

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**CENTRAL STATES INDEMNITY COMPANY OF
OMAHA**

Omaha, Nebraska

**AS OF
October 17, 2007**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: October 31, 2007

CENTRAL STATES INDEMNITY COMPANY OF OMAHA

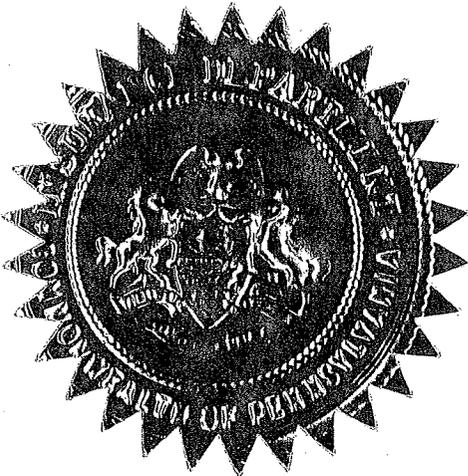
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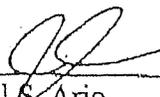
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

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

Central States Indemnity Company of Omaha
Market Conduct Examination as of the
close of business on October 17, 2007

Docket No.
MC07-10-023

ORDER

A market conduct examination of Central States Indemnity Company of Omaha (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, et seq., for the period January 1, 2006 through December 31, 2006. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.

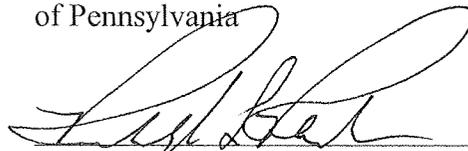
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with the recommendation contained in the attached Report.

4. 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.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania



(October 31, 2007)

Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

The Market Conduct Examination was conducted on Central States Indemnity Company of Omaha; hereafter referred to as "Company," at the Company's office located in Omaha, Nebraska, March 20, 2007, through March 30, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

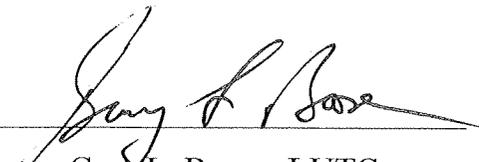
Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition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

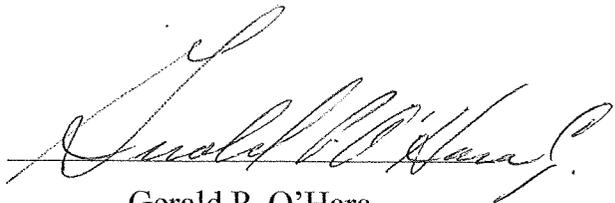
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials 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, LUTC
Market Conduct Examiner


Gerald P. O'Hara
Market Conduct Examiner


Michael T. Vogel
Market Conduct Examiner

Verification

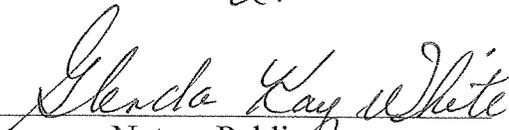
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).



Gary L. Boose, Examiner-in-Charge

Sworn to and Subscribed Before me

This *16th* Day of *October*, 2007



Notary Public

GLENDAY KAY WHITE
NOTARY PUBLIC STATE OF MARYLAND
My Commission Expires *10/5/08*

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

Central States Indemnity Company of Omaha was incorporated on May 20, 1977, under the laws of Nebraska, and began business on June 2, 1977. The Company was granted authority to conduct business in Pennsylvania on October 28, 1986. Central States Indemnity Company of Omaha is licensed in all states, the District of Columbia, Guam and Puerto Rico. On November 18, 1992, Berkshire Hathaway, Inc. acquired control of the Company. The Company is a wholly-owned subsidiary of Central States Of Omaha Companies, Inc., which in turn is approximately 86% owned by Berkshire Hathaway. Central States Indemnity Company of Omaha offers a variety of credit and non-credit insurance coverage including disability, involuntary unemployment, family leave of absence and accidental death.

As of their 2006 annual statement for Pennsylvania, the Company reported direct premium for Credit Unemployment in the amount of \$447,440; Credit Family Leave – Unemployment \$30; Miscellaneous Casualty \$57,574; Group Accident and Health \$21,276; Credit Accident and Health \$543,791; Individual Accident and Health \$108,651 and Inland Marine \$4,307.

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 a copy of their advertising Certificate of Compliance. The Advertising Certificate 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, Title 31, Pennsylvania Code, Chapter 51. 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:

42 Violations – Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)

All applications for insurance and all claim forms shall 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 marketing transcript forms utilized for the requested certificates did not contain or have attached the required fraud notice in the 42 files 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 50 active and terminated producers. The entire 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. 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 consumer complaint logs for 2002, 2003, 2004, and 2005. The Company reported 3 consumer complaints were received during the experience period. The Department forwarded 2 complaints. The Company provided complaint logs as requested.

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. No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 5 general segments.

- A. Underwriting Guidelines
- B. Group Credit Monthly Outstanding Balance Disability Policies Issued
- C. Group Credit Monthly Outstanding Balance Disability Policies Active
- D. Group Credit Monthly Outstanding Balance Disability Certificates Issued
- E. Individual Disability Policies Issued

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. No violations were noted.

The following guidelines were reviewed:

1. Credit Card Credit Insurance Administration
2. Underwriting Guidelines: Non-Credit Insurance

B. Group Credit Monthly Outstanding Balance Disability Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The Company identified a universe of 1 group policy issued during the experience period. The group was selected for the Company to provide a copy of the group's annual examination as well as a copy of the Company's group master contract. Since the group was initiated during the examination period, no audit was available at the time of the review. 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. No violations were noted.

C. Group Credit Monthly Outstanding Balance Disability Policies Active

The Company was requested to provide a list of all active group policyholders during the experience period. The Company identified a universe of 8 credit monthly outstanding balance disability group policyholders active during the experience period. The 8 group policies were issued outside Pennsylvania, but did issue certificates to Pennsylvania residents. The group contracts 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 to ensure compliance verifying 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. Since the group contracts were issued outside Pennsylvania, no review was performed.

D. Group Credit Disability Monthly Outstanding Balance Certificates Issued

The Company was requested to provide a list of all disability certificates issued during the experience period. The Company identified a universe of 5,807 group monthly outstanding balance disability certificates issued. A random sample of 30 certificate files was requested, received and reviewed. The certificate files were reviewed to ensure compliance with contract provisions, issuance, and rating laws and regulations. No violations were noted.

E. 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 1,066 individual disability policies issued. A random sample of 50 certificate 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.

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. Printed computer screen shot titled: "CSI eXtra Ca\$h"
2. ID3 Cheat Sheet
3. Claims Death Checklist
4. Continuing Unemployment / Disability Checklist
5. Claims Health Unemployment / Disability Checklist Initial Forms
6. Claims Header Checklist (Filing NOC for non-life claims)
7. "Group eXtra cash" Product Overview
8. "Individual eXtra cash" Product Overview
9. Stated Benefit / Extra Cash Benefits For Group Policy (SB)
10. Group Policy (SB) Benefits Continued (Death Benefits)
11. Group Policy (SB) Benefits Continued (Unemployment Benefits)
12. Stated Benefit / Extra Cash Benefits For Individual Policy (IP)
13. Individual Policy (IP) Benefits Continued (Accidental Death Benefits)
14. Individual Policy (IP) Benefits Continued (Unemployment Benefits)
15. Individual Policy (IP) Benefits Continued (Family Leave Benefits)
16. Stated Benefit / Extra Cash Letters
17. Utility Letters
18. Initial Disability Claims

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 2 areas:

- A. Credit Disability Claims
- B. Disability 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.

A. Credit Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 647 credit disability claims received during the experience period. Additional analysis determined that the 647 claims were submitted by and attributed to 503 unique individuals or the same individual with different dates of service. A random sample of 50 credit disability claim files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

B. Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 30 disability claims received. A random sample of 10 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.

X. 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).

X. COMPANY RESPONSE



October 25, 2007

Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, Pennsylvania 17120

Attn: Daniel A. Stemcosky, AIE, FLMI
Market Conduct Division Chief

Re: Examination Warrant Number 06-M24-039

Dear Mr. Stemcosky:

Please consider this to be the response from Central States Indemnity Co. of Omaha to the report of Examination of our Company that was enclosed with your October 17, 2007 letter.

We accept the recommendation made and have already implemented corrective measures.

Please extend our thanks to your staff for their cooperation extended to us during the examination.

Sincerely,

A handwritten signature in cursive script that reads "John Juricek".

John Juricek
Vice President Compliance
Central States Indemnity Co. of Omaha

Central States Indemnity Co. of Omaha
1212 North 96th Street, Omaha, Nebraska 68114

A Berkshire Hathaway Company