

OHIO DEPARTMENT OF INSURANCE

**A
TARGETED
MARKET CONDUCT EXAMINATION
OF
THE UNION CENTRAL LIFE INSURANCE COMPANY
NAIC #80837**

As Of

June 30, 2002





Bob Taft, Governor
Ann Womer Benjamin, Director

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

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

Director:

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

The Union Central Life Insurance Company
NAIC Company Code 80837

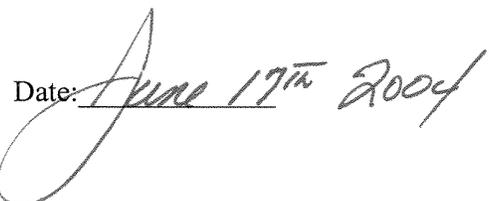
The examination was conducted at the Company's statutory home office located at:

1876 Waycross Road, Cincinnati, Ohio 45240

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 OSHIP Hotline: 1-800-686-1578

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SCOPE OF EXAMINATION

The examination of the Union Central Life Insurance Company (the Company) commenced on November 4, 2002 at the Company's home office in Cincinnati, Ohio. The examination was restricted to Company activities for individual ordinary life insurance business and individual annuity business from the period of January 1, 2000 through June 30, 2002. The examination is reported by test.

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

1. Company History
2. Company Operations
3. Certificate of Authority
4. Marketing
5. Life Insurance
 - a. Replacements
 - b. Illustrations
 - c. Variable Life
 - d. Terminations
 - e. Paid Claims
6. Annuities
 - a. Replacements
 - b. Single Premium Deferred Annuities
 - c. Terminations
 - d. Paid Claims

METHODOLOGY

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

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

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

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

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

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

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

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

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

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

SAMPLING

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

COMPANY HISTORY

The Union Central Life Insurance Company was founded in 1867 in Cincinnati, Ohio. The Union Central Life Insurance Company was the first domestic life insurance company licensed in the state of Ohio. The Company was named "Union" after the brave Civil War soldiers who fought to preserve the Union, and "Central" because of Cincinnati's strong financial presence in what was then the center of the nation.

COMPANY OPERATIONS

The Union Central Life Insurance Company is licensed in all fifty states, the District of Columbia and is among the ten largest mutual life insurance companies in the nation. The Company's statutory home office and main administrative office is located in Cincinnati, Ohio.

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

<i>2000 Life Insurance Pt. 1</i> <u>Line</u>	<u>Ohio Ordinary</u>	<u>Ohio Total</u>	<u>National Ordinary</u>	<u>National Total</u>
Life insurance	\$22,772,513	\$26,480,186	\$198,379,316	\$252,617,612
Annuity Considerations	960,436	4,982,295	10,449,303	17,189,087
Deposit-type funds	<u>16,811,297</u>	<u>1,398,490</u>	<u>186,117,401</u>	<u>517,104,720</u>
Totals (direct premiums and annuity considerations)	<u>\$40,544,246</u>	<u>\$92,860,971</u>	<u>\$394,946,019</u>	<u>\$786,911,419</u>
Totals (direct claims and benefits paid)	<u>\$33,312,456</u>	<u>\$105,948,797</u>	<u>\$309,376,676</u>	<u>\$778,224,731</u>
<i>2001 Life Insurance Pt. 1</i> <u>Line</u>	<u>Ohio Ordinary</u>	<u>Ohio Total</u>	<u>National Ordinary</u>	<u>National Total</u>
Life insurance	\$21,364,631	\$25,120,679	\$306,326,358	\$364,983,323
Annuity Considerations	17,423,204	79,989,550	180,184,017	528,826,499
Deposit-type contract funds	<u>509,741</u>	<u>509,741</u>	<u>14,912,896</u>	<u>14,912,896</u>
Totals (direct premiums and annuity considerations)	<u>\$39,297,576</u>	<u>\$106,559,615</u>	<u>\$501,423,271</u>	<u>\$909,830,112</u>
Totals (direct claims and benefits paid)	<u>\$28,838,114</u>	<u>\$88,579,578</u>	<u>\$284,849,667</u>	<u>\$669,095,438</u>

As of June 30, 2002, the officers of the Company were:

President & Chief Executive Officer:	John Hale Jacobs
Vice President & Treasurer:	Lisa Ann Mullen
Executive VP, Secretary & General Counsel:	David Francis Westerbeck
Senior VP & Corporate Actuary:	James Loyd Livingston Jr.

CERTIFICATE OF AUTHORITY

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

MARKETING

The Company provides needs based insurance and financial solutions to individuals and businesses through a diverse portfolio of financial products and services. The Company's products and services are comprised of:

- Core traditional, variable and specialty life products
- Individual disability income products
- Retirement plans and group annuities
- Group life and disability
- Investment products
- Payroll services
- Third party pension administrative services

The Company markets its products and services through three types distribution channels: General Agencies, Brokerage General Agencies and Strategic Alliances.

Core General Agency Channel

Over the past several years, the Company's strategy for the core General Agency Channel has evolved. Previously, the Company categorized core agencies as Marketing Centers (numbering 28), Production Centers (numbering 72) or Individual Producers (numbering 118). Today, the Company refers to all of these as the core General Agency system. These organizations have demonstrated expertise in the Company's three target markets: Upwardly mobile and affluent individuals, and small to medium sized businesses.

Brokerage General Agency Channel

Brokerage General agents (numbering 24), while generally product specific in focus, effectively differentiate themselves beyond product or price. They offer value added advanced underwriting expertise or other specialized service to the independent representative.

Strategic Alliance Channel

A Strategic Alliance is a distribution opportunity with an established and experienced partner that brings expertise, market access and financial advantages to both companies. Presently, Union Central has a relationship with Benmark in Atlanta, Georgia. Benmark brings expertise and market access to the bank owned life insurance arena.

A review of the Company's marketing materials was also conducted during this exam. This review was done to assure the Company was not engaging in any unfair or deceptive practices, in compliance with Ohio Revised Code §3901.21. The review of the marketing materials did not indicate any statement or representation that appeared to be untrue, deceptive or misleading.

LIFE INSURANCE

REPLACEMENTS

Reported Replacements

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

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

Methodology:

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company's replacement register for life business replaced in Ohio.
 2. Ordinary Individual Life new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
- A file was produced for review containing:
 1. A random sample of fifty (50) policies listed as replacements either on the replacement register or indicated in new business as a replacement.
- A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement laws tested.

Findings: Life Insurance Policy Replacements

Agent requirements for replacements:

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

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	306	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?	306	50	44	6	90%	88%
Did the agent present to the applicant a "Notice Regarding Replacement"?	306	50	46	4	90%	92%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	306	50	44	6	90%	88%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	306	50	46	4	90%	92%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	306	50	45	5	90%	90%
Did the agent submit a completed application to the replacing company?	306	50	44	6	90%	88%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number?	306	50	49	1	90%	98%

Examiners' Recommendations:

1. The Company needs to implement changes to their current guidelines regarding the agents statement as to whether a replacement is involved. These changes should include procedures to ensure the agent's statement as to whether a replacement is involved, is answered and the agent's statement is complete before processing the application.

2. The Company needs to implement changes to their current guidelines regarding presenting the applicant a “Notice Regarding Replacement” at the time of application. These changes should include procedures to ensure the applicant is presented a “Notice Regarding Replacement” at the time of application.
3. The Company shall supply the Examiners’ with copies of these procedures.

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

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

Methodology:

- The Examiners reviewed all written policies and procedures on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
 1. The Company’s replacement register for business replaced in Ohio.
 2. Ordinary Individual Life new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
- A file was produced for review containing:
 1. A random sample of fifty (50) policies listed either in the replacement register or indicated in new business as a replacement.
- A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules and regulations.
- A file was considered an exception if it did not comply with the company requirement section of the replacement laws tested.

Findings: Life Insurance Policy Replacements

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?	306	50	50	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	306	50	45	5	90%	90%
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?	306	50	49	1	90%	98%
Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?	306	50	48	2	90%	96%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	306	50	47	3	90%	94%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	306	50	50	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	306	50	13	37	90%	26%
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	306	50	14	36	90%	28%

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

Examiners' Recommendations:

1. The Company shall implement procedures to date stamp all applications when they are received.
2. The Company needs to implement changes to their current procedures of sending written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application. These changes should include utilizing the received date of the application, rather than the submit date of the application.
3. The Company needs to implement changes to their current guidelines regarding a policy or contract summary or ledger statement in the written communications to each existing insurer. These changes should include procedures to ensure that a policy, contract summary or ledger statement is included with the written communication to each existing insurer. Additionally, the Company should maintain copies of the written communication, including all attachments for three years.
4. The Company shall supply the Examiners with copies of these procedures.

Unreported Replacements

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

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

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written in Ohio during the examination period.
This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 2. Policies terminated in Ohio during the examination period.
- The Ordinary Individual Life new business file was compared, by insured social security number, to the policies terminated file. The Examiners were able to develop a report of new business policies that were not marked as replacements for which the insured also had another policy with the Company that terminated within 60 days of the new policy’s effective date. This resulted in a population of 56 (62 pairs) unique insured tax identification numbers. The Examiners reviewed the entire population to test whether the Company correctly identified policies as replacements when a replacement was involved.
- The Examiners reviewed all written policies and procedures on the Company’s replacement procedures and requirements.
- A file was considered an exception if the review of the policy file and application showed that a replacement was involved, as defined in Rule 3901-6-05 of the Ohio Administrative Code, and was not handled according to the law’s requirements or if the application did not confirm that a replacement was not involved.

Findings:

New business with other terminated policies:

Population	Sample	Yes	No	Standard	Compliance
56	56	44	12	90%	79%

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

Examiners' Recommendations:

1. The Company shall implement procedures to properly code replacements and conversions.
2. The Company shall maintain all replacement activity in the Replacement Register.
3. The Company shall develop and implement training material for their agency force on the proper processing of replacements and conversions.
5. The Company shall supply the Examiners' with copies of this material.

ILLUSTRATIONS

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

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

Methodology:

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

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

Findings:

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

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

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

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written during the examination period.
 2. A file of all the policy forms and plan codes used to write new Ordinary Individual Life business.
- The Company supplied copies of the Annual Life Insurance Illustration Certifications for the years covered in the examination period.
- A sample of Fifty (50) new Ordinary Individual Life policies indicating the use of illustrations, were pulled for review.
- Each policy file was reviewed to verify that all required information was contained in the illustration and that it was delivered according to the illustration law.

- A file was considered an exception if it did not comply with the portion of the illustration laws tested.

Findings:

Illustrations

Test	Population	Sample	Yes	No	Standard	Compliance
Did the file contain the required illustration?	1,643	50	46	4	90%	92%
Was the agent issued illustration or certification signed at the date of the application?	1,643	50	31	19	90%	62%
Was the illustration clearly labeled "Life Insurance Illustration", did it contain the name of the insurer, the name, age, and sex of the insured, the name and business address of the agent or other authorized representative, the underwriting/rating class, the generic policy name, product name and form number, the initial death benefit, when applicable the dividend option election or application of non-guaranteed elements and were the terms defined in language understood by the typical public?	1,643	50	44	6	90%	88%
Did the illustration not include prohibited misleading representations?	1,643	50	44	6	90%	88%
Did the basic illustration contain all parts required?	1,643	50	44	6	90%	88%
Did the Narrative Summary contain all parts required?	1,643	50	44	6	90%	88%
Did the Numeric Summary contain the required statements that were signed and dated by both the agent and the policy owner; include policy maturity and final expiration if premium was to change; contain the correct guaranteed death benefit and surrender value corresponding to the policy year for which the contract premium has been paid; and were non-guaranteed elements shown for the same duration as guaranteed elements?	1,643	50	40	10	90%	80%
Was the revised illustration sent with the policy marked as "Revised Illustration", signed and dated by the applicant or policy owner no later than the policy delivery date and did the Company receive a signed copy of the revised illustration?	1,643	50	31	19	90%	62%

The standard of compliance is 90%. The Company's performance was below the minimum standard in seven (7) tests.

Examiners' Recommendations:

1. The Company shall develop and implement procedures to have the agent, at the time of policy application, provide either a copy of the illustration that will be used in the sale of the life insurance policy or a certification that no illustration was used in the sale of the life insurance policy.
2. The Company shall develop and implement procedures to have the illustration or certification signed and dated by the applicant and the agent at the time of policy application.
3. The Company shall develop and implement procedures to ensure that any revisions to the illustration are clearly marked as "Revised Illustration", signed and dated by the applicant or policyholder no later than the policy delivery date.
4. The Company should institute agent training and awareness of the illustration requirements of Rule 3901-6-04 of the Ohio Administrative Code.
5. The Company shall submit copies of the new procedures to the Examiners'.

VARIABLE LIFE

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

Test: Did the Company process new business variable life insurance policies according to Rule 3901-6-08 (H) & (I) of the Ohio Administrative Code?

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life New Business written during the exam period

2. A file of all policy forms and plan codes used to write new Ordinary Individual Life business.
 - From the Ordinary Individual Life New Business data file, a population of Variable Life New Business was generated.
 - A sample of fifty (50) files were pulled for review.
 - A file was considered an exception if it did not comply with the portion of the Variable Life Insurance law tested.

Findings: Did the insurer deliver a prospectus coincident with or prior to the execution of the application and did the insurer obtain a signed acknowledgement from the applicant confirming receipt of the prospectus?

Population	Sample	Yes	No	Standard	Compliance
447	50	48	2	90%	96%

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

Findings: Did the application contain a prominent statement that the death benefit may be variable or fixed under specified conditions, did the application contain a prominent statement that cash values may increase or decrease in accordance with the experience of the separate account, and did the application contain questions that will enable the insurer to determine the suitability of variable life insurance for the applicant?

Population	Sample	Yes	No	Standard	Compliance
447	50	49	1	90%	98%

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

Company's Response:

“We accept the findings by the Insurance Department. We have reiterated to our new business and underwriting staff the need to have this question read and acknowledged by the owner/insured when filling out the application.

TERMINATIONS

New Business Terminations

Standard: Policy transactions are processed accurately and completely.

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

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all life insurance new business that occurred during the exam period.
- From the data file, an individual population of life insurance new business terminations was developed.
- A terminated file would be considered an exception if:
 1. The Company did not provide the specific reason(s) for the adverse underwriting decision or advise this information may be requested.
 2. The Company did not provide the individual with a summary of his rights regarding the adverse underwriting decision.

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

Population	Sample	Yes	No	Standard	Compliance
409	50	50	0	90%	100%

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

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

Population	Sample	Yes	No	Standard	Compliance
409	50	44	6	90%	88%

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

Examiners' Additional Comments:

Six (6) files lacked documentation regarding summary of rights.

Examiners' Recommendations:

1. The Company shall implement procedures to provide the individual with a summary of his rights regarding the adverse underwriting decision for all life insurance new business terminations and maintain documentation on the file.
2. The Company shall submit copies of the new procedures to the Examiners.

Company's Response:

"Union Central accepts the findings of 88% compliance from the Ohio Insurance Department. Union Central has reviewed its practices and has implemented procedures to verify all individuals receive a summary of rights regarding an adverse underwriting decision."

Terminations-Surrenders

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated life insurance policies according to the policy provisions and §3915.05, 3915.06, 3915.07, 3915.071, 3915.072 of the Ohio Revised Code?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all life insurance terminations that occurred during the exam period.
- From the data file, an individual population of surrendered life insurance policies was developed.
- A sample of fifty (50) surrendered policies was pulled for review.
- 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: Did the Company process terminated policies according to the policy provisions?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	50	0	90%	100%

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

Findings: Did the Company process terminated policies according to state law?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	42	8	90%	84%

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

Findings: Did the Company calculate the surrender value correctly?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	48	2	90%	96%

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

Examiners' Recommendations:

1. The Company needs to implement changes to their current procedures of processing universal life policy surrenders. In addition to sending conservation letters to each policyholder, the Company shall develop and implement procedures to ensure that each policyholder receives a termination letter reflecting surrender charges and any cash value of the terminated policies.
2. The Company shall submit copies of the new procedures to the Examiners.

Terminations-All Other

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated life insurance policies according to the policy provisions and §3915.05, 3915.06, 3915.07, 3915.071, 3915.072 of the Ohio Revised Code?

Methodology:

- The Examiners’ requested, and the Company supplied, a data file containing all life insurance terminations that occurred during the exam period.
- From the data file, a population of all terminations other than surrendered policies was developed.
- A sample of fifty (50) terminated policies was pulled for review.
- 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.
- Two files were removed and replaced due to both files being active and not terminated.

Findings: Did the Company process terminated policies according to the policy provisions?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	47	3	90%	94%

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

Findings: Did the Company process terminated policies according to state law?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	26	24	90%	52%

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

Findings: Did the Company calculate the surrender value correctly?

Population	Sample	Yes	No	Standard	Compliance
1,101	50	40	10	90%	80%

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

Examiners' Recommendations:

1. The Company needs to implement changes to their current procedures of sending letters to policyholders whose policy terminates due to negative cash value. The letters currently being utilized are conservation letters, not termination letters. To comply with state law, these letters need to supply a breakdown of the account value, including any surrender charges and penalty fees.
2. The Company needs to implement changes to their current procedures of processing lapsed policy terminations. In instances when a policy lapses and the surrender value is automatically calculated by the system, the Company shall develop and implement procedures to ensure that each policyholder receives a termination letter reflecting surrender charges and any cash value of the terminated policies.
3. The Company shall develop and implement the use of separate codes for conversions, replacements and terminations. Terminated policies need to be identified correctly and coded appropriately.
4. The Company needs to monitor new business transactions on existing customers to ensure that transactions are appropriate and to eliminate the potential for 'churning' by its agents.
5. The Company shall submit copies of the new procedures to the Examiners.

PAID CLAIMS

Standard: Claim files are adequately documented.

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

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners’ selected a random sampling of 50 life insurance paid death claim files to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code. The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if proper documentation could not be found within the claim file.
- One file was removed due to the applicant was a resident of Kentucky at the time of application.

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	49	1	93%	98%

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

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

Test: Upon receiving notification of claim, did the Company contact the claimant within fifteen (15) working days of receiving notice of the claim according to Ohio Administrative Code Section 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 life insurance paid death claim files to test for compliance with Rule 3901-1-07 (C) (5) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
 - A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured’s death.
 - One file was removed due to the applicant was a resident of Kentucky at the time of application.

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	49	1	93%	98%

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

Standard: Investigations are conducted in a timely manner.

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

Methodology:

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

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	49	1	93%	98%

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

Standard: Claims are settled in a timely manner.

Test: Was the claim settled not later than two months after the receipt of due proof of death according to Ohio Revised Code Section 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 life insurance paid death claim files to test for compliance with Ohio Revised Code §3915.05 (K).
 - The claim files were reviewed to verify dates in the claim process.

- A claim was considered an exception if the Company did not settle the claim within the required time frame.
- One file was removed due to the applicant was a resident of Kentucky at the time of application.

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	50	0	93%	100%

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

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

Test: Did the Company respond to all claim correspondence within 15 days according to Ohio Administrative Code Section 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 life insurance paid death claim files to test for compliance with Rule 3901-1-07 (C) (2) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
 - A claim was considered an exception if the file showed that the Company did not respond to subsequent, not the initial contact, claim correspondence within the required time frame.
 - One file was removed due to the applicant was a resident of Kentucky at the time of application.

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	48	2	93%	96%

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

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

Test: Were the claims correctly paid with interest from the date of the death for policies where both the insured was an Ohio resident at the time of death and the proceeds were paid in a lump sum according to Ohio Revised Code Section 3915.052 (A)?

Methodology:

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

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	46	6	93%	92%

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

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

Test: Do the canceled checks and drafts show that the claim was paid according to Company policies and beneficiary requests?

Methodology:

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

Findings:

Population	Sample	Yes	No	Standard	Compliance
551	50	50	0	93%	100%

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

Examiners' Comments:

The Company needs to review existing procedures for calculating interest payable on death claims to ensure consistency of operations. The Examiners' noted on a couple of occasions the Company miscalculated the appropriate days of payable interest, resulting in a compliance percentage less than the minimum standard for that specific test.

ANNUITIES

REPLACEMENTS

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

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

Methodology:

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

- The Company supplied the following data files:
 1. The Company's replacement register for business replaced in Ohio.
 2. Ordinary Individual Annuity new business written in Ohio during the examination period. This data file stated for each policy whether it was a replacement for another existing policy owned by the policyholder.
 3. Policies terminated in Ohio during the examination period.
 - All of the data files supplied were compared to each other, looking for possible unreported replacements.
 - A file was produced for review containing:
 1. A random sample of fifty (50) policies listed in the replacement register.
- A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement laws tested.
- One hundred twenty (120) additional annuity replacement files were pulled in order to complete a sample size of fifty (50). Annuities falling outside the regulation authority of Rule 3901-6-05 of the Ohio Administrative Code were removed from the sample.

Findings: Annuity Policy Replacements

Agent requirements for replacements:

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

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	458	50	49	1	90%	98%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	458	50	49	1	90%	98%
Did the agent present to the applicant a "Notice Regarding Replacement"?	458	50	34	16	90%	68%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	458	50	49	1	90%	98%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	458	50	34	16	90%	68%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	458	50	34	16	90%	68%
Did the agent submit a completed application to the replacing company?	458	50	49	1	90%	98%
Did the agent obtain a list of all existing annuities to be replaced and was the list properly identified by name of insurer, the insured and contract number?	458	50	49	1	90%	98%

Examiners' Recommendations:

1. In every situation where a replacement is involved, the agent shall present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement."
2. In every situation where a replacement is involved, the agent shall submit a copy of the "Notice Regarding Replacement" to the replacing insurer.

3. In particular, it is also recommended that the Company institute new policies and procedures to insure that both the agent and applicant sign the “Notice of Replacement” before any application is accepted.
4. The Company shall submit copies of the new procedures to the Examiners’.

Findings: Annuity Policy Replacements

Company requirements for replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed annuity would replace existing annuities?	458	50	49	1	90%	98%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	458	50	49	1	90%	98%
Did the Company require from the agent, with the application, a list of all the applicant's existing annuities to be replaced and was that list properly identified by the name of the insurer, insured and contract number?	458	50	49	1	90%	98%
Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?	458	50	34	16	90%	68%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	458	50	34	16	90%	68%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	458	50	50	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	458	50	42	8	90%	84%
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	458	50	44	6	90%	88%

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

Examiners' Recommendations:

1. The Company shall require from the agent, with the application, a "Notice Regarding Replacement".
2. The Company shall maintain evidence in the file of the "Notice Regarding Replacement", the policy or contract summary or any ledger statement used.
3. The Company shall send a written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application.
4. The Company shall include in the written communication to the existing insurer a policy or contract summary or ledger statement.

SINGLE PREMIUM DEFERRED ANNUITIES

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

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

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all Ohio annuity new business written during the examination period.
- From the data file, an individual population of Single Premium Deferred Annuity new business was developed.

- A file was considered an exception if the disclosure form was not signed by the applicant and the selling agent at the time an application was taken for a single premium deferred annuity.

Findings:

Population	Sample	Yes	No	Standard	Compliance
256	50	34	16	90%	68%

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

Examiners’ Recommendations:

1. The Company shall develop and implement procedures to have the disclosure form signed at the time of policy application.
2. The Company shall develop and implement procedures to have the disclosure form signed and dated by the applicant and the agent.
3. The Company should institute agent training and awareness of the disclosure requirements of Rule 3901-1-47 of the Ohio Administrative Code.
4. The Company shall supply the Examiners’ with copies of these procedures.

Company’s Response:

The Following action has been or will be taken promptly to insure that forms are received with any Ohio SPDA application.

- The requirement has been reviewed with client service representatives and will be documented and the importance stressed in any future training.
- The requirement has been added to our already existing quality assurance program and one hundred percent of all new business will be checked to verify the form is included.

- The disclosure form has been added to the Union Central Website and will print automatically with the application for the convenience (and as a reminder to) producers.
- An announcement will be mailed to all Ohio producers reviewing the requirement and the fact that no application will be accepted without the appropriately completed disclosure.

We will immediately cease the practice of requesting the form be signed upon delivery of the contract. The application will be returned and a new application and an appropriately completed and signed disclosure form will be required.

TERMINATIONS

Standard: Policy transactions are processed accurately and completely.

Test: Did the Company process terminated life insurance policies according to the policy provisions and §3915.073 of the Ohio Revised Code?

Methodology:

- The Examiners' requested, and the Company supplied, a data file containing all annuity contract terminations that occurred during the exam period.
- A random sample of fifty (50) files was selected for review.
- A terminated file would be considered an exception if the contract was not terminated according to company procedures.
- Eight (9) additional files were requested to replace these in the sample due to the files not being annuity contract terminations.

Findings: Did the Company process terminated annuities according to the contract provisions?

Population	Sample	Yes	No	Standard	Compliance
578	50	50	0	90%	100%

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

Findings: Did the Company process terminated annuities according to state law?

Population	Sample	Yes	No	Standard	Compliance
578	50	39	11	90%	78%

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

Findings: Did the Company calculate the surrender value correctly?

Population	Sample	Yes	No	Standard	Compliance
578	50	48	2	90%	96%

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

Examiners' Recommendations:

1. In instances where another insurer is replacing the existing annuity and the check for the account balance is sent directly to the new insurer, the Company shall implement procedures to notify the insured of the termination of the existing annuity.
This termination letter shall include a breakdown of the account value, including any surrender charges or penalty fees.
2. The Company shall submit copies of the new procedures to the Examiners.

PAID CLAIMS

Standard: Claim files are adequately documented.

Test: Were the claim files adequately documented from the first notice of loss to resolution of the claim to adequately justify the Company’s claims handling practices?

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all annuity claims files that had death claims paid on them during the exam period. The Examiners’ selected a sample with 50 unique claim numbers to test for compliance with Rule 3901-1-07 of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if proper documentation could not be found within the claim file.
- Two additional claim files were pulled to replace existing files due to settlements occurring prior to the exam period.

Findings:

Population	Sample	Yes	No	Standard	Compliance
120	50	46	4	93%	92%

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

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

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

Methodology:

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

Findings:

Population	Sample	Yes	No	Standard	Compliance
120	50	47	3	93%	94%

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

Standard: Investigations are conducted in a timely manner.

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

Methodology:

- The Examiners’ requested, and the Company supplied, a report of all annuity claims files that had death claims paid on them during the exam period. The Examiners’ selected a random

sample of 50 unique claim numbers to test for compliance with Rule 3901-1-07 (C) (4) of the Ohio Administrative Code.

- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not begin investigating the claim within the required time frame or could not document investigating the claim with the required time frame.
- Two additional claim files were pulled to replace existing files due to settlements occurring prior to the exam period.

Findings:

Population	Sample	Yes	No	Standard	Compliance
120	50	50	0	93%	100%

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

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

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

Methodology:

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

- Two additional claim files were pulled to replace existing files due to settlements occurring prior to the exam period.

Findings:

Population	Sample	Yes	No	Standard	Compliance
120	50	45	5	93%	90%

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

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

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

Methodology:

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

Findings:

Population	Sample	Yes	No	Standard	Compliance
120	50	49	1	93%	98%

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

Examiners' Recommendations:

1. The Company shall develop and implement procedures to adequately document claims files when their agent is assisting in the handling of claims.
2. The Company shall forward these procedures to the Examiners' for review.

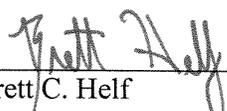
SUMMARY

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

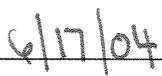
<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
LIFE INSURANCE		
Life Insurance Replacements – Agent Requirements		
Statement signed from agent, replacement involved	90%	88%
“Notice Regarding Replacement” signed as of application date	90%	88%
Completed application submitted by agent	90%	88%
Life Insurance Replacements – Company Requirements		
Sent a written communication to existing insurer within 3 days	90%	26%
Written communication included a contract summary	90%	28%
Life Insurance Unreported Replacements		
Company procedures for handling new business applications identified policies that replace existing policies	90%	79%

Illustrations		
Illustration/Certification signed as of application date	90%	62%
Illustration clearly labeled and containing all required information	90%	88%
Illustration did not include prohibited misleading representations	90%	88%
Basic Illustration contained all required parts	90%	88%
Narrative Summary contained all required information	90%	88%
Numeric Summary contained all required information	90%	80%
Revised illustration clearly marked "Revised Illustration"	90%	62%
Terminations-New Business		
Company provides individuals with summary of rights regarding adverse underwriting decision	90%	88%
Terminations-Surrenders		
Policies terminated according to state law	90%	84%
Terminations-All Others		
Policies terminated according to state law	90%	52%
Surrender value calculated correctly	90%	80%
Paid Claims		
Correct payment with interest	93%	92%
ANNUITIES		
Annuity Replacements – Agent Requirements		
"Notice Regarding Replacement" presented to applicant	90%	68%
"Notice Regarding Replacement" submitted to replacing company	90%	68%
"Notice Regarding Replacement" signed by applicant and agent	90%	68%
Annuity Replacements – Company Requirements		
Required from agent a copy of "Notice Regarding Replacement"	90%	68%
Maintained evidence of "Notice Regarding Replacement"	90%	68%
Sent a written communication to existing insurer within 3 days	90%	84%
Written communication included a contract summary	90%	88%
Single Premium Deferred Annuity		
Disclosure form signed by applicant and agent at time of application	90%	68%
Terminations		
Annuities terminated according to state law	90%	78%
Paid Claims		
Adequately documented claims files	93%	92%
Respond to claims correspondence within 15 days	93%	90%

This concludes the report of the Market Conduct Examination of the Union Central Life Insurance Company. The Examiners, Bob Baker, John Pollock, Cheryl Davis, and Brett Helf would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Brett C. Helf
Examiner in Charge



Date

The Union Central Life Insurance Company
NAIC No. 80837

Ohio Market Conduct Examination Response

January 1, 2000 through June 30, 2002

UnionCentral

Life Insurance Replacements – Agent requirements (Ohio Market Conduct Examination Report Page 9-10)

Department Report Recommendation, Item 1: The Company needs to implement changes to their current guidelines regarding the agent’s statement as to whether a replacement is involved. These changes should include procedures to ensure the agent’s statement as to whether a replacement is involved, is answered and the agent’s statement is complete before processing the application.

Company Response: We wish it noted that only the agent’s statement page of the application was incomplete. Even prior to completion of this examination, we had moved the “agent’s replacement question” from the agent’s statement page to one of the pages in the main portion of the application. This will reduce the risk of the question being overlooked by the agent. A memo has also been sent to the Agency Managers reminding them that the Agent’s Replacement question and the Agent’s Statement must be completed. In addition, the New Business procedure manual has been updated.

Department Report Recommendation, Item 2: The Company needs to implement changes to their current guidelines regarding presenting the applicant a “Notice Regarding Replacement” at the time of application. These changes should include procedures to ensure the applicant is presented a “Notice Regarding Replacement” at the time of application.

Company Response: We have changed the instruction page of our application to include reference to the Notice of Replacement. The application kit has also been changed so that the Notice of Replacement is automatically received as part of the application kit. In addition, the New Business procedure manual has been updated and this is also addressed in a memo to the field.

Department Report Recommendation, Item 3: The Company shall supply the Examiners with copies of these procedures.

Company Response: The Company supplied the Examiners with copies of these procedures.

Life Insurance Replacements – Company requirements (Ohio Market Conduct Examination Report Page 12)

Department Report Recommendation, Item 1: The Company shall implement procedures to date stamp all applications when they are received.

Company Response: We have implemented procedures to have all the applications stamped with a received date.

Department Report Recommendation, Item 2: The Company needs to implement changes to their current procedures of sending written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application. These changes should include utilizing the received date of the application, rather than the submit date of the application.

Company Response: We have notified the New Business Associates to change their procedures to send the replacement letter to the existing company within 3 days from the date the application was received date rather than using the submitted date.

Department Report Recommendation, Item 3: The Company needs to implement changes to their current guidelines regarding a policy or contract summary or ledger statement in the written communications to each existing insurer. These changes should include procedures to ensure that a policy, contract summary or ledger statement is included with the written communication to each existing insurer. Additionally, the Company should maintain copies of the written communication, including all attachments for three years.

Company Response: We would like it noted that our procedure is to include the illustration with every replacement letter sent to the existing insurer. Our procedure, however, did not include documenting the file that we did send the illustration. In response to the Department's comments, we have changed our process to document the file record that the illustration has been sent with the replacement letter.

Department Report Recommendation, Item 4: The Company shall supply the Examiners with copies of these procedures.

Company Response: The Company supplied the Examiners with copies of these procedures.

Unreported Replacements (Ohio Market Conduct Examination Report Page 14)

Department Report Recommendation, Item 1: The Company shall implement procedures to properly code replacements and conversions.

Company Response: We acknowledge that previously our process did not code term-to-term exchange/conversion in accordance with the Examiners' recommendations. These procedures were changed several years ago to have such conversions included as replacements and this is the documentation provided during the audit. We would appreciate recognition that even though these were not coded appropriately, a Notice of Replacement was completed. We have now changed our procedures to code term replacements according to the Examiners' recommendations.

Department Report Recommendation, Item 2: The Company shall maintain all replacement activity in the Replacement Register.

Company Response: The Register will include term-to-term replacements along with any other replacement policy. Due to the changes listed in response to Item 1, all term-to-term replacements are captured now on the internal replacement reports.

Department Report Recommendation, Item 3: The Company shall develop and implement training material for their agency force on the proper processing of replacements and conversions.

Company Response: The summary of replacement requirements is captured on our website for both the field and Home Office associates to review, along with the required forms for replacements and conversions. A memo has been sent to our field Managers advising them of both our replacement and illustration procedures. This memo also advises them to review Rule 3901-6-04 of the Ohio Administration Code located on our Website. Regarding proper processing of conversions, instructions to the agency force were also provided.

Department Report Recommendation, Item 4: The Company shall supply the Examiners with copies of this material.

Company Response: The Company supplied the Examiners with copies of this material.

Illustrations

(Ohio Market Conduct Examination Report Page 18)

Department Report Recommendation, Item 1: The Company shall develop and implement procedures to have the agent, at the time of policy application, provide either a copy of the illustration that will be used in the sale of the life insurance policy or a certification that no illustration was used in the sale of the life insurance policy.

Department Report Recommendation, Item 2: The Company shall develop and implement procedures to have the illustration or certification signed and dated by the applicant and the agent at the time of policy application.

Company Response to Items 1 and 2: To respond to these two items, the New Business workflow has been changed. Specifically in response to this item, the memo advised that the illustration must be signed no later than policy delivery if a Policy Certificate is used.

Department Report Recommendation, Item 3: The Company shall develop and implement procedures to ensure that any revisions to the illustration are clearly marked as “Revised Illustration,” signed and dated by the applicant or policyholder no later than the policy delivery date.

Company Response: We have updated our procedure manual to include identification as “Revised Illustration” as a requirement.

Department Report Recommendation, Item 4: The Company should institute agent training and awareness of the illustration requirements of Rule 3901-6-04 of the Ohio Administrative Code.

Department Report Recommendation, Item 5: The Company shall supply the Examiners with copies of these procedures.

Company Response to Items 4 and 5: A memo was sent to our Field Managers advising them of our changed procedures. This memo also advises them to review Rule 3901-6-04 of the Ohio Administration Code located on our Website. Reflective of the Company’s commitment to the illustration process articles appear in the Agent Newsletter, *FYI*, regarding regulations for sales illustrations.

**New Business Terminations
(Ohio Market Conduct Examination Report Page 21)**

Department Report Recommendation, Item 1: The Company shall implement procedures to provide the individual with a summary of his rights regarding the adverse underwriting decision for all life insurance new business terminations and maintain documentation on the file.

Department Report Recommendation, Item 2: The Company shall submit copies of the new procedures to the Examiners.

Company Response: Documentation of this underwriting procedure has been provided the Department. In addition, separate notification has been sent to the underwriters and support staff responsible for providing the individual with a summary of his rights in an adverse underwriting decision situation for all life insurance new business terminations and to maintain documentation on the file.

Terminations – Surrenders (Ohio Market Conduct Examination Report Page 23)

Department Report Recommendation, Item 1: The Company needs to implement changes to their current procedures of processing universal life policy surrenders. In addition to sending conservation letters to each policyholder, the Company shall develop and implement procedures to ensure that each policyholder receives a termination letter reflecting surrender charges and any cash value of the terminated policies.

Company Response: It should be noted that a full cash value quote is mailed with surrender checks for all policies issued prior to 1990 (most of these policies do not have a surrender charge). It should also be noted that for policies issued since 1990, the net cash value (after surrender charge) and any outstanding loan is automatically included on the surrender check stub by the system. No later than June 30, 2004, we will revise the system to automatically provide a cash value quote, including the surrender charge, with every surrender check mailed for policies issued since 1990. At the time the system processes the surrender, it will automatically generate the check and the cash value quote simultaneously. In the interim, until this activity is automated, we will manually type the surrender charge on the check stub.

Department Report Recommendation, Item 2: The Company shall submit copies of the new procedures to the Examiners.

Company Response: The Company has provided copies of the new procedures to the Examiners.

Terminations – All Others (Ohio Market Conduct Examination Report Page 25)

Department Report Recommendation, Item 1: The Company needs to implement changes to their current procedures of sending letters to policyholders whose policy terminates due to negative cash value. The letters currently being utilized are conservation letters, not termination letters. To comply with state law, these letters need to supply a breakdown of the account value, including any surrender charges and penalty fees.

Department Report Recommendation, Item 2: The Company needs to implement changes to their current procedures of processing lapsed policy terminations. In instances when a policy lapses and the surrender value is automatically calculated by the system, the Company shall develop and implement procedures to ensure that each policyholder receives a termination letter reflecting surrender charges and any cash value of the terminated policies.

Company Response to both Item (1) and (2): According to the Rule, both types of policies must provide in their annual report a “special notice” if the policy is not projected to remain in force until the end of the next reporting period. Our annual reports do include this information. In addition, we provide quarterly statements to variable universal life policyowners that also include this information. All four policies identified by the examiner lapsed/terminated prior to their first anniversary, and, therefore, did not receive an annual report. However, two of the policies reviewed were variable universal life policies, which received quarterly statements disclosing the required information.

In response to the Examiners’ comments, at a minimum for policies that lapse in their first year, no later than June 30, 2004 we will automatically provide a cash value quote with the lapse/termination letter when a policy lapses/terminates prior to its’ first policy anniversary. At the time the system processes the lapse/termination, it will generate the letter and the cash value quote simultaneously. Since the lapse processing is automatic within the system, there are no interim solutions.

In regard to the actual grace period the following notices are required pursuant to the Rule. Written notice to be sent to the policyowner’s last known address at least thirty days prior to termination of coverage. Both fixed and flexible premium policies shall provide for a grace period of at least one month after lapse. Our procedures include a thirty-day grace period and notice that the policy is in grace, and then a notice of lapse or termination at the end of the grace period.

Department Report Recommendation, Item 3: The Company shall develop and implement the use of separate codes for conversions, replacements and terminations. Terminated policies need to be identified correctly and coded appropriately.

Company Response: In regard to the Examiner’s recommendation, we will code terminated policies as cancelled, conversion or replacement by manually adding a notation to the system record when we process the termination.

Department Report Recommendation, Item 4: The Company needs to monitor new business transactions on existing customers to ensure that transactions are appropriate and to eliminate the potential for “churning” by its agents.

Company Response: In regard to the Examiner's recommendation, we do have procedures to review the appropriateness of requests to transfer funds from an existing policy to pay premiums on another policy (new or existing). The one instance cited by the examiner was simply an inadvertent mistake. Current procedures have been reiterated to our new business and service associates. In addition, we do have procedures whereby management monitors replacement activity, investigates questionable activity and escalates findings to the appropriate individuals, including, as necessary, the Company compliance officer. However, no later than June 30, 2004, we will improve our monitoring tools to include a report that will identify activity on existing policies that occurs within 13 months of the issuance of a new policy for the same individual. The activities to monitor will include loans, partial surrenders, surrenders, cancellations, and premium changes.

Department Report Recommendation, Item 5: The Company shall submit copies of the new procedures to the Examiners.

Company Response: The Company has provided copies of the new procedures to the Examiners.

Life Paid Claims
(Ohio Market Conduct Examination Report Page 32)

Department Report Examiners' Comments: The Company needs to review existing procedures for calculating interest payable on death claims to ensure consistency of operations. The Examiners noted on a couple of occasions the Company miscalculated the appropriate days of payable interest, resulting in a compliance percentage less than the minimum standard for that specific test.

Company Response: We have reviewed the existing procedures for calculating interest payable on death claims with our claims examiners.

Annuity Replacements – Agent Requirements (Ohio Market Conduct Examination Report Page 34)

Department Report Recommendation, Item 1: In every situation where a replacement is involved, the agent shall present to the applicant, not later than at the time of taking the application, a “Notice Regarding Replacement.”

Company Response: The following steps have been taken to ensure that this requirement is being met:

- Our website has been updated to include comprehensive, easy to use online access to replacement regulations and forms for all states. Access is available internally for Home Office reference and externally for agents and agency staff reference. This was actually completed prior to the audit, but after the audit period.
- Being organized in a regional manner, it was evident that additional training was necessary particularly in coverage situations when service representatives are required to cover other state allotments. This training has been completed and all annuity representatives have access to the online information reference/procedure information described above.
- Finally, replacement form review was not included in our quality control audit. It has been added to the procedure and 100% of all new business cases are reviewed for inclusion and accuracy of replacement requirements. If the forms were not completed or completed improperly the application will be returned to the agent.
- As documentation of internal procedures, pages specific to Replacement requirements taken from the procedures manual for this product have been provided to the Department.

Department Report Recommendation, Item 2: In every situation where a replacement is involved, the agent shall submit a copy of the “Notice Regarding Replacement” to the replacing insurer.

Department Report Recommendation, Item 3: In particular, it is also recommended that the Company institute new policies and procedures to insure that both the agent and applicant sign the “Notice of Replacement” before any application is accepted.

Company Response: If the forms are not completed or completed improperly, we have revised our procedures so that the application will be returned to the agent. In addition to being included in the new business procedures, a separate notification has been sent to our new business and quality control representatives.

Department Report Recommendation, Item 4: The Company shall submit copies of the new procedures to the Examiners.

Company Response: The Company has provided copies of the new procedures to the Examiners.

Annuity Replacements – Company Requirements (Ohio Market Conduct Examination Report Page 37)

Department Report Recommendation, Item 1: The Company shall require from the agent, with the application, a “Notice Regarding Replacement.”

Company Response: If the forms are not completed or completed improperly, we have revised our procedures so that the application will be returned to the agent. In addition, a separate notification has been sent to annuity representatives to return the application to the agent if receipt of the Replacement Notice requirements is not met.

Department Report Recommendation, Item 2: The Company shall maintain evidence in the file of the “Notice Regarding Replacement,” the policy or contract summary or any ledger statement used.

Company Response: Our procedures have been revised to reflect that documentation of the “Notice” and contract summary must be maintained. In addition, a separate notification has been sent to annuity representatives to maintain on the client file the signed Notice of Replacement, contract summary and communications with the other carrier.

Department Report Recommendation, Item 3: The Company shall send a written communication to each existing insurer advising of the replacement within three (3) working days of receipt of the application.

Department Report Recommendation, Item 4: The Company shall include in the written communication to the existing insurer a policy or contract summary or ledger statement.

Company Response: This procedure is documented and included with the response provided the Department regarding this section. In addition, we have notified our annuity representatives to change their procedures to send the replacement letter to the existing company within 3 days from the date the application and include a contract summary with the letter.

Single Premium Deferred Annuities (Ohio Market Conduct Examination Report Page 38)

Department Report Recommendation, Item 1: The Company shall develop and implement procedures to have the disclosure form signed at the time of policy application.

Department Report Recommendation, Item 2: The Company shall develop and implement procedures to have the disclosure form signed and dated by the applicant and the agent.

Company Response: In order to insure the signed disclosure form accompanies the application, the following actions have been taken:

- The online application system has been updated to automatically print the above-described form with every SPDA application. If the agent or a field support person accesses the application online for the state of Ohio, the form will automatically attach and print with the application.
- If a paper copy of the application form is ordered directly from the Home Office, the same system will be accessed to produce the application and will automatically attach and print the form for mailing to the requesting party.
- Client service representatives were advised verbally, followed up by an email message to add to their procedure documentation, that an application submitted without the appropriately completed and signed disclosure form (as of the date the application was signed) must be returned and new forms must be signed and resubmitted.
- The quality audit process of all new business policies has been modified to include verification of both the inclusion and proper completion of this form.
- Documentation of these internal procedures has been provided the Department.
- We have reminded our Ohio agents regarding this disclosure requirement.

If the form was not completed properly, signed and submitted with the SPDA application, the application will be rejected and any deposit submitted will be refunded.

Department Report Recommendation, Item 3: The Company should institute agent training and awareness of the disclosure requirements of Rule 3901-1-47 of the Ohio Administrative Code.

Company Response: We have reminded our Ohio agents regarding this disclosure requirement.

Department Report Recommendation, Item 4: The Company shall supply the Examiners with copies of these procedures.

Company Response: The Company has provided a copy of these procedures to the Examiners.

Terminations

(Ohio Market Conduct Examination Report Page 40)

Department Report Recommendation, Item 1: In instances where another insurer is replacing the existing annuity and the check for the account balance is sent directly to the new insurer, the Company shall implement procedures to notify the insured of the termination of the existing annuity. This termination letter shall include a breakdown of the account value, including any surrender charges or penalty fees.

Company Response: Although most of our systems currently automatically provide this information to clients, where it is not automatically provided we are in the process of upgrading our systems to automatically generate a letter to the client advising of the distribution, accumulation value and any charges or fees incurred as a result of the transaction.

Our Service representative procedures have been modified to manually produce this letter in the interim.

Department Report Recommendation, Item 2: The Company shall submit copies of the new procedures to the Examiners.

Company Response: The Company has provided copies of the new procedures to the Examiners.

**Annuity Paid Claims
(Ohio Market Conduct Examination Report Page 45)**

Department Report Recommendation, Item 1: The Company shall develop and implement procedures to adequately document claims files when their agent is assisting in the handling of claims.

Department Report Recommendation, Item 2: The Company shall forward these procedures to the Examiners for review.

Company Response: Instructions regarding documentation of claims files, when agents are assisting in the handling of claims, has been provided to Union Central claims associates.

6978

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

**IN THE MATTER OF THE UNION CENTRAL :
LIFE INSURANCE COMPANY : CONSENT ORDER
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 The Union Central 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 and individual annuity 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 accepted and processed some life and annuity replacement policy applications from its agents that were incomplete in violation of Ohio Administrative Code ("O.A.C.") 3901-6-05(E). By accepting and processing incomplete 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). Some new business applications were not properly identified as replacements.
- B. 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. In addition, the Company failed to include a policy or summary to existing insurers.
- C. The Company failed to comply with the life illustration requirements of O.A.C. 3901-6-04; to wit, agent-issued illustrations or certificates were not signed at the date of the application, illustrations were not labeled and/or were incomplete, and numeric summaries were incomplete.
- D. New business terminations did not include a summary of rights for adverse underwriting decisions as required in R.C. 3904.10.
- E. A review of the terminated policies indicated that the Company failed to process these terminations according to the requirements contained in R.C. Chapter 3915. In addition, the surrender value for terminated life insurance policies was not calculated correctly.

- F. In some instances, 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.
- G. Upon receipt of notification of a claim, the Company failed to adequately document claims files and/or respond to claims correspondence within the statutorily imposed timeframe outlined in O.A.C. 3901-1-07.
- H. Single premium deferred annuities did not comport with O.A.C. 3901-1-47 in that the disclosure form was not properly executed.

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 of 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 practices and procedures and has corrected the above-noted deficiencies. Further, the Company has instituted policies, procedures and controls to ensure future compliance.
- E. The Company will recalculate the amount of interest paid on all paid claims files for the period January 1, 2000 to present to ensure compliance with R.C. 3901.052. Any and all underpayment of interest on claims shall be promptly corrected. However, if the amount of underpaid interest totals one dollar (\$1.00) or less, the Company need not pay the affected beneficiaries. This information shall be submitted to the Department no later than thirty (30) days after the date of execution of this Consent Order.
- F. 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.

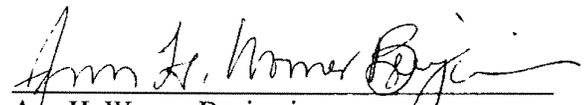
- G. The Company has read and understands this Consent Order. The Company further understands that it has the right to seek counsel of its choice and to have counsel review this Consent Order.
- H. This Consent Order has the full force and effect of an Order of the Superintendent. Failure to abide by 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.
- I. 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: April 30, 2004



John Hale Jacobs
President
The Union Central Life Insurance Company

Date: 5/18/04



Ann H. Womer Benjamin
Superintendent of Insurance