that the Company’s rules and regulations pertaining to paid claims comply with applicable statutes, rules and regulations.
2. It is recommended that the Company revise its procedures concerning methods used in computing interest on paid death claims.
3. The Company should review all Ohio claims for the exam period and pay any additional interest due to claimants, based on the corrected interest computations.

Company’s Response:

1. “The Company has taken steps to ensure it pays claims according to applicable statutes, rules, and regulations.”

2. “Interest on each of the claim listed was calculated from the date of death to the date the claim was paid at the Company rate of interest in effect at the time the claim was paid. After review of the Ohio code provided, we find that our computation method is incorrect according to the code. Interest on each of the 6 claims listed should have been calculated at the higher of either: 1) the annual short-term applicable federal rate in effect at the date of death OR 2) the current Company rate in effect at the date of payment, whichever is higher. To correct this situation, we will advise the Claim Examiners on the correct method for calculation of Ohio interest according to Ohio Revised Code §3915.052. We will provide the annual short-term federal rates for comparison to the current Company rate and interest will be calculated at the higher of the two. A claim system edit will be added so that the Examiner will be alerted that this is an Ohio claim. The Company has already revised and implemented its procedures for paying interest on death claims.”
3. “The Company is in the process of reviewing all Ohio claims for the exam period in order to determine whether additional interest may be due to claimants. Approximately 1300 files will need to be reviewed. The Company would like to work with the Ohio Department of Insurance and discuss how best to handle the logistics of these refunds.”

Cancelled checks and drafts

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

Test: Do the cancelled 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 files to test for compliance with Ohio Administrative Code §3901-1-07.

- 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.

Findings:

| Population | Sample | Yes | No | Standard | Compliance |
|------------|--------|-----|----|----------|------------|
| 2870 | 50 | 50 | 0 | 93% | 100% |

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

Examiners Comments:

The Examiners found that one file had an additional upgrade of insurance after underwriting review. A solicitation was done by the Company and the policyholder accepted the additional coverage. The concern is that there is no documentation in the file indicating the new face amount of coverage nor that the policyholder was provided a new certificate reflecting the additional coverage.

Examiners’ Recommendations:

It is recommended that the file be documented to show that a certificate was sent to policyholder indicating the new face amount and additional premium charged.

Company Response:

Additional documentation was sent supporting the \$1000 upgrade and customer acceptance by phone.

ADDITIONAL EXAMINATION FINDINGS

The Examiners conducted a review of the Company’s complaint register. The Company received a total of twenty-four (24) complaints during the exam period. The review was conducted to assure register was being maintained adequately and to uncover any problem areas or negative trends in service. The exam findings went as follows:

- Fourteen (14) of the complaints involved billing issues. Policyholders felt like they were continuing to be billed for coverage they had requested to be cancelled.
- Two (2) of the complaints were due to the alleged misapplication of monies.
- The remaining eight (8) complaints were of a miscellaneous nature and had no repeat reasons for complaints.

Examiners' Recommendations:

1. It is recommended that the Company review and redefine their quality control practices and procedures for billing of accounts.
2. Periodic review of the complaint register would be recommended to prevent the billing problems from recurring.

Company's Response:

1. "The Consumer Affairs Manager produces periodic reports and conducts a periodic review of the complaint register in order to identify trends. If the analysis indicates a developing trend, the Consumer Affairs Manager will notify the appropriate employees to develop a plan to reduce the pattern of complaints."
2. "With respect to the complaints involving billing, the Company has taken several steps to reduce these complaints. The Company has reduced the opportunity for error by bringing processing for certain lockbox items in-house. Additionally, the Company reviews several lockbox reports daily to ensure payments are applied correctly."

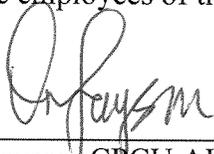
SUMMARY

The examination found that the Company used two applications that did not contain the required question concerning replacement of policies. A third application had been altered for use and was not properly filed with the Department.

In addition, 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> |
|---|----------------------------|------------------------|
| <u>Replacements</u> | | |
| Replacement Register Company Requirements | 90% | 75% |
| Review of All New Business: | 90% | 68% |
| <u>Paid Claims</u> | | |
| Claim Settlement | 90% | 88% |

This concludes the report of the Market Conduct Examination of the J.C. Penney Life Insurance Company. The examiners, Don Layson, Dan Atkisson, Bob Baker, Cheryl Davis, and Robert Stroup would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson, CPCU, AIM, AIS, API
Examiner in Charge



Date

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

IN THE MATTER OF : **CONSENT ORDER**
STONEBRIDGE LIFE INSURANCE :
COMPANY, F/K/A J.C. PENNEY 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 Stonebridge Life Insurance Company, f/k/a J.C. Penney 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 insurance business in the State of Ohio for the period of January 1, 2000, through December 31, 2001.

SECTION I

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

- A. Three (3) applications utilized by the Company failed to comport with Ohio law. Specifically, two of the applications did not include a replacement question required under Ohio Administrative Code (“O.A.C.”) 3901-6-05. A third application had not been filed with the Department as required under R.C. 3915.14.
- B. When the replacement question was listed on an application, the Company failed to ensure a response was given in violation of O.A.C. 3901-6-05(F), (G) and (H).
- C. The Company failed to comport with the “three business days” notification required by O.A.C. 3901-6-05(G) to existing insurers regarding replacement policies. This failure was due, in part, to the Company’s reliance on an incorrect date of receipt.
- D. The Company failed to use the correct interest rate in calculating interest on death claims files in violation of R.C. 3915.052. This resulted in the underpayment of interest on some claims.
- E. The Company provided a list of terminated agents during the examination period but could not provide documentation as to why the agents were terminated. R.C. 3905.012(B), effective October 1, 1998, requires insurance companies to notify the Department if an agent was terminated for cause. The Company has represented that no agents were terminated for cause during the examination period. The Company further represents that all terminations, during the relevant timeframe, were either at the request of the agent or the result of the Company terminating a relationship with the agent’s employer (generally, a telemarketer).

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 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 has revised its current life replacement policies, practices and procedures to ensure compliance with O.A.C. 3901-6-05. Specifically, the Company has ensured and will continue to ensure that its applications contain replacement questions, that the replacement questions are completely answered, that its applications are filed with the Department prior to use, and that, where applicable, written communication is sent to the existing insurer within three business days after receipt of an application advising of the replacement.
- E. The Company has instituted policies, procedures and controls to ensure that interest calculations on death claims comport with R.C. 3915.052.
- F. The Company has revised its current policies and procedures to ensure that documentation is maintained on agent termination activity to assist the Company in meeting the reporting requirements of R.C. 3905.012(B).
- G. The Company will pay an administrative fine in the amount of \$15,000 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 \$18,901.02 in administrative costs incurred by the Department to perform the Market Conduct examination. The Department will invoice the Company for said costs.
- I. The Company has agreed to recalculate the amount of interest due on all death claims files for the period January 1, 2000, to present to ensure compliance with R.C. 3901.052 and to correct any underpayments.

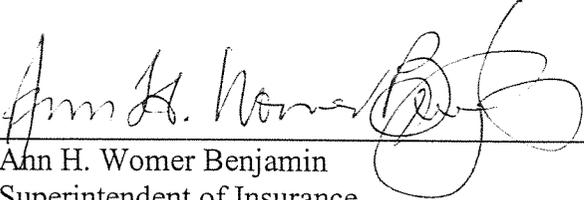
- J. The Company waives any and all causes of action, claims or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department, in their individual and official capacities, as a result of any acts or omissions on 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: 6-30-2004



Dan McGahey
Director of Operations
Stonebridge Life Insurance Company

Date: 8/10/04



Ann H. Womer Benjamin
Superintendent of Insurance