

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**AMERICAN FAMILY LIFE ASSURANCE COMPANY
OF COLUMBUS (AFLAC)**

Columbus, Georgia

**AS OF
April 17, 2003**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 10, 2003

**AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS
(AFLAC)**

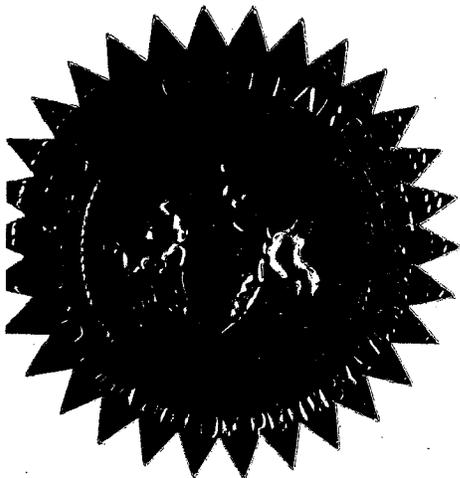
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
AMERICAN FAMILY LIFE : Sections 606 and 903 of the
ASSURANCE COMPANY OF : Insurance Department Act, Act
COLUMBUS (AFLAC) : of May 17, 1921, P.L. 789, No. 285
1932 Wynnton Road : (40 P.S. §§ 236 and 323.3)
Columbus, GA 31999 : :
: Sections 354, 404-A, 406-A, 411B and
: 412 of the Insurance Company Law,
: Act of May 17, 1921, P.L. 682, No. 284
: (40 P.S. §§ 477b, 625-4, 625-6 and
: 511 and 512)
: :
: Title 31, Pennsylvania Code, Sections
: 37.61, 81.6(a)(1), 81.6(c), 83.3(a),
: 83.4b, 83.55(a), 83.55b, 88.102,
: 88.181, 89a.113(a), 89a.113(c),
: 89a.127, 146.3, 146.5, 146.6 and 146.7
: :
Respondent. : Docket No. MC03-05-003

CONSENT ORDER

AND NOW, this 10th day of June, 2003, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of
Pennsylvania pursuant to the statutes cited above and in disposition of the matter
captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. §101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

- (a) Respondent is American Family Life Assurance Company of Columbus (AFLAC), and maintains its address at 1932 Wynnton Road, Columbus, Georgia 31999.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2001 through December 31, 2001.
- (c) On April 18, 2003, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on May 16, 2003.

(e) The Examination Report notes violations of the following:

(i) Section 606 of the Insurance Department Act (40 P.S. § 236), which requires all entities to report to the Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations;

(ii) Section 903 of the Insurance Department Act (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

(iii) Section 354 of the Insurance Company Law (40 P.S. § 477b), which prohibits any insurance company, association or exchange doing business in this Commonwealth, to issue, sell or dispose of any policy, contract or certificate covering life, health, accident, personal liability, fire, marine, title

and all forms of casualty insurance, and any other contracts of insurance, or use applications, riders or endorsements thereto, until the forms have been submitted to and formally approved by the Insurance Commissioner;

(iv) Section 404-A of the Insurance Company Law (40 P.S. § 625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

(v) Section 406-A of the Insurance Company Law (40 P.S. § 625-6), which prohibits alteration of any written application for a life insurance policy or annuity made by any person other than the applicant without the applicant's written consent;

- (vi) Section 411B of the Insurance Company Law (40 P.S. § 511), which states that life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than 180 days after the death of the insured, and the death benefits are not paid within 30 days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid;
- (vii) Title 31, Pennsylvania Code, Section 37.61, regarding appointments and terminations by entity, which states that an entity may terminate an agents appointment, and termination activity by an entity shall be reported to the Department on a monthly basis. The report shall be in a format approved by the Department, and shall be filed within 30 days of the end of the month being reported;
- (viii) Title 31, Pennsylvania Code, Section 81.6(a)(1), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall require with or as part of a completed application for life insurance or annuity, a statement

signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction;

- (ix) Title 31, Pennsylvania Code, Section 81.6(c), which states the replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities;
- (x) Title 31, Pennsylvania Code, Section 83.3, (a), Required written disclosure, which requires a life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;
- (xi) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its files for at least three years, or until the conclusion of the next succeeding regular examination by the Insurance Department, whichever is later. The absence of the agent's certification from the files of the insurer shall constitute *prima facie* evidence that no disclosure statement was provided;
- (xii) Title 31, Pennsylvania Code, Section 83.55(a), which requires the Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If

requested earlier, the index disclosure shall be provided as soon as reasonably possible;

(xiii) Title 31, Pennsylvania Code, Section 83.55b, which requires the insurer to maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least three years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute *prima facie* evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;

(xiv) Title 31, Pennsylvania Code, Section 88.102, requires upon determining that a sale will involve replacement, an insurer other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in Section 88.103 of this title relating to notice form. One copy of such notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer;

(xv) Title 31, Pennsylvania Code, Section 88.181, which prohibits a policy from being delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time of application;

(xvi) Title 31, Pennsylvania Code, Section 89.911(a), replaced March 16, 2002 by Section 89a.113(a), which requires application forms, solicited by an agent or solicited by mail, shall include the following questions to elicit information as to whether, as of the date of application, the applicant has another accident and health or long term care policy or certificate in force or whether a long term car policy or certificate is intended to replace another accident and health or long term care policy or certificate presently in force;

(xvii) Title 31, Pennsylvania Code, Section 89.911(c), replaced March 16, 2002 by Section 89a.113(c), which requires determining that a sale will involve replacement, an insurer, other than an insurer using direct response solicitation methods or its agents, shall furnish the applicant, prior to issuance or delivery of the individual long term care policy, a notice regarding replacement of sickness and accident or long term care coverage. A copy of the notice shall be retained by the applicant and an additional copy signed by the applicant shall be retained by the insurer;

(xviii) Title 31, Pennsylvania Code, Section 89.920, replaced March 16, 2002 by Section 89a.127, which requires long term care insurance shoppers guide in the format developed by the NAIC, or a guide developed or approved by the Commissioner, shall be provided to prospective applicants for a long term care insurance policy or certificate:

- (1) In the case of agent solicitations, an agent shall deliver the shoppers guide prior to the presentation of an application or enrollment form.
- (2) In the case of direct response solicitations, the shoppers guide shall be provided along with an application or enrollment form;
- (xix) Title 31, Pennsylvania Code, Chapter 146.3, which requires claim files contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;
- (xx) Title 31, Pennsylvania Code, Chapter 146.5(a), which requires upon receiving notification of a claim, shall within ten working days acknowledge receipt of such notice unless payment is made within such a period of time;
- (xxi) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (xxii) Title 31, Pennsylvania Code, Section 146.7, which requires that within 15 working days after receipt by the insurer of properly executed proofs of loss,

the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

- (b) Respondent's violations of Section 606 of the Insurance Department Act (40 P.S. § 236) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):
 - (i) suspension, revocation or refusal to issue the certificate of qualification or license;

 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;

 - (iii) issue an order to cease and desist;

(iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Section 354 of The Insurance Company Law (40 P.S. § 477b) are punishable by the following, under Section 354 of The Insurance Company Law:

(i) suspension or revocation of the license(s) of Respondent;

(ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;

(iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.

(d) Respondent's violations of Sections 404-A, 406-A, 411B and 412 of the Insurance Company Law (40 P.S. §§ 625-4, 625-6, 511 and 512) are punishable by the following under 40 P.S. § 625-10: Upon determination

by hearing that this act has been violated, the commissioner may pursue one or more of the following courses of action:

(i) issue a cease and desist order, suspend, revoke or refuse to issue the certificate of qualification or license of the offending party;

(ii) impose a penalty of not more than five thousand dollars (\$5,000) for each violation.

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 81.6(a)(1) and 81.6(c) is punishable under Title 31, Pennsylvania Code, Section 81.8: Failure to comply with these chapters, after a hearing, may subject the company or its officers to penalties provided in Section 639 of the Insurance Department Act (40 P.S. § 279), as referenced above in paragraph 4(b).

(f) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3(a) and 83.4b, are punishable under Title 31, Pennsylvania Code, 83.6: Failure to comply with these chapters, after an administrative hearing as provided by statute, may subject an insurance company or its officers to penalties provided in Section 350 of The Insurance Company Law (40 P.S. § 475). Failure to comply shall be considered a separate and distinct violation and may not prevent or be considered in lieu of a proceeding: Section 350 of the Insurance Company Law (40 P.S. § 475) provides that upon satisfactory evidence of a violation of this act, the Commissioner may take one or more of the following courses of action:

(i) revoke the certificate of authority of such offending company;

(ii) refuse for a period of not to exceed one year, to issue a new license to such offending company; and

(iii) impose a penalty of not more than one thousand dollars for each act in violation of the act.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.55 and 83.55b, are punishable under Title 31, Pennsylvania Code, 83.57: Failure to insure adequate disclosure of basic information about the product being sold, after a hearing as provided by statute, may subject an insurance company to penalties provided in Section 350 of The Insurance Company Law (40 P.S. § 475), as referenced above in paragraph 4(f).

(h) Respondent's violations of Title 31, Pennsylvania Code, Sections 89a.113(a), 89a.113(c) and 89a.127, are punishable under Title 31, Pennsylvania Code, 89a.128: In addition to other penalties provided by the laws of the Commonwealth, an insurer found to have violated requirements relating to the regulations of long-term care insurance or marketing of long-term care insurance shall be subject to the penalties under Section 1114 of the Act (40 P.S. § 991.1114), a civil penalty of up to three times the amount of any commissions paid for each policy involved in the violation, or ten thousand dollars (\$10,000), whichever is greater.

- (i) In addition to the above penalty provisions, failure to make the disclosures outlined in Chapters 81 and 83 may be considered a violation of the Unfair Insurance Practices Act (40 P.S. § § 1171.1 – 1171.15).

- (j) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):
 - (i) cease and desist from engaging in the prohibited activity;

 - (ii) suspension or revocation of the license(s) of Respondent.

- (k) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 - 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
 - (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent has taken corrective action and agrees to cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall pay a penalty of Thirty Thousand Dollars (\$30,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(d) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

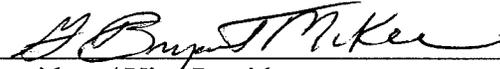
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: AMERICAN FAMILY LIFE ASSURANCE
COMPANY OF COLUMBUS (AFLAC),
Respondent



~~President~~ / Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. KOHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

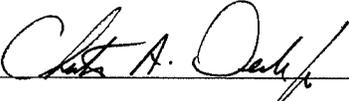
The Market Conduct Examination was conducted on American Family Life Assurance Company of Columbus (AFLAC), hereafter referred to as "Company," at the Company's offices located in Columbus, Georgia, June 10, 2002, through August 9, 2002. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

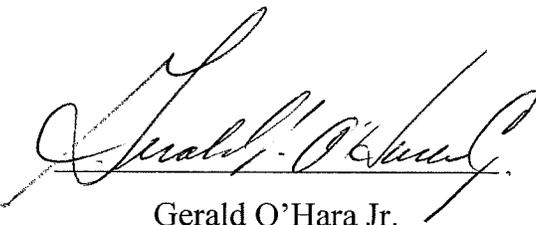
The undersigned participated in the Examination and in the preparation of this Report.



Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief



Dan Stemcosky, AIE, FLMI
Market Conduct Examiner



Gerald O'Hara Jr.
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. § 323.3 and § 323.4) of the Insurance Department Act and covered the experience period of January 1, 2001, through December 31, 2001, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Agent/Broker Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

American Family Life Assurance Company of Columbus (AFLAC) was incorporated in the State of Nebraska on November 17, 1955. The Company's statutory home office and main administrative office is located in Columbus, Georgia. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on April 15, 1970. The Company is authorized to do business in all 50 states, the District of Columbia, Hong Kong, Japan, Taiwan, Puerto Rico, Guam, American Samoa, the Mariana Islands, and the U.S. Virgin Islands.

AFLAC is a wholly owned subsidiary of AFLAC, Inc., a widely held, publicly traded stock company. The Company is a leader in the United States sales by payroll deduction to employer groups of fewer than 1,000 lives. The Company's product portfolio includes a variety of non-participating plans including: accident, health and disability, critical illness expense, short-term disability, long-term disability, hospital indemnity and ordinary life.

As of their 2001 annual statement for Pennsylvania, AFLAC reported direct premium for ordinary life insurance in the amount of \$1,645,067; direct premium for group life insurance in the amount of \$81,293; and direct earned premium for accident and health in the amount of \$70,499,035.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company provided 250 advertising and marketing materials including: Books, Binders, Presentations, Posters, Flyers, Brochures, Door Hangers, Support Documentation, Agent and Agency Support Material, Advertising and Agent/Agency Proofs including Web Page Documentation. All advertising was reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapters 51 and 89, and Act 205, Unfair Insurance Practices Act (40 P.S. §1171). No violations were noted.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements, and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). The following violation was noted:

1 Violation - Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b)

It shall be unlawful for any insurance company, doing business in the Commonwealth of Pennsylvania, to issue, sell, or dispose of any policy, contract, or certificate, covering life insurance, or use application, riders, or endorsements, in connection therewith, until the forms have been submitted to, and formally approved by, the Insurance Commissioner.

The form (A60001-OH) utilized in an application for direct life insurance was not a filed and approved form.

VI. AGENT/BROKER LICENSING

The Company was requested to provide a list of all agents/brokers active and terminated during the experience period. Section 606 (40 P.S. §236) of the Insurance Department Act requires all entities to report all appointments and terminations to the Insurance Department. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. A random sampling of the Company's list of agents and those agents identified in the underwriting files during the examination were compared to Insurance Department licensing records to verify compliance with Section 605 and Section 606 of the Insurance Department Act.

The Company provided lists of 2,258 agents active during the experience period and 1,011 agents terminated during the experience period. A random sample of 200 agents, both active and terminated, was compared to Departmental records of agents and brokers to verify appointments, terminations and licensing. In addition, agents identified as producers on applications reviewed in the policy issued sections of the examination were reviewed for proper licensure and appointment. The following violations were noted:

1 Violation – Insurance Department Act, Section 606 (40 P.S. §236)

All entities shall report to the Insurance Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations. The Company failed to report all agent appointments and terminations to the Insurance Department.

2 Violations – Title 31, Pennsylvania Code, Section 37.61

Appointment and terminations by entity.

(b) An entity may terminate an agents appointment.

(4) Termination activity by an entity shall be reported to the Department on a monthly basis. The report shall be in a format approved by the Department. The report shall be filed within 30 days of the end of the month being reported.

The following agents were terminated by the Company but not reported as terminated to the Department.

LAST NAME	FIRST NAME
Horning	Thomas
Kuhn	Terry

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 1998, 1999, 2000, and 2001. The Company identified 32 written consumer complaints received during the experience period and provided complaints logs for 1998, 1999, 2000 and 2001. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The 32 complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No 205 (40 P.S. § 1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair claims Settlement Practices.

Of the 32 consumer complaints listed as received by the Company, 19 were consumer complaints forwarded by the Insurance Department, 11 were sent directly by consumers and 2 were sent by Company sales agents. The following table is a synopsis of the 32 complaints.

Number - 32	Complaint Reason	Percentage – 100%
11	Claim Denial	35%
10	Premium or Administrative Problem	31%
8	Delay in Refund or Surrender	25%
2	Agent Misrepresentation	6%
1	Agent Handling	3%

The following violations were noted:

2 Violations - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify and ascertain whether the company or person has complied with the laws of this Commonwealth. Two complaint files were missing copies of the electronically mailed complaint.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in ten general segments.

- A. Underwriting Guidelines
- B. Group Policies Issued, Declined or Terminated
- C. Group Certificateholders Enrolled, Declined or Terminated
- D. Accident and Health Policies Issued
- E. Individual Long Term Care Policies Issued
- F. Individual Life Policies Issued
- G. Policies Declined
- H. Policies Terminated
- I. Policies Issued as Replacements
- J. Life Policies Not-Taken

Each segment was reviewed for compliance with underwriting practices and included forms identification and agent identification. Issues relating to forms or agent/broker licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide copies of all established written underwriting guidelines in use during the experience period. Underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature, or specifically prohibited by statute or regulation. The following manuals and guides were provided and reviewed:

1. Associates Underwriting Guideline to Disability
2. Associates Underwriting Guideline to Long Term Care
3. Associates Life Manual
4. Field Force Operations Training Manual
5. Eight (8) Field Sales Guides
 - a. Payroll Life Assurance & Direct Preferred Life Assurance
 - b. Voluntary Indemnity Plan
 - c. Personal Cancer Protector Plan
 - d. Long Term Care
 - e. Personal Recovery Plus
 - f. Personal Hospital Intensive Care Protection
 - g. Dental Insurance
 - h. Marketing Disability Income Insurance
6. Two (2) Market Development Guides
 - a. Understanding Employee Benefits
 - b. Developing Broker Relationships

No violations were noted.

B. Group Policies Issued, Declined or Terminated

The Company was requested to provide a list of all groups issued, declined or terminated coverage during the experience period. The Company reported no group policies issued or terminated coverage. The company identified 2 group policies declined coverage during the experience period. Both declined group policy files were requested, received and reviewed. The policy files were reviewed to determine compliance with issuance, coverage requirements, underwriting, and replacement statutes and regulations. No violations were noted.

C. Group Certificateholders Enrolled, Declined or Terminated

The Company was requested to provide a list of all group certificateholders issued, declined or terminated coverage during the experience period. The Company provided a list of 23 certificateholders issued coverage and 30 certificateholders terminating coverage during the experience period. The Company reported no certificateholders were declined coverage. All 23 issued files and 30 terminated files were requested, received and reviewed. Of the 23 certificateholders enrolled, 2 were enrolled in the group medicare supplement plan and 21 were enrolled in the group short-term disability plan. Of the 30 certificateholders terminated, 26 were terminated due to non-payment, 3 were terminated due to death and 1 was terminated by request of the insured. The issued files were reviewed to ensure compliance with Title 18, Pennsylvania Consolidated Statutes, Section 4117(k). The terminated files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice. No violations were noted.

D. Accident and Health Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company provided a list of 76,734 policies issued. Of the 76,734 policies issued, 73,146 were identified as accident and health policies. The following table reflects the type of accident and health coverage issued, the universe of policies issued and the sample requested for review.

Policy Type	Universe	Sample Reviewed
Accident	29,345	100
Cancer	12,505	75
Dental	5,315	50
Hospital Indemnity	2,033	50
Hospital Intensive Care	3,655	50
Short Term Disability	16,892	75
Specified Health Event	3,401	50
Total	73,146	450

The 450 accident and health files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

96 Violations – Title 31, Pennsylvania Code, Section 88.181

No policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time of application. Ninety-six (96) files did not contain evidence that the required outline of coverage was provided.

E. Individual Long Term Care Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company provided a list of 76,734 policies issued. Of the 76,734 policies issued, 171 were identified as long term care policies. A random sample of 50 policies was identified for review. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

2 Violations – Title 31, Pennsylvania Code, Section 88.181

No policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time of application. Two (2) files did not contain evidence that the required outline of coverage was provided.

1 Violation – Title 31, Pennsylvania Code, Section 89.911

(a) Applications forms, solicited by an agent or solicited by mail, shall include the following questions to elicit information as to whether, as of the date of the application, the applicant has another accident and health or long term care policy or certificate in force or whether a long term care policy or certificate is intended to replace another accident and health or long term care policy or certificate presently in force. The replacement question in 1 policy application was not answered.

1 Violation – Title 31, Pennsylvania Code, Section 89.911

(c) Upon determining that a sale will involve replacement, an insurer, other than an insurer using direct response solicitation methods or its agents, shall furnish the applicant, prior to issuance or delivery of the individual long term care policy, a notice regarding replacement of sickness and accident or long term care coverage. A copy of the notice shall be retained by the applicant and an additional copy signed by the applicant shall be retained by the insurer. The following file did not contain a copy of the notice regarding replacement.

4 Violations – Title 31, Pennsylvania Code, Section 89.920

A long term care insurance shoppers guide in the format developed by the National Association of Insurance Commissioners, or a guide developed or approved by the Commissioner, shall be provided to prospective applicants for a long term care insurance policy or certificate.

- (1) In the case of agent solicitations, an agent shall deliver the shoppers guide prior to
the presentation of an application or enrollment form.
- (2) In the case of direct response solicitations, the shoppers guide shall be provided
along with an application or enrollment form.

Four (4) files did not contain evidence that the required shoppers guide was provided to the applicants.

F. Individual Life Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company provided a list of 76,734 policies issued. Of the 76,734 policies issued, 3,400 were identified as payroll life policies, 15 were identified as direct life policies and 2 were identified as life plus policies. A random sample of 50 payroll life policy files, 15 direct life policy files and 2 life plus policy files were requested for review. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

1 Violation - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The file noted was missing Page 2 of the application.

17 Violations - Title 31, Pennsylvania Code, Section 81.6 (a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The 17 files noted did not contain an agent statement regarding replacement.

3 Violations - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The 3 files noted did not contain a copy of the required notice of replacement.

67 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The 67 files noted did not contain a written disclosure statement.

67 Violations - Title 31, Pennsylvania Code, Section 83.4b

The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 67 files noted did not contain a copy of the required agent's certification of disclosure.

13 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible. The 13 files noted did not contain evidence of a surrender comparison index disclosure.

13 Violations – Title 31, Pennsylvania Code, Section 83.55b

The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. The 13 files noted were missing a copy of the required agent's certification of surrender comparison index disclosure.

15 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in 15 files.

1 Violation– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The file noted did not contain evidence of the applicant's consent on an application that contained alterations.

1 Violation - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. The file noted did not contain the applicant's signature on the application.

G. Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company provided a list of 324 individuals declined coverage. A random sample of 50 declined files was requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice. Of the 50 policies declined, 48 were declined for medical reasons and 2 were declined for non-medical underwriting requirements. No violations were noted.

H. Policies Terminated

The Company identified a total universe of 48,269 policies terminated during the experience period. The following table reflects the reason for termination, the universe of policy terminations and the sample requested for review.

Termination Reason	Universe	Sample Reviewed
Lapse	43,462	50
Insured Request	3,443	50
Death	1,283	25
Underwriting	78	78
Replacement	3	3
Total	48,269	206

All 206 files requested, were received and reviewed. The files were reviewed to ensure terminations were not the result of any discriminatory, or prohibited, underwriting practice. No violations were noted.

I. Policies Issued as Replacements

The Company identified a total universe of 368 policies issued as replacements during the experience period. The following table reflects the type of policy issued as a replacement, the universe of policy replacements and the sample requested for review.

Policy Type	Universe	Sample Reviewed
Accident	13	13
Cancer	65	25
Dental	97	25
Short Term Disability	178	25
Hospital Intensive Care	12	12
Hospital Indemnity	3	3
Total	368	103

All 103 files requested, were received and reviewed to determine compliance to replacement statutes and regulations. The following violations were noted.

7 Violations – Title 31, Pennsylvania Code, Section 88.102

Upon determining that a sale will involve replacement, an insurer, other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in § 88.103 of this title (relating to notice form). One copy of such notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer. In the 7 files noted the replacement forms were dated after the application date.

J. Policies Not-Taken

The Company identified a total universe of 876 policies not-taken during the experience period. A random sample of 50 not-taken policies was requested, received and reviewed. Of the 50 policy files reviewed, 23 were accident policies, 14 were short term disability policies, 8 were cancer policies, 2 were dental policies, 1 was a hospital intensive care policy, 1 was a long term care policy and 1 was a specified health event policy. All 50 policies were sold on a payroll deduct payment plan basis. No violations were noted.

IX. Internal Audit and Compliance Procedures

The Company was requested to provide copies of their internal audit and compliance procedures. The procedures were reviewed to ensure compliance with Insurance Company Law, Section 405-A (40 P.S. §625-5). Section 405-A provides for the establishment and maintenance of internal audit and compliance procedures which provides for the evaluation of compliance with all statutes and regulations dealing with sales methods, advertising, and filing and approval requirements for life insurance and annuities. The procedures shall also provide for the following:

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The Company provided a cd-rom containing its claim procedures. The claim procedures were reviewed for any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

The Company's claim procedures indicate a denial letter is sent to the claimant to finalize a denied claim. The check with an explanation of benefits (EOB) is considered the Company's notice of acceptance of the claim. In most claims, the check and EOB are dated and sent directly to the claimant immediately upon issuance. In some claims, the check and EOB are dated and sent to the Company's agent for delivery to the claimant.

The Company was requested to provide a listing of all claims paid during the experience period that indicated the check and explanation of benefits were sent to the agent for delivery to the claimant. The Company provided a list of 6,382 claims meeting that criteria. By extracting claims for contracts issued outside Pennsylvania and non-residents, the number was reduced to 5,808. Those claims were then filtered to eliminate any duplicate claim numbers with different sheet numbers, resulting in a final total of 4,818. The following violations were noted.

4,818 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The Company's notice and date of acceptance of a paid claim, as required by Title 31, PA Code, Section 146.7, is not recorded and cannot be verified in the 4,818 claim files that indicate the claim checks were sent to the agent.

The Claim file review consisted of four general areas:

- A. Accident and Health Claims
- B. Medicare Supplement Claims
- C. Long Term Care Claims
- D. Life Insurance Claims

All claim files sampled were reviewed for compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

A. Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 84,670 accident and health claims. The following table reflects the coverage claim type, the universe of claims and the sample requested for review.

Coverage Claim Type	Universe	Sample Reviewed
Accident	48,868	100
Cancer	24,144	100
Dental	4,258	50
Group Short Term Disability	24	24
Individual Short Term Disability	4,405	50
Hospital Intensive Care	1,164	50
Hospital Indemnity	1,762	50
Specified Event	45	45
Total	84,670	469

All 469 claims were requested, received and reviewed. The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of the events can be reconstructed. Two claim files were missing pertinent data.

7 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The 7 files noted were absent any evidence this requirement was complied with.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The file noted was absent any evidence this requirement was complied with.

B. Medicare Supplement Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 46,992 medicare supplement claims and 24 group medicare supplement claims. A random sample of 100 medicare supplement claims and all 24 group medicare supplement claim files were requested. The 124 claim files requested, were received and reviewed. No violations were noted.

C. Long Term Care Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 264 long term care claims. A random sample of 50 claim files was requested, received and reviewed. No violations were noted.

D. Life Insurance Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 24 ordinary life claims, 4 life care claims and 11 term life claims. All 39 life claim files were requested, received and reviewed. Of the 11 term life claims received, 9 were term life claims and 2 were accident claims coded as term claims in error. The life claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

4 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The files noted were absent any evidence this requirement was complied with.

8 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 8 files noted were absent any evidence this requirement was complied with.

5 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 5 files noted were absent any evidence this requirement was complied with.

1 Violation - Insurance Company Law, Section 411B, Payment of Benefits

(a) Life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than one hundred eighty days after the death of the insured, and the death benefits are not paid within thirty days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid.

(b) Notwithstanding section 6 of the act of May 11, 1949 (P.L. 1210, No. 367), referred to as the Group Life Insurance Policy Law, this section shall apply to all life insurance policies except variable insurance policies.

(c) The term "left on deposit" shall mean a specific settlement option provided within the life insurance policy under which the death benefit proceeds are retained by the insurer for the beneficiary and are credited with a specific rate of interest.

The company failed to pay interest on the one claim noted within the specified period after the satisfactory proof of death had been submitted.

XI. RECOMMENDATIONS

The following recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must review and revise Licensing procedures to ensure compliance with Insurance Department Act, Sections 605 and Section 606 (40 P.S. §§235&236).
2. The Company must review internal control procedures to ensure compliance with claims settlement practice requirements of Title 31, Pennsylvania Code, Chapter 146.
3. The Company must review internal procedures to ensure compliance with outline of coverage requirements of Title 31, Pennsylvania Code, Chapter 88.
4. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 81, Chapter 88 and Chapter 89.
5. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
6. The Company must review internal control procedures to ensure compliance with policy delivery requirements of Insurance Company Law, Section 404-A (40 P.S. §625-4).
7. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a), (40 P.S. §323.3) of the Insurance Department Act.

XI. COMPANY RESPONSE



Keisha Weeks
Federal & State Regulatory Projects Manager
Compliance Department

May 14, 2003

OVERNIGHT DELIVERY

Chester A Derk Jr., AIE, HIA
Market Conduct Division Chief
Commonwealth of Pennsylvania
Bureau of Enforcement
Insurance Department
1321 Strawberry Square
Harrisburg, PA 17120

RE: Examination Warrant Number: 01-M12-032

Dear Mr. Derk:

The referenced report has been reviewed and we believe it to be accurate. We accept the report without desire of a hearing or other comment.

Enclosed with this letter you will find our response to the report. We have implemented corrective action plans to address the issues raised by the examination. While we feel these corrective action plans will address the issues at hand, we respectfully ask your Department to once again review these preventive measures to ensure that we are in full compliance with Pennsylvania law as interpreted by your Department. We look forward to working with you and your staff in an effort to reach an appropriate resolution to the findings of this exam.

We would like to thank you and your staff for the assistance provided during this examination. If you have any questions or concerns, please do not hesitate to call me at 706/660-7859 or email me at kweeks@aflac.com.

Sincerely,

Keisha Weeks

KW/kw

Enclosure

NAIC: 60380

Group# 370

American Family Life Assurance Company of Columbus (AFLAC)

Report of Corrective Action

**Pennsylvania Market Conduct Examination
Examination Warrant Number 01-M12-032**

May 15, 2003

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American Family Life Assurance Company of Columbus (AFLAC)
REPORT OF CORRECTIVE ACTION
PENNSYLVANIA MARKET CONDUCT EXAMINATION
Examination Warrant Number 01-M12-032
May 15, 2003

The responses below follow the sequence of comments beginning at page 7 and through page 32 of the exam report.

V. Forms

1 Violation – Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b)

It shall be unlawful for any insurance company, doing business in the Commonwealth of Pennsylvania, to issue, sell, or dispose of any policy, contract, or certificate, covering life insurance, or use applications, riders, or endorsements, in connection therewith, until the forms have been submitted to and formally approved by the Insurance Commissioner.

The form (A60001-OH) utilized in an application for direct life insurance was not a filed and approved form.

Corrective Action:

Guidelines call for any and all forms used to issue, sell, or dispose of any policy to be submitted to and approved by the Insurance Commissioner. This error has been deemed to be strictly clerical in nature. The guidelines have been reinforced in training.

VI. Agent/Broker Licensing

1 Violation – Insurance Department Act, Section 606 (40 P.S. §236)

All entities shall report to the Insurance Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations. The Company has failed to report all agent appointments and terminations to the Insurance Department.

Corrective Action:

AFLAC is currently using CTIA to electronically appoint and terminate agents. The rejection reports are closely monitored and handled within one week. In addition, we will periodically review our internal cancellation reports for Pennsylvania to assure that appointment terminations are filed within the specified time period.

2 Violations – Title 31, Pennsylvania Code, Section 37.61

Appointments and terminations by entity.

(b) An entity may terminate an agents appointment.

(4) Termination activity by an entity shall be reported to the Department on a monthly basis. The report shall be in a format approved by the Department. The report shall be filed within 30 days of the end of the month being reported.

The following agents were terminated by the Company but not reported as terminated to the Department.

LAST NAME	FIRST NAME
Horning	Thomas
Kuhn	Terry

Corrective Action:

AFLAC is currently using CTIA to electronically appoint and terminate agents. The rejection reports are closely monitored and handled within one week. In addition, we will periodically review our internal cancellation reports for Pennsylvania to assure that appointment terminations are filed within the specified time period.

VII. Consumer Complaints

2 Violations - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, in its discretion, may require in order that its authorized representatives may readily verify and ascertain whether the company or person has complied with the laws of this Commonwealth. Two complaint files were missing copies of the electronic mailed complaint.

Corrective Action:

All consumer complaints are imaged using state of the art records retention processing equipment. Adding a quality assurance check sheet to verify all records have been imaged correctly has modified the Records Retention Guidelines for consumer complaints. This has been addressed as a training issue with the imaging specialists.

VIII. UNDERWRITING

D. Accident and Health Policies Issued

96 Violations – Title 31, Pennsylvania Code, Section 88.181

No policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time of application. Ninety-six (96) files did not contain evidence that the required outline of coverage was provided.

Corrective Action:

All errors noted were automated SmartApp applications. As of April, 2003 AFLAC's SmartApp system has been updated to require that the Outline of Coverage certification be checked prior to application submission. If the certification is not checked, the agent receives an alert that the outline of coverage is required and the application will not transmit until the certification has been noted on the application.

E. Individual Long Term Care Policies Issued

2 Violations – Title 31, PA Code, Section 88.181

No policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time of application. Two (2) files did not contain evidence that the required outline of coverage was provided.

Corrective Action:

All errors noted were automated SmartApp applications. As of April, 2003 AFLAC's SmartApp system has been updated to require that the Outline of Coverage certification be checked prior to application submission. If the certification is not checked, the agent receives an alert that the outline of coverage is required and the application will not transmit until the certification has been noted on the application.

1 Violation – Title 31, PA Code, Section 89.911

(a) Applications forms, solicited by an agent or solicited by mail, shall include the following questions to elicit information as to whether, as of the date of the application, the applicant has another accident and health or long term care policy or certificate in force or whether a long term care policy or certificate is intended to replace another accident and health or long term care policy or certificate presently in force. The replacement question in 1 policy application was not answered.

Corrective Action:

AFLAC's guidelines are to require the replacement question to be answered and if the policy is to be a replacement, state specific replacement processes are followed. LTC replacement processing is now confined to one team within the department and daily audits of replacements are conducted to maximize process control. Replacement guidelines have been reviewed with employees responsible for this process.

1 Violation – Title 31, PA Code, Section 89.911

(c) Upon determining that a sale will involve replacement, an insurer, other than an insurer using direct response solicitation methods or its agents, shall furnish the applicant, prior to issuance or delivery of the individual long term care policy, a notice regarding replacement of sickness and accident or long term care coverage. A copy of the notice shall be retained by the applicant and an additional copy signed by the applicant shall be retained by the insurer. The following file did not contain a copy of the notice regarding replacement.

Corrective Action:

AFLAC's guidelines require that replacement notices be given to applicants who are replacing LTC coverage. As noted above, replacement processing is now confined to one team to maximize process control and daily audits of replacements are conducted.

4 Violations – Title 31, PA Code, Section 89.920

A long term care insurance shoppers guide in the format developed by the National Association of Insurance Commissioners, or a guide developed or approved by the Commissioner, shall be provided to prospective applicants for a long term care insurance policy or certificate.

- (1) In the case of agent solicitations, an agent shall deliver the shoppers guide prior to the presentation of an application or enrollment form.
- (2) In the case of direct response solicitations, the shoppers guide shall be provided along with an application or enrollment form.

Four (4) files did not contain evidence that the required shoppers guide was provided to the applicants.

Corrective Action:

AFLAC's guidelines are to require that all applicants receive the appropriate shopper's guide to long-term care insurance. This has been addressed as a training issue and our SmartApp system will be updated to require that the agent certify that the shopper's guide has been provided prior to submitting the application. This will be addressed in a comprehensive project to address system enhancements for Pennsylvania.

F. Individual Life Policies Issued

1 Violation - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The file noted was missing Page 2 of the application.

Corrective Action:

AFLAC's procedures are to review all application images before issuing applications to ensure accurate images have been captured. This issue will be addressed as a training issue.

17 Violations - Title 31, Pennsylvania Code, Section 81.6 (a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The 17 files did not contain an agent statement regarding replacement.

Corrective Action:

Associate's Certification of Replacement Form A-90100 was developed effective March 11, 2003 to be completed by the associate and submitted as a separate document with all Life applications that do not contain the appropriate certification.

3 Violations - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities.

The 3 files noted did not contain a copy of the required notice of replacement.

Corrective Action:

AFLAC's guidelines are to require the replacement question to be answered and if the policy is to be a replacement, state specific replacement processes are followed. Life replacement processing is now confined to one team within the department and daily audits of replacements are conducted to maximize process control. Replacement guidelines have been reviewed with employees responsible for this process.

67 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The 67 files noted did not indicate a written disclosure statement was provided.

Corrective Action:

Disclosure Statement Form A-4166RPCPA which includes the Insurance Producer's Certification of Disclosure Statement, was approved for use by the Pennsylvania Insurance Department on March 7, 2003. This form will be completed at the time of application with one copy to the applicant and one copy to AFLAC. This form replaces Form A-4166R-PC which did not contain the certification.

67 Violations - Title 31, Pennsylvania Code, Section 83.4b

The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 67 files noted did not contain a copy of the required agent's certification of disclosure.

Corrective Action:

Disclosure Statement Form A-4166RPCPA which includes the Insurance Producer's Certification of Disclosure Statement, was approved for use by the Pennsylvania Insurance Department on March 7, 2003. This form will be completed at the time of application with one copy to the applicant and one copy to AFLAC. This form replaces Form A-4166R-PC which did not contain the certification. AFLAC understands that this is required information and it is our procedures to image all documents. These records are kept indefinitely which satisfies the 3 year minimum period.

13 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible. The 13 files noted did not indicate a surrender comparison index disclosure was provided.

Corrective Action:

The surrender cost index information is included on the Statement of Policy Cost and Benefit Information form, which generates with the policy. This form is in the process of being revised to include all required information relative to the surrender comparison index disclosure. All life policies will be delivered directly to the applicant. A certification will be provided in conjunction with AFLAC's annual statement, that in accordance with this subchapter surrender comparison disclosures have been included with policies at delivery or sooner.

13 Violations – Title 31, Pennsylvania Code, Section 83.55b

The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. The 13 files noted did not contain a copy of the required agent's certification of surrender comparison index disclosure.

Corrective Action:

The surrender cost index information is included on the Statement of Policy Cost and Benefit Information form, which generates with the policy. This form is in the process of being revised to include all required information relative to the surrender comparison index disclosure. All life policies will be delivered directly to the applicant. A certification will be provided in conjunction with AFLAC's annual statement, that in accordance with this subchapter surrender comparison disclosures have been included with policies at delivery or sooner. AFLAC understands that this is required information and it is our procedures to image all documents. These records are kept indefinitely which satisfies the 3 year minimum period.

15 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in 15 files.

Corrective Action:

AFLAC has changed procedures to disallow policy delivery of applications by writing agents. Applications will instead be delivered by mail to the applicant. This will be controlled automatically as the system used to capture application data will not allow the application to be mailed to anyone other than the applicant.

1 Violation– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The file noted did not contain evidence of the applicant's consent on an application that contained alterations.

Corrective Action:

Guidelines call for any and all application changes to be initialed by the writing agent as well as the applicant. All application images are to be viewed prior to processing to ensure images are properly captured and that any application alterations include initials from the applicant and agent. The application in question will be addressed as a training issue.

1 Violation - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. The file noted did not contain the applicant's signature on the application.

Corrective Action:

Guidelines require that applications contain the original signature of the writing agent as well as the applicant. AFLAC's SmartApp automated application prevents an application from being submitted that does not contain a signature. For the application in question, the applicant signed both a pre-application as well as an amendment to the application, but failed to sign the application.

I. Policies Issued as Replacements

7 Violations – Title 31, PA Code, Section 88.102

Upon determining that a sale will involve replacement, an insurer, other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in § 88.103 of this title (relating to notice form). One copy of such notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer. In the 7 files noted the replacement forms were dated after the application date.

Corrective Action:

This was addressed as a training issue. The SmartApp Unit has been enhanced to capture applications that the sign dates of the application and the replacement form are the same. If the two dates are not the same the applications will not be able to transmit. If an application is submitted as a replacement without a replacement notice, AFLAC will not issue the policy until a notice is received. If a replacement notice was not signed at time the original application was signed, the signature date will differ.

X. CLAIMS

4,818 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. Attached as appendix A is the list of 4,818 claims. The Company's notice and date of acceptance of a paid claim, as required by Title 31, PA Code, Section 146.7, is not recorded and cannot be verified in the 4,818 claim files that indicate the claim checks were sent to the agent.

The Claim file review consisted of four general areas:

- A. Accident and Health Claims
- B. Medicare Supplement Claims
- C. Long Term Care Claims
- D. Life Insurance Claims

All claim files sampled were reviewed for compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

Corrective Action:

For the delivery of the claim check to the insured

Short-term - As a short-term corrective action plan, we have implemented the use of correspondence to the insured at time of claim payment indicating that their claim has been processed and that payment will be delivered through their associate. This letter will be manually generated by the Claims specialist and mailed to the policyholder each time a claim check is mailed to the associate for delivery.

Long-term - Long-term corrective action includes consideration of system enhancements to have automatic generation of a letter to the insured advising that their payment had been processed and will be delivered through their associate. The letter would be automatically mailed to the policyholder each time a claim check is mailed to the agent for delivery.

Corrective Action:

For the date stamp

Our procedure is for every piece of correspondence/claim information, etc. to be "stamped" with receipt date. It was noted that the claim documents examined were visibly skewed in the Claims imaging system, which caused the date stamp to be unavailable for examination.

As the Mail Operations Department is responsible for scanning all claim documents received at AFLAC Worldwide Headquarters, claim examples were provided to Mail Operations for appropriate training. Inbound Services has procedures for evaluating scanners for proper functioning.

Corrective Action:

For all work papers used to adjudicate the claim being imported into the claims file.

Short-Term - It is our process and procedure to import all claims information in the file. As this is a manual process, continual reinforcement of this requirement was provided for inclusion in our Claims Training sessions and existing staff reinforcement was conducted at a team level. The importance of importing all documents into the claims file was communicated.

Long-Term - Our long-term initiatives include pursuing system enhancement whereby we convert as many of our manually produced correspondence to system-generated letters through our letter text system. Continual training in this area will be conducted.

A. Accident and Health Claims

2 Violations - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. Two claim files were missing pertinent data.

Corrective Action:

For all work papers used to adjudicate the claim being imported into the claims file.

Short-Term - It is our process and procedure to import all claims information in the file. As this is a manual process, continual reinforcement of this requirement was provided for inclusion in our

Claims Training sessions and existing staff reinforcement was conducted at a team level. The importance of importing all documents into the claims file was communicated.

Long-Term - Our long-term initiatives include pursuing system enhancement whereby we convert as many of our manually produced correspondence to system-generated letters through our letter text system. Continual training in this area will be conducted.

1 Violation -Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of the notice unless payment is made within the period of time. If an acknowledgment is made by means other than writing, an appropriate notation of the acknowledgment shall be made in the claim file of the insurer and dated. The 7 files noted were absent any evidence this requirement was complied with.

Corrective Action:

All lines of business except Dental

Short-term - It is our process and procedure to adjudicate all claims in a timely manner. Our short-term corrective action plan will consist of forwarding communication to all Claims staff regarding the importance of complying with Department of Insurance time limits for claim acknowledgement. In New Hire Training, the agenda will include discussion regarding Department of Insurance time limits on initial claim acknowledgement to ensure compliance with this regulation.

Further, in instances where claim payments are to be delivered by our agents, insureds will be notified that the claim payment is being delivered through an AFLAC associate.

Long-term - We will pursue system enhancements to automate notification of receipt of claims within the statutory requirements. We will also pursue automation of sending correspondence wherein the insured is advised of the specific date the claim was processed and that their AFLAC associate will deliver claim payments. We would like to pursue automatically inserting the delivering associate's name and telephone number.

In the Life Care, Ordinary Life, and Personal Term Life lines of business, several processes have been implemented to ensure compliance with Section 146.5. A violation was noted in all Life lines of business due to the time delay being experienced for claim adjudication because of the previous process in place for receiving Death Notifications. It was also noted that one violation was due to a misrouted Death Notification by the Customer Call Center specialist. Notification of death was forwarded to the Client Services area for review instead of the Claims Department.

As our corrective action for the overall delay in receiving Death Notifications from the Customer Call Center, the Claims Department has implemented a manual process to expedite the sending of the forms and establishing the claim, the following is the new process: The Call Center receives the notice of death via telephone call. The Customer Call Center representative gathers all pertinent data such as the date of death, deceased, to whom the forms should be mailed to secure beneficiary information to include proper mailing address. The Customer Call Center representative mails the appropriate forms to the designated person via the telephone call. The Customer Call Center representative then sends a "notice of claim" to the Life claims specialist. The Life specialist establishes a claim file and indicates in the claim file that the forms were mailed and why the claim is pending. The Life claims specialist, if needed, handles follow-up. We will continue to examine this process to develop the most efficient methods of claim acknowledgement when received via the Customer Call Center.

As a short-term corrective action for the misrouted Death Notification, the claim example will be forwarded to the Customer Call Center along with an explanation of the reason for the violation and the need to assure all notification of death is initially routed to the Claims Department so a claim can be established as required by the DOI.

In addition, our general short-term corrective action plan for all Life lines of business will consist of three distinct actions. Training will take place for the Life staff regarding the importance of compliance with Department of Insurance time limits for claim acknowledgement. Additional staff will be hired to address the large claim volume currently being handled. Finally, we have implemented a manual tracking method, wherein the date of all incoming mail, follow-up correspondence, and pending match-ups is manually monitored and documented to ensure timely acknowledgement of claim. This manual process will serve as a short-term corrective action plan for ensuring compliance with Department of Insurance regulations; however, an automated method of tracking is being considered for long-term business needs.

Long-term - Our long-term corrective action plan to ensure compliance with this regulation consists of exploring future technology initiatives to possibly secure an automated tracking system for all lines of business.

Corrective Action-Dental

Short-Term - Specifically for the Dental line of business, the Claims Department has previously taken action to ensure the actual date an image/claim (proof of loss), when received at AFLAC, is documented and

recorded. The scanner used in the Mail Operations area to route Dental Images to HDM did not allow for the date stamp to be adjusted. This caused the date stamp to reflect the date that a claim was scanned and transmitted to HDM, instead of the actual date an image/claim (proof of loss) was received at AFLAC. As the Department of Insurance uses the actual date received to determine if we have satisfied statutory payment requirements, modifications to the Dental Kodak LCVS scanner were elevated on 10/02/02 from SCR 244992 in order to comply with this regulation.

Long-Term - System enhancements, which provided capability of modifying the scan date, satisfy both short- and long-term solutions.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The file noted was absent any evidence this requirement was complied with.

Corrective Action:

Short-term - For all lines of business, it is our process and procedure to promptly notify the insured of necessary information needed to adjudicate his/her claim. Our short-term corrective action plan will consist of forwarding communication to all Claims staff regarding the importance of complying with Department of Insurance time limits for claim acknowledgement. In New Hire Training, the agenda will include discussion regarding Department of Insurance time limits on initial claim acknowledgement to ensure compliance with this regulation. Specifically, within the Life line of business, the Claims Department has implemented a manual tracking method wherein the date of all incoming mail, follow-up correspondence, and pending match-ups is manually monitored and documented to ensure timely follow-up of claim. This manual process will serve as a short-term corrective action plan for ensuring compliance with Department of Insurance regulations; however, an automated method of tracking is being considered for long-term business needs.

Long-term - Our long-term corrective action plan to ensure compliance with this regulation consists of exploring future technology initiatives to possibly secure an automated tracking system for all lines of business.

D. Life Insurance Claims

4 Violation -Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of the notice unless payment is made within the period of time. If an acknowledgment is made by means other than writing, an appropriate notation of the acknowledgment shall be made in the claim file of the insurer and dated. The files noted were absent any evidence this requirement was complied with.

Corrective Action:

Short-term - It is our process and procedure to adjudicate all claims in a timely manner. Our short-term corrective action plan will consist of forwarding communication to all Claims staff regarding the importance of complying with Department of Insurance time limits for claim acknowledgement. In New Hire Training, the agenda will include discussion regarding Department of Insurance time limits on initial claim acknowledgement to ensure compliance with this regulation.

Further, in instances where claim payments are to be delivered by our agents, insureds will be notified that the claim payment is being delivered through an AFLAC associate.

Long-term - We will pursue system enhancements to automate notification of receipt of claims within the statutory requirements. We will also pursue automation of sending correspondence wherein the insured is advised of the specific date the claim was processed and that their AFLAC associate will deliver claim payments. We would like to pursue automatically inserting the delivering associate's name and telephone number.

In the Life Care, Ordinary Life, and Personal Term Life lines of business, several processes have been implemented to ensure compliance with Section 146.5. A violation was noted in all Life lines of business due to the time delay being experienced for claim adjudication because of the previous process in place for receiving Death Notifications. It was also noted that one violation was due to a misrouted Death Notification by the Customer Call Center specialist. Notification of death was forwarded to the Client Services area for review instead of the Claims Department.

As our corrective action for the overall delay in receiving Death Notifications from the Customer Call Center, the Claims Department has implemented a manual process to expedite the sending of the forms and establishing the claim, the following is the new process: The Call Center receives the notice of death via telephone call. The Customer Call Center representative gathers all pertinent data such as the date of death, deceased, to whom the forms should be mailed to secure beneficiary

information to include proper mailing address. The Customer Call Center representative mails the appropriate forms to the designated person via the telephone call. The Customer Call Center representative then sends a "notice of claim" to the Life claims specialist. The Life specialist establishes a claim file and indicates in the claim file that the forms were mailed and why the claim is pending. The Life claims specialist, if needed, handles follow-up. We will continue to examine this process to develop the most efficient methods of claim acknowledgement when received via the Customer Call Center.

As a short-term corrective action for the misrouted Death Notification, the claim example will be forwarded to the Customer Call Center along with an explanation of the reason for the violation and the need to assure all notification of death is initially routed to the Claims Department so a claim can be established as required by the DOI.

In addition, our general short-term corrective action plan for all Life lines of business will consist of three distinct actions. Training will take place for the Life staff regarding the importance of compliance with Department of Insurance time limits for claim acknowledgement. Additional staff will be hired to address the large claim volume currently being handled. Finally, we have implemented a manual tracking method, wherein the date of all incoming mail, follow-up correspondence, and pending match-ups is manually monitored and documented to ensure timely acknowledgement of claim. This manual process will serve as a short-term corrective action plan for ensuring compliance with Department of Insurance regulations; however, an automated method of tracking is being considered for long-term business needs.

Long-term - Our long-term corrective action plan to ensure compliance with this regulation consists of exploring future technology initiatives to possibly secure an automated tracking system for all lines of business.

8 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 8 files noted was absent any evidence this requirement was complied with.

Corrective Action:

Short-term - It is our process and procedure to promptly notify the insured of necessary information needed to adjudicate his/her claim. The Claims Department has implemented a manual tracking method within the Life line of business wherein the date of all incoming mail, follow-up

correspondence, and pending match-ups is manually monitored and documented to ensure timely follow-up of claim. This manual process will serve as a short-term corrective action plan for ensuring compliance with Department of Insurance regulations; however, an automated method of tracking is being considered for long-term business needs.

Long-term - Our long-term corrective action plan to ensure compliance with this regulation consists of exploring future technology initiatives to possibly secure an automated tracking system for all lines of business.

5 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The 5 files noted were absent any evidence this requirement was complied with.

Corrective Action:

Short-term – Specifically within the Life Care, Ordinary Life, and Personal Term Life lines of business, our corrective action plan regarding the timely adjudication of claims consists of several procedures. First, training will take place for the Life staff regarding the importance of compliance with DOI time limits. Secondly, additional staff will be hired to address the large claim volume currently being handled. Finally, the Claims Department has implemented a tracking method within all Life lines of business wherein the date of all incoming mail, follow-up correspondence, and pending match-ups is documented and monitored to ensure timely adjudication of claim.

Long-term - Our long-term corrective action plan to ensure compliance with this regulation consists of exploring future technology initiatives to possibly secure an automated tracking system for all lines of business.

1 Violation - Insurance Company Law, Section 411B, Payment of Benefits

(a) Life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than one hundred eighty days after the death of the insured, and the death benefits are not paid within thirty days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid.

(b) Notwithstanding section 6 of the act of May 11, 1949 (P.L. 1210, No. 367), referred to as the Group Life Insurance Policy Law, this section shall apply to all life insurance policies except variable insurance policies.

(c) The term “left on deposit” shall mean a specific settlement option provided within

the life insurance policy under which the death benefit proceeds are retained by the insurer for the beneficiary and are credited with a specific rate of interest.

The company failed to pay interest on the one claim within the specified period after the satisfactory proof of death had been submitted.

Corrective Action:

Short-Term - We conducted reinforcement training and updated interest tables in our claims manual during the examination to include the Pennsylvania interest requirement.

Long-Term - We will pursue system enhancements that would automate the payment of applicable interest in appropriate instances.

-END-