



**Department of
Insurance**

**TARGET MARKET CONDUCT EXAMINATION
OF
MOTORISTS LIFE INSURANCE COMPANY**

AS OF APRIL 30, 2009

**BY THE MARKET CONDUCT DIVISION OF
THE OHIO DEPARTMENT OF INSURANCE**



Department of
Insurance

Ted Strickland, Governor
Mary Jo Hudson, Director

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Market Conduct Examination Work Papers Not Subject to Discovery Pursuant to R.C. 3901.48(C)

Honorable Mary Jo Hudson
Director
Ohio Department of Insurance
50 West Town Street
Columbus, Ohio 43215

Director:

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

Motorists Life Insurance Company
NAIC Company Code 66311

The examiners focused on corrective actions agreed to following the 2004 market conduct examination of the Company.

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

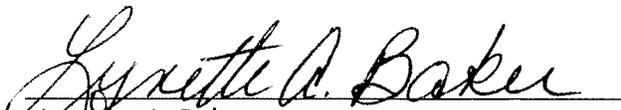
471 East Broad Street, Columbus, Ohio 43215,

and at the offices of the Ohio Department of Insurance located at:

50 West Town Street, Columbus, Ohio 43215.

A report of the examination is enclosed.

Respectfully submitted,


Lynette A. Baker
Chief, Market Conduct


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

TDD Line: (614) 644-3745

(Printed in house)

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
METHODOLOGY	1
COMPANY OPERATIONS.....	2
LIFE INSURANCE ILLUSTRATIONS.....	3
LIFE AND ANNUITY REPLACEMENTS.....	4
POLICYHOLDER SERVICES.....	6
SINGLE PREMIUM DEFERRED ANNUITIES	6
PAID CLAIMS	7
RESISTED CLAIMS	8
SUMMARY.....	9
EXECUTIVE SUMMARY	10
COMPANY RESPONSE.....	12

SCOPE OF EXAMINATION

The examination of Motorists Life Insurance Company ("Company") was conducted in conjunction with the 2009 statutory financial risk assessment. Unless otherwise noted, the examination covered the period from May 1, 2008 through April 30, 2009.

The market conduct examiners reviewed the Company's compliance programs, computer processes and procedures for claim, underwriting, and marketing. This was accomplished through interviews and reviews of internal audit reports and applicable manuals. The intent of the review was to determine where risks of non-compliance might be prevalent, as well as determine the Company's compliance to the market conduct examination conducted in 2004 ("2004 exam") and its corresponding consent order. For reference, a summary of the exceptions found in the 2004 exam appears in this report.

After observing a large number of resisted claims reported in the Company's Schedule F during the years 2004 through 2008, the examiners expanded the exam scope to include a review of resisted claims. The purpose of the review was to make certain the Company's claim investigation and file documentation supported the decisions to resist the death claims.

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

- A. Illustrations
- B. Replacements
- C. Policyholder Services
- D. Single Premium Deferred Annuities
- E. Paid Claims
- F. Resisted Claims

This report is a report by test.

METHODOLOGY

The examination was conducted through a review of the new business records and claim files for the Company's ordinary individual life and individual annuity products. The examiners also reviewed the Company's corresponding procedure manuals. As needed, the examiners also interviewed Company managers and submitted written requests for additional information.

Only files for Ohio insureds, policyholders or claimants were reviewed. Compliance tests, designed to measure the Company's level of compliance with Ohio's statutes and regulations, were applied to the files. All tests are described and the results displayed in this report.

All tests are expressed as a “yes/no” question. A “yes” response indicates compliance and a “no” response indicates a failure to comply. The results of each test applied to a sample are reported separately.

The examiners used the NAIC standards of:

7% error ratio on claim tests (93% compliance rate) and
10% error ratio on all other tests (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test. Except as otherwise noted, all tests were conducted on a random sample taken from a given population of new business or claims records.

In any instance where errors were noted, the Examiners described the apparent error and asked the Company for a written response. The Company responded that it:

- concurred with the examiners’ 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.

COMPANY OPERATIONS

Motorists Life Insurance Company was incorporated in 1965, and a certificate of authority was issued in 1967. The Company is a domestic, stock, life insurance company. Its stock is owned by Motorists Mutual and American Hardware Mutual in a 70-30 split, respectively.

While the Company operates in 16 states, the majority of its business is written in Ohio, Kentucky, Michigan and Pennsylvania. The products marketed in Ohio are term life, participating and non-participating whole life, universal life and a simplified issue final expense whole life policy.

The Company markets its simplified issue whole life product through a Managing General Agent (“MGA”) distribution system. This product is designed for the senior/final expense market, and accounted for 54% of the ordinary life new business premiums in 2008.

The Company’s remaining life products are distributed through various marketing channels, including agencies affiliated with financial institutions. Annuities were not aggressively marketed during the examination period.

As of December 31, 2008 the Company reported ordinary, direct written premiums of:

	<u>Ohio Premiums</u>	<u>Grand Total Premiums</u>
Life:	\$17,662,292	\$43,226,926

	<u>Ohio Premiums</u>	<u>Grand Total Premiums</u>
Annuity:	\$6,029,747	\$9,300,199

As of December 31, 2008 the Company officers were:

John J. Bishop	President
Michael L. Wiseman	Treasurer
Thomas C. Ogg	Secretary
Peter A. Hitchcock	Actuary

LIFE INSURANCE ILLUSTRATIONS

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

Test: Did the Company's new business practices conform to the requirements of Ohio Adm.Code 3901-6-04?

Findings:

Ahead of the on-site review of the new business applications, the Company reviewed the applications in the sample and identified instances of non-compliance. The Company submitted its findings in writing to the examiners.

Accordingly, at the start of the on-site exam the examiners reviewed the Company's methods to determine whether its compliance tests were adequate. Once the examiners confirmed that the Company's test methods for its compliance reviews reasonably assured compliance, the examiners did not repeat the tests conducted by the Company.

The results of the Company's self-audit were:

	Sample	Yes	No	Standard	Compliance
When used at time of sale, was the illustration signed as of application date and was it sent with application?	50	44	6	90%	88%
Clearly labeled and complete?	50	50	0	90%	100%
Numeric summary complete?	50	49	1	90%	98%

Examiners' comments:

The results show significant improvement in the Company's new business practices since the 2004 exam. In part, the improvement is the result of the Company's changes to its new business applications. In instances where an illustration is not used at the time of application, the required disclosure is part of the application.

Nevertheless, there is continued non-compliance with the requirement that any illustration used at the time of sale accompany the application submitted to the Company.

Of particular concern is that the Company reported that its internal audit division reviewed new business illustration practices twice since the 2004 exam and did not identify any instances of apparent non-compliance.

During the course of the exam, the company identified that tests used to evaluate financial corporate governance and compliance are different than market conduct corporate governance and compliance and, as such, should be handled differently. The Company has initiated new policies and procedures to conduct market conduct compliance audits through the Life Operations division.

Examiners' Recommendations

In addition to changes to its compliance audits, the Company reported that as of December 1, 2009, it implemented the following remedial actions:

1. The Company will develop and implement procedures that make certain illustrations used at the time of sale are signed by both the applicant and the agent no later than the date of the application.
2. The Company will develop and implement procedures that make certain that illustrations used at the time of sale are sent to the Company with the new business applications.
3. The Company will develop and use agent training materials that explain and emphasize the requirement to attach illustrations used at the time of sale to the new business application.

Accordingly, the examiners make no additional recommendations.

LIFE AND ANNUITY REPLACEMENTS

Internal Replacements

During the 2004 exam the examiners found that the Company had no procedure to identify internal replacements. In response to this policy and procedure review, the Company indicated that it checks for unidentified replacements using a mailing to new policyowners that asks them whether the contract is a replacement. This procedure is consistent with Ohio Adm.Code 3901-6-05(E)(1)(e).

General Methodology All Replacement Tests:

From the new business transactions recorded in the Company's replacement register, the examiners:

1. Identified the populations of internal and external replacements. Both samples contained life insurance and annuity applications.

2. Selected a random sample of 50 records from each population to test for compliance.

Notices Regarding Replacement

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

Test: For applications for life insurance or annuity contracts solicited after March 1, 2007, did the Company require a signed and complete Notice Regarding Replacement (“NRR”) accompany the application per Ohio Adm.Code 3901-6-05?

Methodology:

The Company identified in January 2008 that it had accepted NRR forms that did not conform to the text in Appendix A of Ohio Adm.Code 3901-6-05, effective March 1, 2007. Accordingly, the examiners’ test for compliance focused only on whether or not a signed, complete NRR accompanied the application.

Findings:

	Population	Sample	Yes	No	Standard	Compliance
Internal Replacements	227	50	46	4	90%	92%
External Replacements	1362	50	47	3	90%	94%

Examiners’ Comments:

The Company corrected the problem of incorrect NRR forms in February, 2008. For this reason, the examiners have no additional recommendations.

Of concern is that the Company’s internal audit team reviewed the Company’s replacement practices more than once since the 2004 exam, and failed to identify the use of incorrect forms.

List of Existing Insurance

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

Test: For applications for life insurance or annuity contracts solicited after March 1, 2007, did the Company require a list of all existing policies or contracts per Ohio Adm.Code 3901-6-05(D)(1) and (E)(3)?

Findings:

	Population	Sample	Yes	No	Standard	Compliance
Internal Replacements	227	50	46	4	90%	92%
External Replacements	1362	50	49	1	90%	98%

Timely Notification to Existing Insurer

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

Test: For applications solicited after March 1, 2007, did the Company make timely and complete notice of possible replacement to the existing insurer(s) as required by Ohio Adm.Code 3901-6-05(F)(1)(b)?

Findings:

	Population	Sample	Yes	No	Standard	Compliance
External Replacements	1362	50	49	1	90%	98%

Examiners' Comments:

The single error results from missing documentation of the notice sent to the existing insurer. Otherwise, it appears that since the 2004 exam the Company has created and implemented practices and procedures to make certain that timely, complete notice is sent to the existing insurer(s) when an application indicates a possible replacement.

POLICYHOLDER SERVICES

During the 2004 exam the examiners found that the Company had no procedures to notify consumers of adverse underwriting decisions resulting from reports of personal and privileged information as required by R.C. 3904.10(A). At the examiners' request, the Company supplied a copy of the procedures it implemented following the 2004 exam.

The examiners found that the Company's procedures provide for notification when an application is declined based on reports of personal and privileged information per R.C. 3904.10(A). The examiners found that the new business adverse notice practices appeared to be consistent with the procedures reported and could be relied upon to give consumers notice of adverse underwriting decisions in a manner that conformed with the examiners' recommendations from the 2004 exam.

SINGLE PREMIUM DEFERRED ANNUITIES

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

Test 1: Do the Company's Single Premium Deferred Annuity (SPDA) new business practices conform to the requirements of Ohio Adm.Code 3901-1-47(C)?

Test 1a: Was the SPDA disclosure form presented to the applicant no later than the date of the application? AND

Test 1b: Was the disclosure completed in its entirety? AND

Test 1c: Did both the applicant and the selling agent sign the disclosure form no later than the date of the application? AND

Test 1d: Did the signed disclosure form accompany the annuity application submission?

Methodology:

A random sample of 50 applications was selected from the population of 150 annuity new business applications recorded on the Company’s Ohio replacement register.

One application was removed from the sample. The application was signed in Pennsylvania, and so was outside the scope of the compliance examination. This record was not replaced since replacing it would not change the findings of non-compliance.

Findings

	Population	Sample	Tested	Yes	No	Standard	Compliance
SPDA applications	150	50	49	27	22	90%	55%

Examiners’ comments:

The results from this exam are lower than the 62% rate of compliance found in the 2004 exam’s compliance tests.

Examiners’ recommendations:

1. The Company will develop and implement procedures to make certain that SPDA disclosure forms are used at the time of sale, that the forms are correct and complete, and are sent to the Company at the same time as the new business application.
2. The Company will develop and use agent training materials that explain and emphasize the requirement to present SPDA disclosure forms at the time of sale, and that signed, complete disclosure forms are sent to the Company at the same time as the new business application.

PAID CLAIMS

In the course of the 2004 exam, the examiners found that the Company’s life insurance settlements failed to calculate the correct number of days’ interest pursuant to R.C. 3915.052. Following the 2004 exam, the Company changed its methodology and its internal auditors tested the accuracy of life insurance death benefit settlements in 2005. In the 2005 internal audit the Company’s auditor William E. Campbell reported that:

1. *interest is paid from the date of death to the date “the check is requested” and*
2. *this practice conforms with the [Ohio] Department’s regulations.*

The examiners reviewed the Company's current death claim settlement procedures, and at the examiners' request, the Company supplied a report of Ohio death benefit claims paid between July 1, 2009 through September 30, 2009.

The examiners reviewed the settlements for a selection of 25 unique life insurance claims. This selection was not a random sample. These claims were selected to encompass various types of contracts, both large and small death benefits, and different types of settlement options to confirm that the claim payment procedures the Company described were being applied and resulted in the accurate calculation of interest on death benefits paid. Every claim payment reviewed was complete and correct.

The examiners found that the claim settlement practices appeared to be consistent with the procedures reported and could be relied upon to accurately calculate interest on death benefit payments pursuant to R.C. 3915.052.

RESISTED CLAIMS

Methodology

The examiners identified the population of Ohio resisted claims reported in the Company's annual financial statements from 2004 through 2008.

A random sample of 50 claims was selected from the population of 97 to test whether the Company:

1. commenced investigations in a timely manner; and
2. conducted a reasonable investigation that supported the Company's decision to resist the death benefit claim.

Standard: Investigations are conducted in a timely manner.

Test: Was the Company's claims investigation timely and adequate per Ohio Adm.Code 3901-1-07(C)(4)?

Findings:

	Population	Sample	Yes	No	Standard	Compliance
Resisted Claims	97	50	50	0	93%	100%

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

Test: Was the Company's claims investigation appropriate and did the results of the investigation support the Company's settlement decision per Ohio Adm.Code 3901-1-07(C)(1)?

Findings:

	Population	Sample	Yes	No	Standard	Compliance
Resisted Claims	97	50	50	0	93%	100%

SUMMARY

There were two findings of non-compliance in the 2004 exam which were also non-compliant in this examination.

The Company agreed in the consent order signed on June 23, 2004, that it would *"continue to initiate policies, processes and controls to ensure compliance with the:*

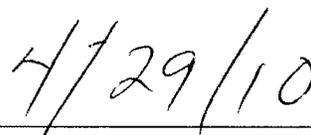
1. *"illustrations requirements of O.A.C. 3901-6-04"* and
2. *"single premium annuity disclosure requirements found in O.A.C. 3901-1-47."*

The findings of this exam would indicate that the Company is not in compliance with the 2004 consent order.

This concludes the report of the market conduct examination of Motorists Life Insurance Company. The examiners, Ben Hauck and Molly Porto would like to acknowledge the assistance and cooperation of the Company's employees and management.



Molly Porto
Examiner in Charge



Date

EXECUTIVE SUMMARY

Test	Standard	2004 Result	2009 Result
Illustrations			
When used at time of sale, was the illustration signed as of application date and was it sent with application?	90%	49%	88%
Illustration clearly labeled and complete?	90%	73%	100%
Numeric summary complete?	90%	86%	98%
Internal Replacements			
Procedures to identify internal replacements.	not applicable	no procedures	Practices consistent with Ohio Adm.Code 3901-6-05(E)(1)(e)
Notice Regarding Replacement signed no later than the date of the application	90%	78%	92%
Notice Regarding Replacement signed by agent and applicant.	90%	0%	92%
Application included list of all existing policies or annuity contracts.	90%	78%	92%
External Replacements			
Notice Regarding Replacement signed no later than the date of the application	90%	78%	94%
Notice Regarding Replacement signed by agent and applicant .	90%	0%	94%
Application included list of all existing policies or annuity contracts.	90%	78%	98%
Timely and complete notice sent to existing insurer. [2004 results life insurance]	90%	86%	98%
Timely and complete notice sent to existing insurer. [2004 results annuity contracts]	90%	12%	98%
Policyholder Services			
Company provides applicant with notice, including specific reason(s), for adverse underwriting decision(s).	90%	62%	Practices consistent with RC 3904.01(A)
Company provides applicants with summary of rights regarding adverse underwriting decision(s)	90%	58%	Practices consistent with RC 3904.01(A)

Test	Standard	2004 Result	2009 Result
Single Premium Deferred Annuities			
Disclosure form complete, signed by both agent and applicant and accompanied application.	90%	62%	55%
Paid Claims			
Company calculates the correct death benefit amount, including interest.	93%	78%	100%
Resisted Claims			
Company claim investigations are timely	93%	not tested	100%
Claim investigations are appropriate and support claim settlement decision.	93%	not tested	100%

COMPANY RESPONSE



Life made easy

471 East Broad Street, Columbus, Ohio 43215

Toll Free: (888) 876-6542
Fax: (800) 876-8365

Local: (614) 225-8358
Local Fax: (614) 225-8365

March 3, 2010

Daniel J. Atkisson
Insurance Compliance Supervisor
Ohio Department of Insurance
50 West Town Street
Third Floor- Suite 300
Columbus, Ohio 43215

Re: Motorists Life Insurance Company
Market Conduct Exam Report

Dear Dan,

We appreciate the Department's time to discuss matters relevant to the Market Conduct exam.

We have no objections with the areas you have identified where improvement is needed. Motorists Life Insurance Company places great emphasis on compliance with the Department's rules and regulations, and will take the necessary steps to correct those areas noted as deficient.

If you need any further information, please feel free to contact me directly at 614-225-8279, or e-mail mike.agan@motoristsgroup.com, or fax 1-888-274-7124.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael Agan'.

Michael Agan, FSA, MAAA
Vice President
Life Operations

cc: Charles A. Wickert
Senior Vice President
Life Operations & Corporate Services

STATE OF OHIO
DEPARTMENT OF INSURANCE

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

The Superintendent of the Ohio Department of Insurance (hereinafter the "Superintendent") is responsible for administering Ohio insurance laws pursuant to Ohio Revised Code (hereinafter "ORC") Section 3901.011. Motorists Life Insurance Company (hereinafter 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. The Superintendent conducted an examination of the Company's ordinary life insurance and ordinary annuity contracts marketing, underwriting and claims handling practices from May 1, 2008, through April 30, 2009, to ensure compliance with Ohio law.

SECTION I

As a result of the examination, the Superintendent alleges deficiencies in the following areas:

- A) The Company failed to comply with the illustration requirements of Ohio Administrative Code (hereinafter "OAC") Section 3901-6-04 that agent-issued illustrations be signed as of the date of the application. Some illustrations were incomplete, and/or were not submitted to the Company at the same time as the application.
- B) The Company failed to ensure that its selling agents complied with the single premium deferred annuity disclosure requirements contained in OAC Section 3901-1-47.

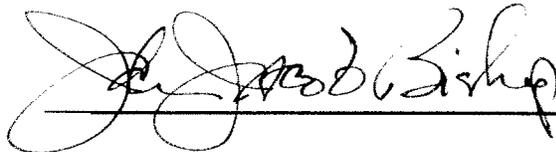
SECTION II

It is hereby agreed and consented to by the parties that:

- A) The Company will develop and implement policies, procedures and controls to ensure that illustrations will be completed fully, signed as of the application date, and in full compliance with the illustration requirements of OAC Section 3901-6-04.
- B) The Company will perform audits of illustrations submitted from June 1, 2010, through October 31, 2010, and report the results of these audits to the Department no later than December 15, 2010. The audits will test for compliance with OAC Section 3901-6-04.
- C) The Company will develop and implement policies, procedures and controls to ensure that the single premium deferred annuity disclosure form is completed at the time of the application as required by OAC Section 3901-1-47.

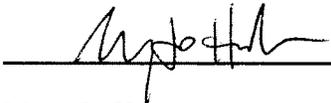
- D) The Company will perform audits of disclosures submitted with single premium deferred annuities from June 1, 2010, through October 31, 2010, and report the results of these audits to the Department no later than December 15, 2010.
- E) The Company will maintain on a continuing basis regular audits of illustrations and single premium deferred annuity disclosures as part of its compliance program.
- F) The Company enters into this agreement to resolve the allegations stated in section I of this agreement.
- G) The Company hereby waives its rights to a public hearing and appeal of this order pursuant to ORC Chapter 119.
- H) The Company waives any and all causes of action, claim or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Ohio Department of Insurance, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms.
- I) This Consent Order is a public record and shall be entered into the Journal of the Ohio Department of Insurance.

Date: April 21, 2010



John Jacob Bishop
President
Motorists Life Insurance Company

Date: April 28, 2010



Mary Jo Hudson
Superintendent
Ohio Department of Insurance