

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

CUNA MUTUAL INSURANCE SOCIETY
Madison, Wisconsin

**AS OF
September 19, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: November 9, 2005

CUNA MUTUAL INSURANCE SOCIETY

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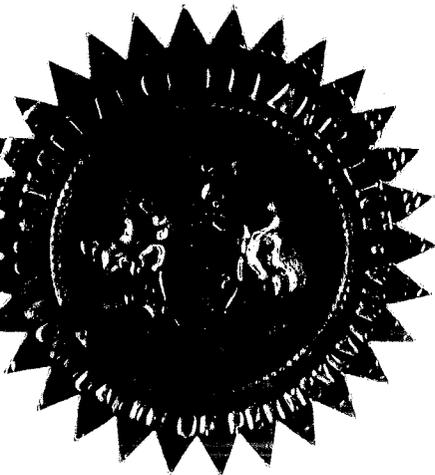
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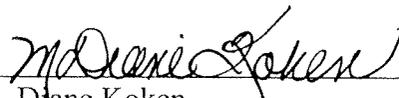
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
CUNA MUTUAL INSURANCE	:	Section 903(a) of the Insurance
SOCIETY	:	Department Act, Act of May 17, 1921,
5910 Mineral Point Road	:	P.L. 789, No. 285 (40 P.S. § 323.3)
Madison, Wisconsin 53705	:	
	:	Section 404-A of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. § 625-4)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	73.106(a), 73.109, 73.124,
	:	73.127(d)(2), 73.133(e), (f) and (g),
	:	73.136(a) and (b), 146.3 and 146.6
	:	
Respondent.	:	Docket No. MC05-10-025

CONSENT ORDER

AND NOW, this *9th* day of *NOVEMBER*, 2005, 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 CUNA Mutual Insurance Society, and maintains its address at 5910 Mineral Point Road, Madison, Wisconsin 53705.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2003 through June 30, 2004.
- (c) On September 19, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on October 18, 2005.

- (e) After consideration of the October 18, 2005 response, the Insurance Department has modified the Examination Report as attached.

- (f) The Examination Report notes violations of the following:
 - (i) Section 903(a) of the Insurance Department Act, No. 285 (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;

 - (ii) Section 404-A of the Insurance Company Law, No. 284 (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 to the policyholder 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;

- (iii) Title 31, Pennsylvania Code, Section 73.106(a), which states premium rates for credit life insurance and credit life insurance with TPD benefit, as described in §73.104(a) may not exceed the *prima facie* premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under § 73.122. Premium rates for benefits that differ from those benefits described in § 73.104(a) may not exceed premium rates that are actuarially consistent with the *prima facie* premium rates referenced in this section and published in the *Pennsylvania Bulletin*;

- (iv) Title 31, Pennsylvania Code, Section 73.109, which states premium rates for credit A and H insurance benefits may not exceed the *prima facie* premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under § 73.122. Premium rates for benefits that differ from those benefits described in § 73.107(a) may not exceed premium rates that are actuarially consistent with the *prima facie* premium rates referenced in this section and published in the *Pennsylvania Bulletin*;

- (v) Title 31, Pennsylvania Code, Section 73.124, which prohibits deviated rates from being in effect for a period longer than three years. An insurer may file for a new rate before the end of the three years, but not more often than once during any 12 month period;

- (vi) Title 31, Pennsylvania Code, Section 73.127(d)(2), which requires the refund of any unearned premiums calculated and remitted to the insured on a monthly outstanding basis to be equal to the monthly premium charged if fewer than 15 days of insurance coverage has been provided during that loan month. If coverage has been provided for 15 or more days of the loan month, no refund of premium is required;

- (vii) Title 31, Pennsylvania Code, Section 73.133(e), which requires an insurer to be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first policy year and at least annually thereafter, to assure compliance with this chapter and other applicable insurance laws and regulations of the Commonwealth. The examination shall verify the accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and any other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be

subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually;

(viii) Title 31, Pennsylvania Code, Section 73.133(f), which requires each insurer to make available for Department inspection upon request its creditor examination procedures;

(ix) Title 31, Pennsylvania Code, Section 73.133(g), which requires the insurer to establish and maintain a written record of each creditor examination. This record shall be maintained for at least three years from the date of examination or until the conclusion of the next succeeding regular examination by the Department of its domicile, whichever is later;

(x) Title 31, Pennsylvania Code, Section 73.136(a) and (b), which requires:

(a) Individual policies, group policies, group certificates, notices of proposed insurance, applications for insurance, endorsements and riders delivered or issued for delivery in this Commonwealth and premium rates and formulas used in this Commonwealth shall be filed with the Commissioner for approval in accordance with Section 7 of the Act (40 P.S. § 1007.7); and

(b) Each filing of an individual or group policy or certificate shall be accompanied by a filing letter describing the specific type of credit instruments with which the form will be used. If the coverage is equal to the net unpaid indebtedness, the filing letter shall describe the method used to determine how

the interest is earned. If an approved form is to be used with a type of credit instrument other than that stated in the original filing letter, or the method for earning interest is other than that as stated in the original filing letter, a new filing letter describing the specific type of loan and the interest charged calculation shall be filed;

- (xi) 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; and
- (xii) 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.

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 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.
- (c) Respondent's violations of Title 31, Pennsylvania Code, Sections 73.106 through 73.136 subject the Respondent to an Order of the Commissioner, the violation of which would result in a penalty of up to \$250 and up to \$1000 for willful violation, as well as revocation or suspension of license in addition to any other penalty provided by law (40 P.S. §1007.12; 40 P.S. §1007.14).
- (d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3 and 146.6 subject Respondent to the following penalties under the Unfair Insurance Practices Act (40 P.S. §§1171.1, et seq.):
- (i) a cease and desist order (40 P.S. § 1171.9);
 - (ii) suspension or revocation of the license(s) of Respondent (40 P.S. § 1171.9);
 - (iii) a five thousand dollar (\$5,000) penalty for each method of competition, act or practice which Respondent knew or should have

known was in violation of the law (not to exceed \$50,000 in any six month period) (40 P.S. § 1171.11);

- (iv) a one thousand dollar (\$1,000) penalty for each violation for each method of competition, act or practice which Respondent did not know nor reasonably should have known was in violation of the law (not to exceed \$10,000 in any six month period) (40 P.S. § 1171.11).

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 shall 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 comply with all recommendations contained in the attached Report.

(d) Respondent shall pay One Hundred and Fifty Thousand Dollars (\$150,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) 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, 1227 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.

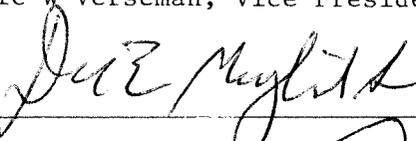
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent

Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

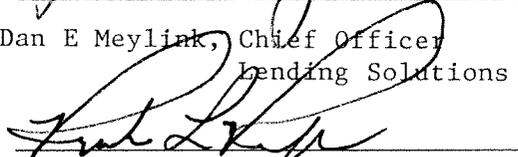
BY: CUNA MUTUAL INSURANCE SOCIETY,
Respondent



Eric W. Verseman, Vice President-Compliance



Dan E. Meylink, Chief Officer
Lending Solutions Group



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on CUNA Mutual Insurance Society; hereafter referred to as "Company," at the Company's offices located in Madison, Wisconsin, September 27, 2004, through January 21, 2005. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

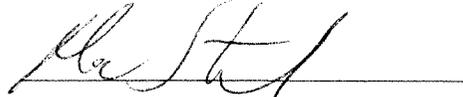
Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation.

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.

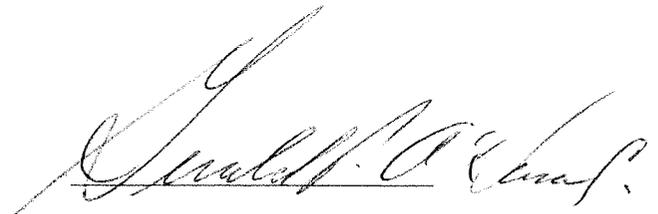
The undersigned participated in the Examination and in the preparation of this Report.



Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief



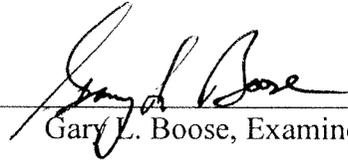
Gary L. Boose, LUTC
Market Conduct Examiner



Gerald P. O'Hara Jr.
Market Conduct Examiner

Verification

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

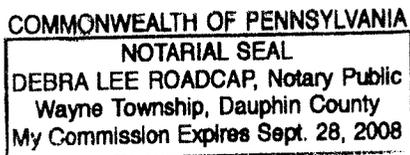


Gary L. Boose, Examiner in Charge

Sworn to and Subscribed Before me

This *19th* Day of *September*, 2005

Debra Lee Roadcap
Notary Public



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 July 1, 2003, through June 30, 2004, 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

CUNA Mutual Insurance Society commenced business on August 13, 1935, and was incorporated in the State of Wisconsin on May 20, 1935. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on July 14, 1967. The Company is authorized to do business in 50 states and the District of Columbia.

Effective on July 1, 1990, the Company entered into an agreement of permanent affiliation with CUNA Mutual Life Insurance Company, an Iowa domiciled life insurer formerly known as Century Life of America. CUNA Mutual Life Insurance Company serves as the primary direct writer of individual life insurance and individual annuities that are marketed to credit union members through CUNA's policyholder credit unions.

CUNA Mutual Insurance Society is the parent company for an extensive holding company system that includes life and health insurers, property and casualty insurers, and non-insurance operating companies. The subsidiary companies engage in diverse insurance, financial and management products and service businesses serving various credit union industry market segments.

The major products marketed by the Company include credit life, credit disability, group term life, pension products, individual life and accidental death and dismemberment. Credit life and credit disability insurance coverage is purchased by individual credit union members to cover outstanding loan balances or by credit union institutions as a free benefit provided to members. Group term life, individual term life and accidental death and dismemberment are purchased by individual credit union

members. CUNA markets group life and group health coverage to credit unions for employee benefit programs.

As of their 2003 annual statement for Pennsylvania, the Company reported a total of \$30,366,283 for ordinary, group and credit life insurance premiums and \$15,585,962 in annuity considerations. Direct premiums for group, credit group and individual accident and health insurance was reported in the amount of \$27,840,032.

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 a list of 65 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Letters, Direct Mailers, Brochures, Presentations, Cards, Illustrations, Product Guides, Product Manuals and the Company’s web page. All 65 pieces of advertising was requested, received and reviewed. The advertising materials and the Company’s web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. 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). No violations were noted.

VI. PRODUCER LICENSING

The Company was requested to provide a list of all producers active and terminated during the experience period. Section 671-A (40 P.S. §310.71) of the Insurance Department Act prohibits producers from doing business on behalf of or as a representative of any entity without a written appointment from that entity. Section 641.1-A (40 P.S. §310.41a) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. Section 671.1-A (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all producer terminations to the Department.

The Company provided a list of 99 active producers and 10 terminated producers. All 99 active producers and all 10 terminated producers were compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the individuals identified as producers on applications reviewed in the policy issued sections of the exam. No violations were noted.

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 2000, 2001, 2002 and 2003. The Company identified 23 written consumer complaints and provided complaint logs for 2000, 2001, 2002 and 2003. Of the 23 consumer complaints identified, 1 was forwarded from the Department. All 23 consumer complaint files were requested, received and reviewed.

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 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, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 20 general segments.

- A. Underwriting Guidelines
- B. Group Accidental Death & Dismemberment Certificates Issued
- C. Group Life Certificates Issued
- D. Group Policies Issued
- E. Group Policies Terminated
- F. Group Certificates Declined
- G. Group Certificates Terminated
- H. Group Life Conversions
- I. Group Accidental Death & Dismemberment Certificates Terminated
- J. Monthly Renewable Credit Disability and Level Rate Credit Life
- K. Single Premium Life Certificates Issued
- L. Single Premium Life Certificates Cancelled
- M. Single Premium Disability Certificates Issued
- N. Single Premium Disability Certificates Cancelled
- O. Employee Benefit Certificates Issued
- P. Life Policies Issued as Conversions
- Q. Life Policies Declined
- R. Life Policies Terminated
- S. Life Policies Not-Taken
- T. Employee Benefit Certificates Terminated

Each segment was reviewed for compliance with underwriting practices and included forms identification and producer identification. Issues relating to forms or producer 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. No violations were noted.

The following manuals and guides were provided and reviewed:

1. Life Credit Products
2. Accidental Death and Dismemberment Products
3. Claims Procedures
4. Reference Materials

B. Group Accidental Death & Dismemberment Certificates Issued

The Company was requested to provide a list of group certificates issued during the experience period. The Company identified a universe of 53,790 group accidental death and dismemberment certificates issued. A random sample of 50 group accidental

death and dismemberment certificates issued was requested, received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Statement. No violations were noted.

C. Group Life Certificates Issued

The Company was requested to provide a list of all group certificates issued during the experience period. The Company identified a universe of 5,275 life certificates issued during the experience period. A random sample of 50 certificates was requested, received and reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Statement. No violations were noted.

D. Group Policies Issued

The Company was requested to provide a list of group policies issued during the experience period. The Company identified a universe of 13 group policies issued. All 13 group policies issued were requested, received and reviewed. The policy files were reviewed to determine compliance with issuance statutes and regulations. No violations were noted.

E. Group Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience. The Company identified a universe of 31 terminated group policies.

All 31 policies were requested, received and reviewed. The 31 policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

F. Group Certificates Declined

The Company was requested to provide a list of all certificates declined during the experience period. The Company identified 955 declined certificates. A random sample of 50 files was requested, received, and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice. All certificates were declined for medical reasons. No violations were noted.

G. Group Certificates Terminated

The Company was requested to provide a list of all certificates terminated during the experience period. The Company identified a universe of 4,157 terminated certificates. A random sample of 50 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions and termination laws and regulations. No violations were noted.

The following table is a synopsis of the 50 files terminated:

Number	Termination Reason	Percent
2	Maturity	4%
2	Surrender	4%
4	Death	8%
5	Conversion	10%
6	Expired	12%
31	Lapse	62%
50	Totals	100%

H. Group Life Conversions

The Company was requested to provide a list of all certificate holders converting group insurance during the experience period. The Company identified a universe of 211 certificate holders converting their group coverage to an optional whole life term insurance plan. A random sample of 50 conversion files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

I. Group Accidental Death & Dismemberment Certificates Terminated

The Company was requested to provide a list of all terminated group certificates during the experience period. The Company identified a universe of 60,104 accidental death and dismemberment certificates terminated. A random sample of 50 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

The following table summarizes the reasons for termination.

Number	Termination Reason	Percent
1	Death	2%
5	Group Termination	10%
8	Expired Certificates	16%
9	Lapse Non-Payment	18%
27	Lapsed Certificates	54%
50	Totals	100%

J. Monthly Renewable Credit Disability and Level Rate Credit Life

The Company identified a universe of 582 credit union groups issuing monthly renewable credit disability and level rate credit life insurance certificates during the experience period. Of the 582 groups active during the experience period, 35 groups were selected. The Company was requested to provide 5 certificate holders for each group selected and holding certificates for monthly renewable credit disability and level rate credit life insurance coverage. This resulted in a request for a total of 175 certificates for each type of coverage. Of the 35 groups requested, certificate files were received and reviewed for 33 groups. The files were reviewed to ensure compliance with contract provisions, rating and issuance laws and regulations. The following violations were noted.

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

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of 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 ascertain whether the company or person has complied with the laws of this Commonwealth. The certificates for the 2 group credit union files noted were not provided.

2 Violations – Title 31, Pennsylvania Code, Section 73.106(a). Life insurance rate standards. *Prima facie rates.* Premium rates for credit life insurance and credit life insurance with TPD benefit, as described in §73.104(a) (relating to life insurance and life insurance with TPD benefit), may not exceed the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher

premium rates are approved under §73.122 (relating to deviated rates). Premium rates for benefits that differ from those benefits described in §73.104(a) may not exceed premium rates that are actuarially consistent with the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*.

AND

Title 31, Pennsylvania Code, Section 73.124. Duration of deviation. Deviated rates may not be in effect for a period longer than 3 years. An insurer may file for a new rate before the end of the 3 years, but not more often than once during any 12 month period.

The premium rates for the 2 credit unions noted exceeded prima facie.

4 Violations – Title 31, Pennsylvania Code, Section 73.127(d)(2) Refunds.

Except as provided in §73.139 (j) (relating to credit insurance on open end loans), the refund of any unearned premiums calculated and remitted to the insured on a monthly outstanding balance basis shall be equal to the monthly premium charged if fewer than 15 days of insurance coverage has been provided during that loan month. If coverage has been provided for 15 or more days of the loan month, no refund of premium is required.

The refund provisions utilizing a pro rata basis and indicated in the following monthly premium (MOB) closed end loan forms are not in compliance.

Number	FORM	Life/Disability
1	B3a-850-1187 PA	Life
2	B3a-860-1187 PA	Disability
3	B3d-850-1187 PA	Life
4	B3d-860-1187 PA	Disability

K. Single Premium Life Certificates Issued

The Company was requested to provide a list of all life issued certificates used during the experience period. The Company identified a universe of 10,123 single premium life certificates issued. A random sampling of 200 certificate files was requested. Of the 200 certificate files requested, 174 were received and reviewed. The files were reviewed to ensure compliance with contract provisions, issuance, and rating laws & regulations. The following violations were noted.

29 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of 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 ascertain whether the company or person has complied with the laws of this Commonwealth. Of the 29 files noted, 26 were not provided and 3 files were missing pertinent data.

L. Single Premium Life Certificates Cancelled

The Company was requested to provide a list of all life issued certificates cancelled during the experience period. The Company identified a universe of 1,617 single premium life certificates cancelled during the experience period. A random sample of 100 cancelled certificates was requested. Of the 100 requested certificates, 81 certificates were received and reviewed. The files were reviewed to ensure compliance

with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted.

19 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of 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 ascertain whether the company or person has complied with the laws of this Commonwealth. Of the 19 files noted, 18 files were not provided and 1 file was illegible.

Concern:

The Company has stated that some of the differences in the refund and premium calculations between the Department and the amounts shown are because of the tolerance levels used, plus/minus \$5 for refunding and plus/minus \$12 for premium. The tolerance levels are not acceptable to the Department. CUNA is advised to reduce the tolerance for both the refund and premium calculations to \$2 and \$3 respectively.

M. Single Premium Disability Certificates Issued

The Company was requested to provide a list of all single premium disability certificates issued during the experience period. The Company identified a universe of 18,901 certificates issued during our experience period. A random sample of 200 certificates was requested. Of the 200 certificate files requested, 185 files were

received and reviewed. The files were reviewed to ensure compliance with contract provisions, rating, issuance laws and regulations. The following violations were noted.

18 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of 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 ascertain whether the company or person has complied with the laws of this Commonwealth. Of the 18 files noted, 15 files were not provided and the remaining 3 files were missing pertinent data.

1 Violation – Title 31, Pennsylvania Code, Section 73.136 Filing of Forms and Rates

(a) *Approval of forms and rates.* Individual policies, group policies, group certificates, notices of proposed insurance, applications for insurance, endorsements and riders delivered or issued for delivery in this Commonwealth and premium rates and formulas used in this Commonwealth shall be filed with the Commissioner for approval in accordance with section 7 of the act (40 P.S. §1007.7)

(b) *Identification of filing.* Each filing of an individual or group policy or certificate shall be accompanied by a filing letter describing the specific type of credit instruments with which the form will be used. If the coverage is equal to the net unpaid indebtedness, the filing letter shall describe the method used to determine how the interest is earned. If an approved form is to be used with a type of credit instrument other than that stated in the original filing letter, or the method for earning interest is other than that as stated in the original filing letter, a new filing letter describing the specific type of loan and the interest charged calculation shall be filed.

The form utilized in the credit certificate noted provided for truncated coverage. The form was not filed and approved for truncated coverage.

1665 Violations – Title 31, Pennsylvania Code, Section 73.109. A and H insurance rate standards.

(a) *Prima facie A&H rates.* Premium rates for credit A and H insurance benefits, as described in §73.107(a) (relating to accident and health insurance benefits), may not exceed the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under §73.122 (relating to deviated rates). Premium rates for benefits that differ from those benefits described in §73.107(a) may not exceed premium rates that are actuarially consistent with the prima facie premiums rates referenced in this section and published in the *Pennsylvania Bulletin*. The rates in the 1665 certificate files noted exceeded the prima facie rates.

N. Single Premium Disability Certificates Cancelled

The Company was requested to provide a list of all single premium disability certificates cancelled during the experience period. The Company identified a universe of 4,324 certificates cancelled. A random sample of 100 certificate files was requested. Of the 100 certificate files requested, 76 were received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted.

30 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)

Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of 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 ascertain whether the company or person has complied with the laws of this Commonwealth. Of the 30 files noted, 24 files were not provided and the remaining 6 files were missing pertinent data.

1 Violation – Title 31, Pennsylvania Code, Section 73.127(d) Refunds.

Insurers shall file for approval all refund formulas intended for use. A reference to the Rule of 78 shall be acceptable, in lieu of filing the actual formula.

(1) The refund of premiums on a single premium basis shall be calculated by multiplying the original single premium charged, by the appropriate refund factor.

(i) In determining the refund, if fewer than 15 days of insurance coverage has been provided during the loan month, no charge shall be made for that month. If 15 or more days of coverage have been provided during the loan month, a full month may be charged.

(ii) For gross decreasing credit life insurance with or without TPD benefits, the refund shall be computed based on the Rule of 78.

(iii) For level term credit life insurance with or without TPD benefits, the refund shall be computed based on a pro rata basis.

(iv) For full benefit period credit A and H insurance and full benefit period credit involuntary unemployment insurance, the refund shall be computed based on the Rule of 78.

(v) For any coverage not listed in subparagraphs (ii)—(iv), the refund factor shall equal the sum of remaining insured balances divided by the sum of the original insured balances.

The Company failed to correctly calculate the refund amount in the file noted.

Concern:

The Company has stated that some of the differences in the refund and premium calculations between the Department and the amounts shown are because of the tolerance levels used, plus/minus \$5 for refunding and plus/minus \$12 for premium. The tolerance levels are not acceptable to the Department. CUNA is advised to reduce the tolerance for both the refund and premium calculations to \$2 and \$3 respectively.

O. Employee Benefit Certificates Issued

The Company was requested to provide a list of all certificates issued during the experience period. The Company identified a universe of 1,483 employee benefit certificates issued. A random sample of 50 certificates was requested, received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Statement. No violations were noted.

P. Life Policies Issued as Conversions

The Company was requested to provide a list of all life policies issued as conversions during the experience period. The Company identified a universe of 293 life policies issued as conversions during the experience period. A random sampling of 100 life

policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted.

100 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 the 100 files noted.

Q. Declined Life Coverage

The Company was requested to provide a list of all individual life policies declined during the experience period. The Company identified a universe of 6 applications declined. All 6 files were requested, received and reviewed. The files were reviewed for compliance with Title 18 Pa. C.S., Section 4117(k), Unfair Insurance Practices Act, No. 205, and to ensure no practices of a discriminatory nature were used. No violations noted.

R. Life Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 207 life insurance policies terminated. A random sample of 50 files was requested, received and reviewed. The policies were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

The following is a synopsis of the 50 files reviewed.

Number	Termination Reason	Percentage
1	Maturity	2%
1	Conversion	2%
2	Expired	4%
3	Annual Renewable	6%
7	Lapse	14%
15	Surrender	30%
21	Death	42%
50	Totals	100%

S. Life Policies Not-Taken

The Company was requested to identify all individual policies not-taken during the experience period. The Company identified a universe of 6 individual life policies not taken. All 6 policies were requested, received and reviewed. A not-taken policy is a contract that was issued by the Company, but the insured decides to decline the contract. The files were reviewed to ensure compliance with contract provisions,

proper return of any unearned premium, and to ensure compliance with the free look provisions of the contract. No violations were noted.

T. Employee Benefit Terminated Certificates

The Company was requested to provide a list of all policies terminated during the experience period. The following table summarizes the universe of employee benefit policies terminated, the samples requested and the type of coverage.

Coverage Type	Universe	Sample
Life	612	50
Short Term Disability	611	50
Long Term Disability	137	25
Totals	1360	125

The 125 files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. 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 audits and 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.

A. Credit Audit and Compliance

The Company was requested to provide copies of their creditor audit and examination procedures. The audits and procedures were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e) and (f) of Section

73.133 provides for the insurers responsibility in conducting an annual examination of creditors to ensure compliance and the requirements to make available for Department inspection its creditor examination procedures. The following violation was noted.

1 Violation – Title 31 Pennsylvania Code, Section 73.133(f)

Inspection of examination procedures. Each insurer shall make available for Department inspection upon request its creditor examination procedures. The Company did not provide any creditor examination procedures.

B. Single Premium Group Audits

The Company was requested to provide a list of all single premium group policyholders active during the experience period. The Company identified a universe of 263 single premium group policyholders. A random sample of 50 groups was selected and the Company was requested to provide copies of the group's required annual examinations. The sample of audits requested, were not provided. The Company stated that audit examinations were not performed. The audits were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e) and (g) of Section 73.133 provides for the insurers responsibility in conducting an annual examination of creditors to ensure compliance and the requirements to establish and maintain written records of its creditor examination. The following violations were noted.

263 Violations – Title 31 Pennsylvania Code, Section 73.133

(e) Creditor examination. An insurer shall be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first

policy year and at least annually thereafter to assure compliance with this chapter and other applicable insurance laws and regulations of the Commonwealth. The examination shall verify the accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and any other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually.

(g) Record of examination. The insurer shall establish and maintain a written record of each creditor examination. This record shall be maintained for at least 3 years from the date of examination or until the conclusion of the next succeeding regular examination by the Department of its domicile, whichever is later.

The Company failed to conduct and maintain a written record of the required annual creditor examination for the 263 active group accounts noted.

C. Group Credit Union Audits

The Company was requested to provide a list of all group policyholders active during the experience period. The Company identified a universe of 319 group policyholders. A random sample of 50 groups was selected and the Company was requested to provide copies of the group's required annual examinations. The sample of audits requested, were not provided. The Company stated that audit examinations were not performed. The audits were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e) and (g) of Section 73.133 provides for the insurers responsibility in conducting an annual examination of

creditors to ensure compliance and the requirements to establish and maintain written records of its creditor examination. The following violations were noted.

319 Violations – Title 31 Pennsylvania Code, Section 73.133

(e) Creditor examination. An insurer shall be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first policy year and at least annually thereafter to assure compliance with this chapter and other applicable insurance laws and regulations of the Commonwealth. The examination shall verify the accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and any other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually.

(g) Record of examination. The insurer shall establish and maintain a written record of each creditor examination. This record shall be maintained for at least 3 years from the date of examination or until the conclusion of the next succeeding regular examination by the Department of its domicile, whichever is later.

The Company failed to conduct and maintain a written record of the required annual creditor examination for the 319 active group accounts 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 the following claim manuals:

1. Stop-Loss BP Claim Guidelines
2. Cole Managed Vision Claim Administrative Manual
3. Claims Online Processing System Users Guide
4. Claims Form Letter Directory
5. Claim Processing Codes

The claim manuals and procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of 7 areas:

- A. Accidental Death and Dismemberment Claims
- B. Life Claims
- C. Employee Benefit Life Claims
- D. Employee Benefit Long Term Disability Claims
- E. Employee Benefit Short Term Disability Claims
- F. Credit Disability Claims
- G. Credit Life Claims Paid

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were

reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Accidental Death and Dismemberment Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 112 accidental death and dismemberment claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted.

2 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 Company failed to provide timely status letters for the 2 claims noted.

B. Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company provided a list of 786 life claims. A random sample of 50 life claims was requested, received and reviewed. The 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.

2 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 Company failed to provide timely status letters for the 2 claims noted.

C. Employee Benefit Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 9 employee benefit life claims. All 9 life claims were requested, received and reviewed. The 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). No violations were noted.

D. Employee Benefit Short Term Disability Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 216 employee benefit short-term disability claims. A random sample of 25 files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

E. Employee Benefit Long Term Disability Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 139 employee benefit long term disability claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

F. Credit Disability Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 11,452 credit disability claims. A random sample of 50 credit disability claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

G. Credit Life Claims Paid

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 635 paid life claims. A random sample of 50 life claims was requested, received and reviewed. The 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 violation was noted.

1 Violation – 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 file noted was missing the date stamp on the death certificate.

XI. RECOMMENDATIONS

The 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 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) of the Insurance Department Act of 1921 (40 P.S. §323.3).
2. The Company must implement procedures to ensure compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133.
3. The Company must review and revise internal control procedures to ensure compliance with rating and refund requirements of Title 31, Pennsylvania Code, Chapter 73.
4. The Company must review and revise internal control procedures to ensure compliance with forms filing requirements of Title 31, Pennsylvania Code, Section 73.136
5. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
6. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
7. The Company must refund all premium overcharges resulting from utilization of unfiled and unapproved premium rates identified during the course of the examination and provide proof of such refunds to the Insurance Department within 30 days of the finalization of this Report.

8. The Company must review, revise and reduce the tolerance levels utilized in the refund and premium calculations for single premium life and single premium disability cancellations to a level as advised by the Department.

XII. COMPANY RESPONSE

Eric W. Verseman
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(608) 231-8996
(800) 356-2644, ext. 8996
Fax: (608) 236-6206



October 18, 2005

Mr. Daniel A. Stemcosky
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
1321 Strawberry Square
Harrisburg, PA 17120

Re: Market Conduct Examination Draft Report
CUNA Mutual Insurance Society

Dear Mr. Stemcosky:

This letter is being provided on behalf of CUNA Mutual Insurance Society in response to your letter and Report of September 19, 2005. We would like to thank you and your team for the professionalism you have displayed during the course of this examination and we would like to thank you for the opportunity to express our opinions and concerns. Our objective in this is to reach an appropriate resolution to the issues raised in your report.

We have structured our response around the recommendations made in Section XI (page 38 of your report) and we will bring in specific points made in the main body of your letter. Prior to addressing specific issues, we would like to request modification to the following item.

1. On page 7 of the draft report, the first sentence of the second paragraph should read “Century Life of America” rather than “Center Life of America”.

RECOMMENDATIONS OF THE BUREAU

- 1. 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 a manner and for such a period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).**

Company Response:

The Company will review and revise procedures to improve the availability and retention of the required documentation.

- 2. The Company must implement procedures to ensure compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133.**

Company Response:

The Company will implement procedures to comply with the annual audit and examination requirements.

- 3. The Company must review and revise internal control procedures to ensure compliance with rating and refunds requirements of Title 31, Pennsylvania Code, Chapter 73.**

Company Response:

On September 22, 2005, we filed new credit insurance forms with the Pennsylvania Department of Insurance. The monthly premium policy and certificate included with that submission includes the correct refund information for closed end loans.

- 4. The Company must review and revise internal control procedures to ensure compliance with forms filing requirements of Title 31, Pennsylvania Code, Section 73.136.**

Company Response:

As mentioned in our response to recommendation #3 above, new credit insurance forms were filed with the Department of Insurance on September 22, 2005. The cover letter of our submission clearly indicated that the policy forms would be used to cover all types of loans written by a creditor policyholder and that coverage may be truncated depending on the length of the loan and the policy maximums.

- 5. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).**

Company Response:

Since the completion of the exam, the Company has improved our process and implemented the US Postal Services Certificate of Mailing process for policies mailed directly to Pennsylvania policy owners. The period during which the owners may exercise a statutory right to return the policy starts 10 days after the date on the Certificate of Mailing list. The list is maintained as a permanent record and can be referenced upon individual request.

- 6. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.**

Mr. Daniel A. Stemcosky

October 18, 2005

Page 3

Company Response:

The Company will review and revise any internal control procedures associated with the regulation cited. The violations noted were due to administrative error and not our normal practice in processing claims.

- 7. The Company must refund all premium overcharges resulting from utilization of unfilled and unapproved premium rates identified during the course of the examination and provide proof of such refunds to the Insurance Department within 30 days of the finalization of this Report.**

Company Response:

The Company is in the process of refunding all premium overcharges identified. We will provide the proof of such refunds within 30 days of the finalization of this Report.

- 8. The Company must review, revise and reduce the tolerance levels utilized in the refund and premium calculations for single premium life and single premium disability cancellations to a level as advised by the Department.**

Company Response:

The Company will review and revise as advised by the Department the tolerance levels utilized in the refund and premium calculations for single premium life and single premium disability cancellations.

If further information or clarification is required, please contact our examination coordinator, Kathy Graham, at 1-800-356-2644, extension 7008.

Sincerely,



Eric W. Verseman
Vice President – Corporate Compliance

EWV:law