

**REPORT OF
MARKET CONDUCT EXAMINATION
OF
AMERICAN HERITAGE LIFE INSURANCE
COMPANY
Jacksonville, Florida
AS OF
February 11, 2008
COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: April 11, 2008

AMERICAN HERITAGE LIFE INSURANCE COMPANY

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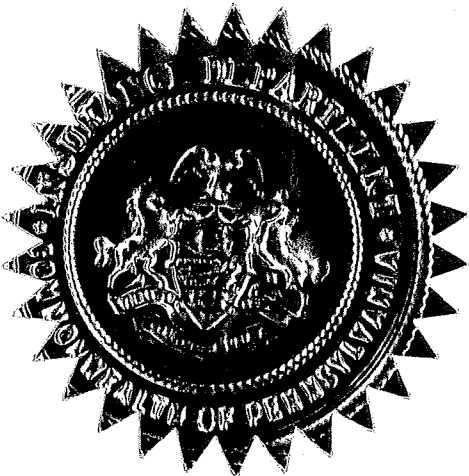
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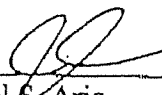
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, 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.





Joel S. Ario
Insurance Commissioner

IN RE:	:	VIOLATIONS:
	:	
AMERICAN HERITAGE LIFE	:	Sections 641-A and 671-A of Act 147
INSURANCE COMPANY	:	of 2002 (40 P.S. §§ 310.41 and
1776 American Heritage Life Drive	:	310.71)
Jacksonville, FL 32224-6688	:	
	:	Section 903(a) of the Insurance
	:	Department Act, Act of May 17,
	:	1921, P.L. 789, No. 285 (40
	:	P.S.323.3)
	:	
	:	Section 2166(A) of the Act of
	:	June 17, 1998, P.L. 464, No. 68
	:	(40 P.S. § 991.2166)
	:	
	:	Sections 404-A, 406-A,
	:	408-A(c)(4)(i), 408-A(e)(1)(i) and
	:	408-A(e)(5) of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. §§ 625-4,
	:	625-6 and 625-8)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	73.106, 73.127(b), 73.127(c),
	:	73.133(f), 73.133(g), 81.6(a)(2)(ii),
	:	83.4a, 88.102, 146.5, 146.6 and 146.7
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
	:	
Respondent.	:	Docket No. MC08-03-040

CONSENT ORDER

AND NOW, this 11th day of APRIL, 2008, this Order is hereby issued by the Insurance Department 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.
3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent neither admits nor denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

4. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is American Heritage Life Insurance Company, and maintains its address at 1776 American Heritage Life Drive, Jacksonville, Florida 32224-6688.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2006 to December 31, 2006.
- (c) On February 11, 2008, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on March 12, 2008.
- (e) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
 - (ii) Section 671-A of Act 147 of 2002 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;

- (iii) 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;
- (iv) Section 2166(A) of Act 68 (40 P.S. § 991.2166), which requires a licensed insurer or managed care plan to pay a clean claim submitted by a health care provider within 45 days of receipt of the clean claim;
- (v) 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 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;

(vi) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. § 625-6), which prohibits any alteration of any written application for a life insurance policy or annuity to be made by any person other than the applicant without the applicant's written consent;

(vii) Section 408-A(c)(4)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a statement to be signed and dated by the applicant or the policy owner in the case of an illustration provided at the time of delivery, reading as follows: "I have received a copy of this illustration and understand that any nonguaranteed elements illustrated are subject to change and could be either higher or lower. The producer has told me they are nonguaranteed."

(viii) Section 408-A(e)(1)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires if the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the application;

- (ix) Section 408-A(e)(5) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a copy of the basic illustration and any revisions signed, with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until three years after the policy is no longer in force;
- (x) 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*;
- (xi) Title 31, Pennsylvania Code, Section 73.127(b), which requires refunds of premiums paid by or charged to the debtor shall be remitted to the debtor or credited to the debtor's outstanding indebtedness within ten working days after the agent or group policyholder receives the refund from the insurer;

- (xii) Title 31, Pennsylvania Code, Section 73.127(c), which requires a refund payment shall be accompanied by an explanation that the payment is a refund of premium. If the refund amount has been deducted from the debtor's outstanding indebtedness, the debtor shall be notified in writing that the refund was applied toward the outstanding indebtedness;
- (xiii) Title 31, Pennsylvania Code, Section 73.133(f), which requires each insurer to make available for Department inspection upon request its creditor examination procedures;
- (xiv) 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;
- (xv) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by Section 83.3, or ledger statement containing comparable policy data on the proposed life

insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner;

- (xvi) Title 31, Pennsylvania Code, Section 83.4a, which states the agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant;
- (xvii) Title 31, Pennsylvania Code, Section 88.102, which states, 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. 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;
- (xviii) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 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 acknowledgement shall be made in the claim file of the insurer and dated;

- (xix) 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;
- (xx) Title 31, Pennsylvania Code, Section 146.7, which requires within 15 working days after receipt by the insurer of properly executed proof of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer; and
- (xxi) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties."

CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
 - (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) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.
- (c) Respondent's violations of Section 2166(A) of Act 68 (40 P.S. § 991.2166) are punishable under Section 2182 of Act 68, which states the Department may impose a penalty of up to five thousand dollars (\$5,000.00) for a violation of this article.

- (d) Respondent's violations of Sections 404-A, 406-A and 408-A of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6 and 625-8) 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.
- (e) 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).
- (f) Respondent's violations of Title 31, Pennsylvania Code, Chapter 81, are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);

(g) Respondent's violations of Title 31, Pennsylvania Code, Chapter 83 are punishable under Title 31, Pennsylvania Code, Section 83.6:

(i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under

40 P.S. § 475, for violations of 40 P.S. §§ 472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

(h) Respondent's violations of Title 31, Pennsylvania Code, Sections 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.

(i) 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

6. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department 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 pay Thirty-Five Thousand Dollars (\$35,000.00) 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. Fraser, Office Manager, 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.

7. In the event the Insurance Department 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 Insurance Department 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 Department may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. Alternatively, in the event the Insurance Department finds that there has been a breach of any of the provisions of this Order, the Department 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.

9. 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.

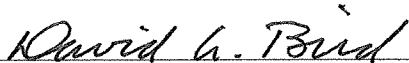
10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

11. 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.

12. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee 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 delegee.

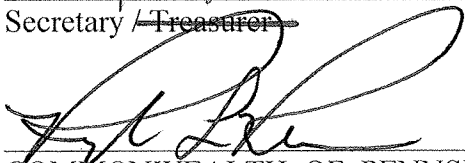
BY: AMERICAN HERITAGE LIFE INSURANCE
COMPANY, Respondent



President / ~~Vice President~~



Secretary / ~~Treasurer~~



COMMONWEALTH OF PENNSYLVANIA
By: Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The Market Conduct Examination was conducted on American Heritage Life Insurance Company; hereafter referred to as “Company,” at the Company’s office located in Jacksonville, Florida, May 29, 2007, through August 17, 2007. 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.

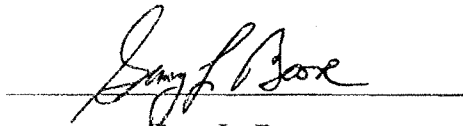
The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

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



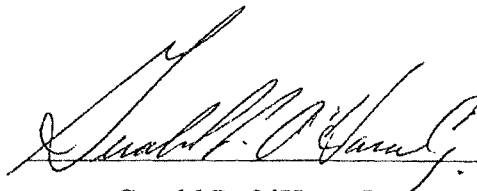
Daniel Stemcosky, AIE, FLMI

Market Conduct Division Chief



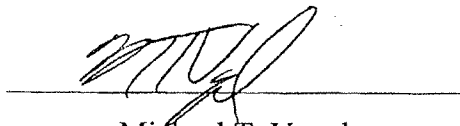
Gary L. Boose

Market Conduct Examiner



Gerald P. O'Hara, Jr.

Market Conduct Examiner

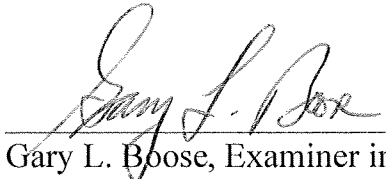


Michael T. Vogel

Market Conduct Examiner

Verification

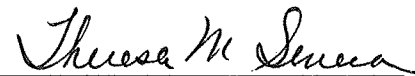
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



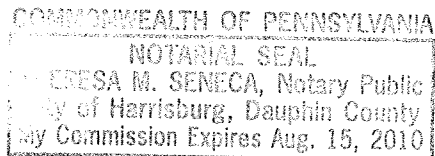
Gary L. Boose, Examiner in Charge

Sworn to and Subscribed Before me

This 11 Day of February, 2008



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 January 1, 2006, through December 31, 2006, 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, Producer Licensing, Underwriting Practices and Procedures, Rating 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 Heritage Life Insurance Company commenced business on December 27, 1956, and was incorporated in the State of Florida on September 11, 1956. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on June 1, 1960. The Company is authorized to do business in 49 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

The Company is a subsidiary of American Heritage Life Investment Corporation (“AHLIC”). Effective on October 31, 1999, AHLIC merged into The Allstate Corporation.

In addition to credit insurance, the Company offers a variety of life and accident and health insurance coverage.

As of their 2006 annual statement for Pennsylvania, the Company reported direct premium for ordinary, credit and group life insurance in the amount of \$2,788,351; and direct premium for accident and health insurance in the amount of \$9,566,137.

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 was requested to provide advertising and marketing materials used during the experience period and a certificate of authority. The Company provided the information as requested, but did not provide a certificate of authority. The reviewing criteria used was to ascertain compliance with Act 205, Section 5 (40 P.S. § 1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices. Also the material was reviewed for compliance with Title 31, Pennsylvania Code, Chapter 51, Title 31 Pennsylvania Code, Section 73.136(a)(c)(d)(e)(f), and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k). No violations were noted.

V. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice, Title 31, Pennsylvania Code, Chapter 73, and Insurance Department Act, Section 903 (40 P.S. §323.3). The applicable sections are as follows: 73.114 insurability requirements, 73.115 benefits exclusions, 73.116 age requirements, 73.130 election of coverage and disclosure requirements, 73.133 group examination and audits and 73.136(a) approval of forms and rates. The following violations were noted:

3 Violations - Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” The following applications for insurance did not contain or have attached the required fraud statement:

Form #
AHL-APP-PA (1) (08/01)
AWD5018PA
AWD5017PA

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 1,531 active and terminated producers. A random sample of 431 producers was requested, received and reviewed. The list was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the 81 producers identified on applications reviewed in the policy issued sections of the exam. The following violations were noted.

21 Violations – Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.

- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
 - (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer's holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer's license is suspended, revoked or otherwise terminated.
- (e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.
- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the following producer or agencies. The Company listed these producers as active; however, Department records did not indicate their appointment.

Producer
Debbie Donelson
Murphy Ins Agency Inc
Wachovia Ins. Svc. Inc
Kenntn Karnes
Celaris Brokerage LLC
Bill Gray
Duane Jones
Edwin Schaeffer
Mary Silva
Gregory Westfall
James Tegowski
Bob Lehr & Associates, Inc
Robert Lehr
Carmen Torres
Jo Brashen
John Baloh
Fairview Services Plan, Inc
Stephen Twersky
Marcia Walsh
Dean Grant
Arden Hetland

15 Violations –Insurance Department Act, No. 147, Section 641.1-A

(40 P.S. §310.41a)

(a) Any insurance entity or licensee accepting applications or orders for insurance or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5000 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

(b) A person that violates this section commits a misdemeanor of the third degree.

The following 15 individuals/entities were listed as producers for the Company; however, Department records do not identify the individual/entities as holding a Pennsylvania insurance license to market credit products.

Producer
Duane Jones
Edwin Schaeffer
Mary Silva
Gregory Westfall
James Tegowski
Bob Lehr & Associates, Inc
Robert Lehr
Carmen Torres
Jo Brashen
John Baloh
Fairview Services Plan, Inc
Stephen Twersky
Marcia Walsh
Dean Grant
Arden Hetland

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2002, 2003, 2004, and 2005. The Company reported 10 consumer complaints were received during the experience period. Of the 10 complaints identified, 10 were forwarded from the Department. All 10 complaint files were requested, received and reviewed. The Company provided complaint logs as requested. 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 22 general segments.

- A. Underwriting Guidelines
- B. Group Credit Life Policies Issued
- C. Group Single Premium Credit Policyholders Active
- D. Group Credit Life Certificates Issued
- E. Group Credit Accident and Health Certificates Issued
- F. Group Credit Life Certificates Terminated
- G. Group Credit Accident & Health Certificates Terminated
- H. Individual Accident & Health Policies Issued
 - I. Individual Cancer Policies Issued
 - J. Individual Critical Illness Policies Issued
 - K. Individual Disability Policies Issued
 - L. Individual Hospital Indemnity Policies Issued
- M. Individual Term Life Policies Issued
- N. Individual Universal Life Policies Issued
- O. Individual Accident & Health Policies Issued as Replacements
- P. Individual Cancer Policies Issued as Replacements
- Q. Individual Critical Illness Policies Issued as Replacements
- R. Individual Disability Policies Issued as Replacements
- S. Individual Hospital Indemnity Policies Issued as Replacements
- T. Individual Term Life Policies Issued as Replacements
- U. Individual Universal Life Policies Issued as Replacements
- V. Individual Term Conversions

Each segment was reviewed for compliance with underwriting practices and included forms identification and producer identification. Issues relating to forms or 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 all underwriting guidelines and manuals utilized during the experience period. The guidelines and manuals received were reviewed to ensure that underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. The Company is a member of Insurance Marketplace Standards Association (IMSA). The Insurance Marketplace Standards Association (IMSA) Qualified Independent Assessor's Supplemental Report was reviewed with no unsatisfactory gaps identified. No violations were noted.

B. Group Credit Life Policies Issued

The Company was requested to provide a list of their group credit life policies issued during the experience period. The Company identified a universe of 75 group credit life policies issued. A random sample of 25 group policies was selected for the Company to provide copies of the group's master contracts. Of the requested contracts, the Company did not provide any copies of the original master group contracts issued. The Company only provided "boiler plate" copies of requested contracts. The group contracts were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e), (f), (g) and (h) 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:

75 Violations – Title 31, Pennsylvania Code, Section 73.133(f), Claims and examination procedures.

(f) Inspection of examination procedures. Each insurer shall make available for Department inspection upon request its creditor examination procedures.

The audit examination procedures were not provided.

C. Group Single Premium Credit Policyholders Active

The Company was requested to provide a list of their group single premium policyholders active during the experience period. The Company identified a universe of 263 group policies. A random sample of 25 groups was selected for the Company to provide copies of the group's required annual examinations as well as copies of the Company's group master contracts. Of the requested contracts and audits, the Company did not provide any of the requested group contracts and audits. The group contracts and the audits were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e), (f), 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:

1 Violation – Title 31, Pennsylvania Code, Section 73.133(f), Claims and examination procedures.

(f) Inspection of examination procedures. Each insurer shall make available for Department inspection upon request its creditor examination procedures.

The audit examination procedures were not provided.

263 Violations – Title 31, Pennsylvania Code, Section 73.133(g), Claims and examination procedures.

(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 did not provide any records of performed audits.

D. Group Credit Life Certificates Issued

The Company was requested to provide a list of all life certificates issued used during the experience period. The Company identified a universe of 1,382 group credit life certificates issued. A random sample of 75 certificate files was requested, received and reviewed. Contained in these samples were 23 monthly outstanding balance premium life certificates and 52 single premium certificates issued. The files were reviewed to ensure compliance with contract provisions, issuance, and rating laws and regulations. The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 73.106. Life insurance rate standards.

(a) *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*. The premium rates in the noted 2 certificates exceeded prima facie by \$116.83 and \$155.83.

E. Group Credit Accident and Health Certificates Issued

The Company was requested to provide a list of all group credit accident and health certificates issued during the experience period. The Company identified a universe of 1,350 certificates issued. A random sample of 75 certificates was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, issuance and rating laws and regulations. The following violations were noted:

3 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, 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 3 policy files were missing the required certification of coverage.

F. Group Credit Life Certificates Terminated

The Company was requested to provide a list of all life certificates terminated during the experience period. The Company identified a universe of 1,083 group credit life certificates terminated. A random sample of 75 terminated certificates 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. The following violations were noted:

57 Violations - Title 31, Pennsylvania Code, Section 73.127(b) Refunds.

(b) Refund time frame. Refunds of premiums paid by or charged to the debtor shall be remitted to the debtor or credited to the debtor's outstanding indebtedness within 10 working days after the agent or group policyholder receives the refund from the insurer. The refunds in the 57 files noted were not provided to the debtor within 10 working days.

12 Violations - Title 31, Pennsylvania Code, Section 73.127(c) Refunds.

(c) Refund notice. A refund payment shall be accompanied by an explanation that the payment is a refund of premium. If the refund amount has been deducted from the debtor's outstanding indebtedness, the debtor shall be notified in writing that the refund was applied toward the outstanding indebtedness. The 12 files noted did not contain an explanation denoting that the refund was a refund of premium to the debtor.

G. Group Credit Accident and Health Certificates Terminated

The Company was requested to provide a list of all group credit accident and health certificates terminated during the experience period. The Company identified a universe of 992 certificates terminated. A random sample of 75 certificate 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.

H. Individual Accident and Health Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 2,183 individual accident and health policies issued. A random sample of 25 policy files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

I. Individual Cancer Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 1, 279 individual cancer policies issued. A random sample of 25 policy files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

J. Individual Critical Illness Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 144 individual critical illness policies issued. A random sample of 10 individual critical illness policies was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

K. Individual Disability Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 1,286 individual disability policies issued. A random sample of 25 individual disability policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

L. Individual Hospital Indemnity Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 521 individual hospital indemnity policies issued. A random sample of 25 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

M. Individual Term Life Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 490 individual term life policies issued during the experience period. A random sample of 25 life policies issued was requested, received and reviewed. The 25 individual term life policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violation was noted:

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 contained alterations without the applicants consent.

N. Individual Universal Life Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 1,172 individual universal life policies issued during the experience period. A random sample of 25 life policy files was requested, received and reviewed. The 25 individual universal life policies issued were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violation was noted:

1 Violation - Title 31, Pennsylvania Code, Section 83.4a

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement

was given no later than the time that the application was signed by the applicant. The disclosure statement was dated after the application date in the file noted.

O. Individual Accident & Health Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 29 individual accident and health policies issued as replacements. A random sample of 10 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

P. Individual Cancer Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 17 individual cancer policies issued as replacements. A random sample of 10 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

Q. Individual Critical Illness Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 8 individual critical illness policies issued as replacements. All 8 policy files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

R. Individual Disability Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 26 individual disability policies issued as replacements. A random sample of 10 files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violation was noted:

1 Violation – 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. The replacement form was missing the signature date for verification in the file noted.

S. Individual Hospital Indemnity Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 1 individual hospital indemnity policy issued as a replacement. The policy file was requested, received and reviewed. The policy file was reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

T. Individual Term Life Policies Issued as Replacements

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 5 individual term life policies issued as replacements. All 5 files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

4 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed

policy or contract is issued, whichever is sooner. The required letter of notification was late to the Company being replaced in the 4 files noted.

1 Violation - 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 the date of policy delivery could not be established in the file noted.

U. Individual Universal Life Policies Issued as Replacements

The Company identified a universe of 24 universal life policies issued as replacements during the experience period. The entire universe was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

13 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The letter to the Company being replaced was late in the 13 files noted.

2 Violations - Title 31, Pennsylvania Code, Section 83.4a

The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant. The disclosure statement was dated after the application date in the 2 files noted.

13 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 the date of policy delivery could not be established in the 13 files noted.

10 Violations - 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 10 files noted contained alterations without the applicant's consent.

1 Violation - Insurance Company Law, Section 408-A(e)(5) (40 P.S. §625-8)

A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. The file noted did not include the illustration needed at delivery.

V. Individual Term Conversions

The Company identified a universe of 2 individual term conversion policies issued during the experience period. The 2 term conversion policies were requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted:

1 Violation – Insurance Company Law, Section 408-A(c)(4)(i)

A statement to be signed and dated by the applicant or the policy owner in the case of an illustration provided at time of delivery, reading as follows: “I have received a copy of this illustration and understand that any nonguaranteed elements illustrated are subject to change and could be either higher or lower. The producer has told me they are nonguaranteed.” The applicant’s acknowledgement of illustration receipt was not dated in the file noted.

1 Violation – Insurance Company Law, Section 408-A(e)(1)(i) (40 P.S. §625-8)

If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. The agent certification and applicant acknowledgement of the illustration used, was not signed and dated in the file noted.

IX. 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. Internal Credit Claims Audit Manual
2. Claims Procedures Manual
3. Disability Claims Manual
4. Early Pay Off of Disability Claims Manual
5. Life Claims Manual
6. Credit Union Claims Manual
7. Long Term Disability Claims Review Manual

The claim manuals and procedures (guidelines) 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 6 areas:

- A. Credit Accident and Health Claims
- B. Credit Life Claims
- C. Group Accident and Health Claims
- D. Group Life Claims
- E. Individual Life Claims
- F. Individual Accident and Health Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171) and Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The life claims were additionally

reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Credit Accident and Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 1,005 credit accident and health claims. A random sample of 50 credit accident and health 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:

5 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. 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 Company failed to acknowledge a claim within 10 working days for the 5 claims 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 a timely status letter for the 2 claims noted.

2 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the insurer shall advise the first-party claimant of the acceptance or denial of the claim. The Company failed to provide notice of acceptance or denial within 15 working days in the 2 claims noted.

B. Credit Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 85 individual life claims received. A random sample of 25 credit 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:

5 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 Company failed to acknowledge the claim within 10 working days for the 5 claims noted.

7 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 a timely status letter for the 7 claims noted.

1 Violation - 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 Company failed to provide notice of acceptance or denial within 15 working days for the claim noted.

C. Group Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified 3,121 group accident and health claims received. A random sample of 50 group accident and health claims was requested, received and reviewed. Of the 50 claims reviewed, 7 were submitted by the insured and 43 were submitted by the provider. The insured submitted claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and the provider-submitted claim files were reviewed for compliance with Quality Health Care Accountability and Protection Act, No. 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The following violations were noted:

1 Violation - Quality Health Care Accountability and Protection Act, No. 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims

(A) A licensed insurer or a managed care plan shall pay a clean claim submitted by a health care provider within forty-five (45) days of receipt of the clean claim. Claim files for the 43 sampled clean claims paid over 45 days were reviewed to validate the accuracy of the claim report data provided by the Company. The claim noted was paid after the required 45 days.

D. Group Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 3 group life claims received. All 3 life claims were requested, received and 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 146.6

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 a timely status letter for the claim noted.

E. Individual Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 48 individual life claims received. All 48 individual life claims were requested, received, and review. 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:

1 Violation - 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 Company failed to acknowledge the claim within 10 working days.

9 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 a timely status letter for the 9 claims noted.

F. Individual Accident and Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 7,021 individual accident and health claims. A random sample of 50 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:

8 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. 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 Company failed to acknowledge the 8 claims noted within 10 working days.

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 implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71).
3. The Company must review and revise procedures to ensure compliance with refund requirements of Title 31, Pennsylvania Code, Section 73.127.
4. The Company must implement procedures to ensure compliance with establishing and maintaining record of examination audits as required by Title 31, Pennsylvania Code, Section 73.133(g).
5. The Company must implement procedures to ensure compliance with establishing and maintaining creditor examination audit procedures of Title 31, Pennsylvania Code, Section 73.133(f)
6. The Company must review and revise procedures to ensure compliance with the use of proper approved rating requirements of Title 31, Pennsylvania Code, Section 73.106. The Company must provide to the Department proof of the reimbursement of premium overcharge for the 2 accounts noted during the examination. In addition, the Company must review and verify the correct rates were utilized in the universe of group credit life certificates issued during the experience period. Any overcharges in rating identified during this review is to be reimbursed to the account and reported to the Department within 60 days of the Report issued date.

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) of the Insurance Department Act of 1921 (40 P.S. §323.3).
8. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).
9. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).
10. 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).
11. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.
12. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
13. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 88.
14. 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.
15. The Company must implement procedures to ensure compliance with requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. §991.2166), relating to prompt payment of provider claims.

XII. COMPANY RESPONSE



Workplace Division

Gary S. Stere
Senior Vice President & General Counsel

March 12, 2008

Via Email and Overnight Delivery

Daniel A. Stemcosky, AIE, FLMI
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, Pennsylvania 17120

Re: Examination Warrant Number: 06-M24-037
American Heritage Life Insurance Company

Dear Mr. Stemcosky:

On behalf of American Heritage Life Insurance Company (the "Company," or "AHL," please allow this letter to serve as our response ("Response") to the Report of Examination of American Heritage Life Insurance Company (the "Report"), which was received with your cover letter dated February 11, 2008, covering the period January 1, 2006 through December 31, 2006.

This Response will address the recommendations beginning on page 38 of the Report. The recommendations made in the Report identify measures that the Pennsylvania Insurance Department (the "Department") believes are necessary as a result of the number or the nature of the alleged violations noted in the Report. With respect to the other exceptions covered in the Report, but not addressed in the recommendations or within this Response, please note that these areas typically involve a single or statistically insignificant number of unique errors and not a trend. Those exceptions were either a result of human error or deviation from the Company's established procedures and practices. Nonetheless, as our Response indicates below, the Company has taken corrective action where appropriate, in accordance with the recommendations, to minimize the recurrence of these issues in the future.

The Company previously provided detailed responses to the Department regarding the violations alleged. The Company incorporates by reference those responses as if set forth fully herein. The comments contained in this Response, as well as any measures implemented in connection with the Report, should not be construed or interpreted by the Department, or any other party, as admissions on the part of the Company.

We have organized our response in relation to the recommendations set forth in the Report as follows:

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).

Company Response:

The Company has reviewed all forms to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k). The Company agrees enrollment forms AWD5018PA and AWD5017PA did not have the required fraud statement. In September 2006, these forms were replaced with forms AWD5018PA-1 and AWD5017PA-1, which contain the required fraud warning. Form AHL-APP-PA (1) (8/01), which did not contain the fraud notice, is no longer in use. This form was replaced with FPAAP5010PA (02/06) and was approved by the Department on January 12, 2007. This form contains the required fraud statement.

2. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71).

Company Response:

The Company has reviewed its procedures regarding filing notices of appointment and submitting appointment fees for its producers to ensure compliance with Section 671-A of the Insurance Department Act of 1921 (40 P.S. §310.71). The Company has taken corrective action and will be submitting the notices and the filing fees for all credit producers. Additionally, the Company conducts, and will continue to conduct, routine spot-checks to ensure that resident and non-resident agents writing business in Pennsylvania are properly appointed.

The Company has reviewed its procedures regarding compliance with Section 641.1-A of the Insurance Department Act of 1921 (40 P.S. §310.41a). The Company's credit division respectfully disagrees that the listed individuals and entities are producers subject to the producer licensing laws. Although the Company listed these individuals or entities as credit producers, the listed parties are not producers for the Company. The persons and entities listed are agents of the Company but do not sell, solicit or negotiate contracts of insurance. Nor do these persons or entities accept applications or orders for insurance.

3. The Company must review and revise procedures to ensure compliance with refund requirements of Title 31, Pennsylvania Code, Section 73.127.

Company Response:

The Company has begun reviewing its refund procedures and will evaluate its group policyholder's refund procedures to ensure that refunds are paid timely within the refund requirements of Title 31, Pennsylvania Code, Section 73.127.

4. The Company must implement procedures to ensure compliance with establishing and maintaining record of examination audits as required by Title 31, Pennsylvania Code, Section 73.133(g).

Company Response:

To ensure compliance with the requirements of Pa. Code Section 73.133(g), the Company prepared and filed the PA Annual On-site Credit Insurance Audit form which was approved by the PA DOI. The Company will use the approved version of the PA Annual On-site Credit Insurance Audit form to perform annual examinations of every creditor. Although the Company admits that it did not have written audit examination procedures, its computer system conducted the audits on all business submitted.

5. The Company must implement procedures to ensure compliance with establishing and maintaining creditor examination audit procedures of Title 31, Pennsylvania Code, Section 73.133(f)

Company Response:

To ensure compliance with the requirements of Pa. Code Section 73.133(f), the Company prepared and filed the PA Annual On-site Credit Insurance Audit form which was approved by the PA DOI. The Company will use the approved version of the PA Annual On-site Credit Insurance Audit form to perform annual examinations of every creditor. Although the Company admits that it did not have written audit examination procedures, its computer system conducted the audits on all business submitted.

6. The Company must review and revise procedures to ensure compliance with the use of proper approved rating requirements of Title 31, Pennsylvania Code, Section 73.106. The Company must provide to the Department proof of the reimbursement of premium overcharge for the 2 accounts noted during the examination. In addition, the Company must review and verify the correct rates were utilized in the universe of group credit life certificates issued during the experience period. Any overcharges in rating identified during this review is to be reimbursed to the account and reported to the Department within 60 days of the Report issued date.

Company Response:

Although the Company believes that premium rates for the two noted group credit life certificates exceeded prima facie rates for net truncated coverage, it is unable to determine the exact rate of discrepancy. The Company requests the rating information used by the Department to allow the Company to determine the exact rate discrepancy for the two violations cited by the Department. Once the Company determines the

premium rate discrepancy based on the Department's calculations for the 2 accounts noted, it will make any reimbursement of premium necessary and provide proof thereof to the Department.

The Company will review and verify that the net truncated coverage rates used during the experience period were correct. The Company will identify any overcharges in rating and make refunds to affected insured individuals and notify the Department of reimbursements within 60 days of the Report issued date.

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) of the Insurance Department Act of 1921 (40 P.S. §323.3).

Company Response:

The Company images the certificates so that an exact duplicate is retained electronically. The Company will continue to audit this procedure to ensure that all records are maintained to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3). The Company notes that one violation of the three violations cited by the Department was not a certificate number, but was an invalid batch number.

8. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).

Company Response:

The Company has reviewed its internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6). The Company provides written guidelines to underwriters to help identify those items on the application which would typically require either an amendment to the application or other action, as appropriate. In addition, the Company will take affirmative steps to ensure that the group handling new business better monitors applications for instances where alterations are present.

9. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).

Company Response:

The Company has taken affirmative steps to satisfy the Department's recommendation to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).

One of the violations involved an exercised child term rider conversion provision. Specifically, the Children's Term Rider on a Flexible Premium Adjustable Life policy was converted to a Universal Life policy when the conversion provision was exercised. It was the Company's practice that a signed and dated agent certification and applicant acknowledgement of illustration was not required because the policy was issued as a result of a contractual right and was not the result of the sale of life insurance. The insured was simply exercising a contractual right available under the policy; therefore, no new application was needed or required. However, the Company will follow the Department's recommendation and will now treat internal term conversions as new policies and will require illustration certifications.

The other two violations involving illustration certification and delivery requirements were the result of an isolated system error which the Company has subsequently tested to ensure compliance with Pennsylvania regulations.

10. 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:

The Company has a procedure in place 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). The Company agrees thirteen files did not contain evidence of delivery; however, the internal procedures are in compliance. The violations were the result of system error rather than a general business practice. Subsequent to this market conduct examination, the Company changed its procedures to ensure that the proper documentation is maintained to verify policy delivery.

11. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

Company Response:

The Company has procedures in place for compliance with the replacement regulations and the requirements concerning the timely sending of replacement letters to the existing insurer.

The Company implemented technology on September 1, 2006, to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81. Specifically, this technology includes an upgrade to the computer system, which sends an immediate notification to the Replacement Clerk with instructions to send a replacement (cession) letter. The noted violations occurred prior to the implementation of this streamlined processing. The Company is now meeting the required five day turn-around time and monthly audits are conducted to ensure compliance with Title 31, Pennsylvania Code, Section 81.

12. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

Company Response:

The Company has reviewed internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83. In Fall 2006, the Company revised its procedures pertaining to replacement processing as noted in the Company's Response to recommendation No. 11 above. One of these changes ensures that the disclosure form, when required, is completed and dated on the same date as, or before, the application sign date. Applications received without the required disclosure form properly completed will be returned to the agent.

13. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 88.

Company Response:

The Company has reviewed internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 88. The single violation identified during the examination pertaining to individual disability policies issued as replacements was the result of human error and does not constitute a general business practice. The replacement form was properly executed with the exception of the signature date. The affected areas have been reminded of the importance that this form be fully completed in accordance with Title 31, Pennsylvania Code, Chapter 88.

14. 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.

Company Response:

The company has reviewed and revised internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

The Company believes that the minimal number of violations noted is an indication that the violations were isolated cases and do not reflect a pattern or practice. The Company will provide additional training and will revise its internal control procedures to reinforce the requirement that all claims must be timely acknowledged and timely status letters must be issued to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

Subsequent to the completion of the Market Conduct Examination, the Claim Department implemented new processes to expedite timing of claims payments and communication with claimants. Specifically, the Company changed its ICR vendor to GTESS. The Company's contract with GTESS includes certain service level

agreements to ensure claims are scanned and returned to the Company in a timely manner (24 to 48 hours). Additionally, the Company has implemented a follow-up process whereby every 30 days a letter is sent to the claimant advising of the reason for delay and when a decision can be expected. The Company has also implemented a process whereby workplace claims received will immediately generate a telephone call to acknowledge their receipt. Another call will be placed should additional information be requested, and/or when a claim decision has been made. This is in addition to the hard copy documentation that will be mailed from the Claim Department.

With respect to the credit life claims, the Company agreed with the listed violations outlined for the credit accident and health claims, but disagreed with many of the violations outlined for the credit life claims. The Company maintains disagreement with the previously disputed credit life claims.

15. The Company must implement procedures to ensure compliance with requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. §991.2166), relating to prompt payment of provider claims.

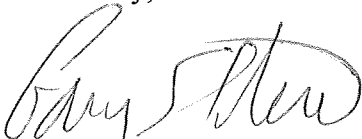
Company Response:

The Company has procedures in place to ensure compliance with requirements of Section 2166 of the Insurance Company Law of 1921 (40 P.S. §991.2166), relating to prompt payment of provider claims. Please note that only a single violation was reported and the claim was paid after forty-eight days, three days beyond the forty-five day limit. Additionally, the Company has changed its ICR vendor to GTESS. GTESS is required to meet certain service level agreements to ensure our compliance with the prompt payment of provider claims.

The Company takes its obligations to consumers very seriously and the Company has consistently complied with those obligations. This is clearly demonstrated by the minimal number of overall complaints against the Company. Based upon the Company's review of the Report, it believes it is in compliance with the applicable statutes and rules.

Thank you for your consideration in this matter and for providing us with an opportunity to respond to the Report. We wish to offer our gratitude to the Department and each individual examiner for the courtesies granted American Heritage Life Insurance Company throughout the course of this examination.

Sincerely,

A handwritten signature in dark ink, appearing to read "Gary Stere", with a stylized, flowing script.

Gary Stere