

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

UNION FIDELITY LIFE INSURANCE COMPANY
Schaumburg, Illinois

**AS OF
October 4, 2006**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: November 29, 2006

UNION FIDELITY LIFE INSURANCE COMPANY

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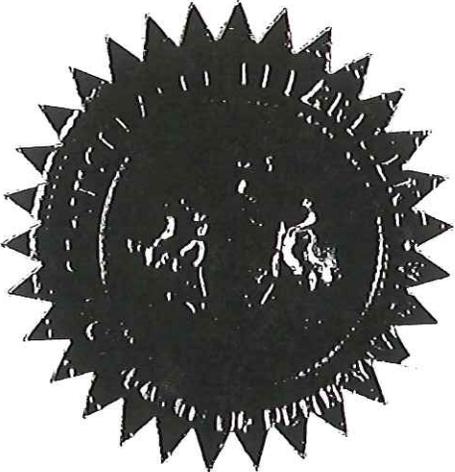
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: The Act of April 9, 1929, P.L. 177, No. 175, known as The
Administrative Code of 1929

AND NOW, this 29 day of April, 2002, Randolph L.

Rohrbaugh, Deputy Insurance Commissioner, is hereby designated as the
Commissioner's duly authorized representative for purposes of entering in and executing
Consent Orders. This delegation of authority shall continue in effect until otherwise
terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
UNION FIDELITY LIFE	:	Section 411B of the Insurance
INSURANCE COMPANY	:	Company Law, Act of May 17, 1921,
200 North Martingale Road	:	P.L. 682, No. 284 (40 P.S. § 511)
Schaumburg, IL 60173-2096	:	
	:	Title 31, Pennsylvania Code, Sections
	:	73.127(b), 73.127(d)(1), 73.133(e), (f)
	:	and (h), 146.5, 146.6 and 146.7
	:	
	:	
Respondent.	:	Docket No. MC06-11-015

CONSENT ORDER

AND NOW, this *29th* day of *NOVEMBER*, 2006, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Union Fidelity Life Insurance Company, and maintains its address at 200 North Martingale Road, Schaumburg, Illinois 60173-2096.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 through December 31, 2005.
- (c) On October 4, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on November 1, 2006.
- (e) The Examination Report notes violations of the following:

- (i) Section 411B of the Insurance Company Law, No. 284 (40 P.S. §511), which states life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than 180 days after the death of the insured, and the death benefits are not paid within 30 days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid;

- (ii) Title 31, Pennsylvania Code, Sections 73.127(b), which requires refunds to be paid by or charged to the debtor within ten working days after the agent or group policyholder receives the refund from the insurer;

- (iii) Title 31, Pennsylvania Code, Sections 73.127(d)(1), which requires insurers to file for approval all refund formulas intended for use. A reference to the Rule of 78 shall be acceptable, in lieu of filing the actual formula:
 - (1) The refund of premiums on a single premium basis shall be calculated by multiplying the original single premium charged, by the appropriate refund factor: (i) In determining the refund, if fewer than 15 days of insurance coverage has been provided during the loan month, no charge

shall be made for that month. If 15 or more days of coverage have been provided during the loan month, a full month may be charged; (ii) For gross decreasing credit life insurance with or without TPD benefits, the refund shall be computed based on the Rule of 78; (iii) For level term credit life insurance with or without TPD benefits, the refund shall be computed based on a pro rata basis; (iv) For full benefit period credit A and H insurance and full benefit period credit involuntary unemployment insurance, the refund shall be computed based on the Rule of 78; (v) For any coverage not listed in subparagraphs (ii) through (iv), the refund factor shall equal the sum of remaining insured balances divided by the sum of the original insured balances; and

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

(iv) Title 31, Pennsylvania Code, Section 73.133(e), which requires an insurer to be responsible for conducting a thorough examination of creditors with respect to its credit insurance business during the first policy year and at least annually thereafter, to assure compliance with this chapter and other applicable insurance laws and regulations of the Commonwealth. The examination shall verify the

accuracy of premiums or other identifiable insurance charges, premium refunds, claim payments which have been reported to the insurer and any other pertinent information necessary for the insurer to determine that debtors are being afforded proper coverage. Examinations performed by an insurer shall be subject to review by the Department. The group policy shall contain a provision explaining that the account will be examined annually;

- (v) Title 31, Pennsylvania Code, Section 73.133(f), which requires each insurer to make available for Department inspection upon request its creditor examination procedures;
- (vi) Title 31, Pennsylvania Code, Section 73.133(h), which requires an insurer or, at the option of the insurer, the creditor, to establish and maintain adequate credit insurance records for at least two years after the termination of an individual debtor's insurance coverage. The records shall identify each individual debtor, the amount insured, the term of the insurance, the charge for the insurance and any refunds of unearned premiums;
- (vii) Title 31, Pennsylvania Code, Section 146.5, which states 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;

- (viii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (ix) Title 31, Pennsylvania Code, Section 146.7(a)(1), which requires 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. No insurer shall deny a claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition or exclusion is included in the denial. The denial must be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial.

CONCLUSIONS OF LAW

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

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

- (b) Respondent's violations of Section 411B of the Insurance Company Law, No. 284 (40 P.S. § 511b) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

- (c) Respondent's violations of Title 31, Pennsylvania Code, Chapter 73, subject the Respondent to an Order of the Commissioner, the violation of which would result in a penalty of up to \$250 and up to \$1000 for willful violation, as well as revocation or suspension of license in addition to any other penalty provided by law (40 P.S. §1007.12; 40 P.S. §1007.14).

- (d) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5, 146.6 and 146.7 subject Respondent to the following penalties under the Unfair Insurance Practices Act (40 P.S. §§1171.1, et seq.):
 - (i) a cease and desist order (40 P.S. § 1171.9);
 - (ii) suspension or revocation of the license(s) of Respondent (40 P.S. § 1171.9);

- (iii) a five thousand dollar (\$5,000) penalty for each method of competition, act or practice which Respondent knew or should have known was in violation of the law (not to exceed \$50,000 in any six month period) (40 P.S. § 1171.11);

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

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent must review and audit all refunds associated with single premium life certificates terminated, and provide to the Department within thirty (30) days from the date of this Order, proof that all refunds were made to the insureds in accordance with Title 31, Pennsylvania Code, Chapter 73.
- (e) Respondent shall pay Thirty Thousand Dollars (\$30,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (f) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in

any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

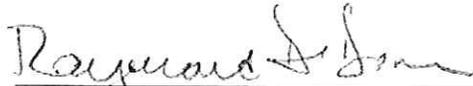
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy

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

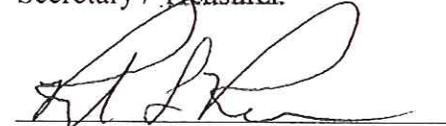
BY: UNION FIDELITY LIFE INSURANCE
COMPANY, Respondent



President / ~~Vice President~~



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on Union Fidelity Life Insurance Company; hereafter referred to as "Company," at the Company's office located in Fort Washington, Pennsylvania, June 26, 2006, through August 3, 2006. 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.

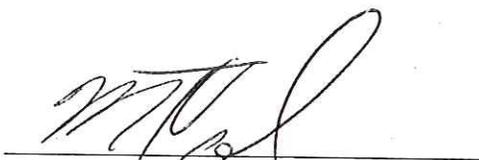
The undersigned participated in the Examination and in the preparation of this Report.



Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief



Gary L. Boose, LUTC
Market Conduct Examiner



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 4 Day of October, 2006



Notary Public
COMMONWEALTH OF PENNSYLVANIA
NOTARIAL SEAL
THERESA M. SENECA, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires Aug. 15, 2010

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, 2005, through December 31, 2005, 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

Union Fidelity Life Insurance Company (“Company”) was incorporated on September 2, 1925, under the laws of the state of Ohio as The Credit Life Insurance Company. In September 1990, the Company was acquired by Combined Insurance Company of America. Effective July 23, 1992, the Company was re-domesticated from the State of Ohio to the State of Illinois. Effective September 15, 1993, Union Fidelity Life Insurance Company was merged into the Company with the name of the successor being Union Fidelity Life Insurance Company. On April 1, 1996, General Electric Capital Corporation (GECC) purchased 100% of the outstanding capital stock of the Company. The Company received its certificate of Authority to operate in the Commonwealth of Pennsylvania on February 8, 1940. The Company is authorized to do business in 50 states and the District of Columbia.

Effective January 1, 1999, the PHF Life Insurance Company merged with and into the Company. Effective July 30, 1999, Montgomery Ward Life Insurance Company and The Signature Life insurance Company merged with and into the Company.

On April 15, 2004, the Company entered into multiple reinsurance agreements with certain affiliated companies that were transferred to Genworth Financial, Inc. pursuant to which it assumed, effective as of January 1, 2004, blocks of structured settlement annuities, variable annuities and long term care insurance, and ceded a block of Medicare supplement insurance. The Company assumed approximately \$2.647 billion of variable annuity reserves, \$12.212 billion of structured settlement reserves, and \$1.588 billion of long term care insurance reserves under these reinsurance agreements.

Effective January 1, 2005, the Company stopped marketing new business.

As of their 2005 annual statement for Pennsylvania, the Company reported direct premium for ordinary life, group life and group credit life insurance in the amount of \$3,376,503.00; and direct premium for accident and health insurance in the amount of \$ 2,669,691.00.

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 did not provide any advertising because the firm no longer markets any business. The reviewing criteria would have been to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. No violations were noted

V. FORMS

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. No violations were noted.

VI. PRODUCER LICENSING

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

The Company provided a list of 139 active producers. All 139 producers were compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the 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 2001, 2002, 2003, and 2004. The Company identified a total of 8 consumer complaints received during the experience period of which 8 were forwarded from the Department. All 8 consumer complaint files were requested and received for review. The company also 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, PA 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 6 general segments.

- A. Underwriting Guidelines
- B. Individual/Group Policies Terminated
- C. Individual Conversions
- D. Credit Monthly Outstanding Balance Certificates In Force
- E. Credit Single Premium Life Certificates Terminated
- F. Credit Single Premium Disability Certificates Terminated

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 manuals were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No new business has been issued for credit since 1999, and none for regular business since December 31, 2005. No violations were noted.

B. Individual/Group Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 4,366 life insurance policies terminated. A random sample of 25 files was requested, received and reviewed. The policies were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

C. Individual Conversions

The Company identified a universe of 7 individual life conversion policies issued during the experience period. All 7 files were requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

D. Credit Monthly Outstanding Balance Certificates In-Force

The Company was requested to provide a list of all certificates in-force during the experience period. The Company identified a universe of 1,486 certificates in-force. A random sample of 50 files was requested, received and reviewed. The certificates were reviewed to ensure compliance with contract provisions, issuance, and rating laws and regulations. The following violations were noted:

14 Violations – Title 31, Pennsylvania Code, Section 73.133(h)

(h) Record of coverage. An insurer or, at the option of the insurer, the creditor shall establish and maintain adequate credit insurance records for at least 2 years after the termination of an individual debtor's insurance coverage. The records shall identify each individual debtor, the amount insured, the term of the insurance, the charge for the insurance and any refunds of unearned premiums. The records shall be made available for Department review upon request. The 14 files noted did not include the certificate of coverage.

E. Credit Single Premium Life Certificates Terminated

The Company was requested to provide a list of all single premium credit life certificates terminated during the experience period. The Company identified a universe of 266 certificates terminated. A random sample of 50 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted:

25 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 25 files noted were not reimbursed within the required 10 working days.

25 Violations – Title 31, Pennsylvania Code, Section 73.133(h)

(h) Record of coverage. An insurer or, at the option of the insurer, the creditor shall establish and maintain adequate credit insurance records for at least 2 years after the termination of an individual debtor's insurance coverage. The records shall identify each individual debtor, the amount insured, the term of the insurance, the charge for the insurance and any refunds of unearned premiums. The records shall be made available for Department review upon request. The 25 files noted did not contain the refund notice provided to the debtor.

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

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

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

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

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

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

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

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

(2) Except as provided in § 73.139 (j) (relating to credit insurance on open end loans), the refund of any unearned premiums calculated and remitted to the insured on a monthly outstanding balance basis shall be equal to the monthly premium charged if fewer than 15 days of insurance coverage has been provided during that loan month. If coverage has been provided for 15 or more days of the loan month, no refund of premium is required. The refund in the file noted was calculated in error in the amount of \$14.26. The Company has issued a check to the insured as restitution.

F. Credit Single Premium Disability Certificates Terminated

The Company was requested to provide a list of all single premium credit disability certificates terminated during the experience period. The Company identified a universe of 132 certificates terminated. A random sample of 50 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted:

11 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 11 files noted were not reimbursed within the required 10 working days.

IX. GROUP CREDIT ANNUAL AUDITS

The Company was requested to provide a list of their group policyholders during the experience period. The Company identified a universe of 90 group policyholders. A random sample of 25 groups was selected for the Company to provide copies of the group's required annual examinations and group master contracts, as well as a copy of the Company's annual creditor audit procedures. Of the 25 contracts and audits requested, the Company provided 9 group contracts. The Company did not provide any group audits or creditor audit procedures. 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.

16 Violations – Title 31, Pennsylvania Code, Section 73.133(h)

(h) Record of coverage. An insurer or, at the option of the insurer, the creditor shall establish and maintain adequate credit insurance records for at least 2 years after the termination of an individual debtor's insurance coverage. The records shall identify each individual debtor, the amount insured, the term of the insurance, the charge for the insurance and any refunds of unearned premiums. The records shall be made available for Department review upon request. Sixteen group contracts were not provided.

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.

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

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

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

The Company did not provide any group creditor annual audit examinations.

X. CLAIMS

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 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 Company provided the following claim manuals:

1. Life and Health Claims Manual
2. Internal Audit Manual
3. Claims Department Responsibilities Manual
4. Credit Claims Manual

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

The claim file review consisted of 8 areas:

- A. Credit Single Premium Disability Claims
- B. Credit Single Premium Life Claims
- C. TPA Medicare Supplement Paid Claims
- D. TPA Medicare Supplement Denied Claims
- E. Accidental Death & Dismemberment Claims
- F. Life Claims
- G. Medical Claims
- H. Medicare 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 Single Premium Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 67 Credit Single Premium Disability Claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

B. Credit Single Premium Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 5 life claims. All 5 claims were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were 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 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 2 claims noted.

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

(40 P.S. §511b)

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

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

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

The Company failed to provide interest in the amount of \$18.36 for the claim noted. The Company has issued a check to the claimant as restitution.

C. TPA Medicare Supplement Paid Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 7,808 medicare supplement paid claims, administrated through a Third Party Administrator (TPA), Wakefield & Associates. 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 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 - 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 noted within 10 working days.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

(a) Every insurer shall complete investigation of a claim within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such 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 30 day status letter for the claim noted.

D. TPA Medicare Supplement Denied Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 1,565 medicare supplement denied claims, administered through a Third Party Administrator (TPA), Wakefield & Associates. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 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. No violations were noted.

E. Accidental Death and Dismemberment Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 331 accidental death dismemberment claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following 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.

F. Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 752 life claims received. A random sample of 50 claims was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, issuance laws and regulations and the claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). No violations were noted.

G. Medical Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 1,408 medical claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

H. Medicare Supplement Claims Paid

The Company was requested to provide a list of all health claims received during the experience period. The Company notified the Department Examiner-in-Charge that this section was never populated with claims. The insured submitted claim files were to be reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and the provider-submitted claim files were to be 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. No violations were noted.

XI. RECOMMENDATIONS

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

1. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
2. The Company must review and revise procedures to ensure compliance with record retention requirements of Title 31, Pennsylvania Code, Section 73.133(h).
3. The Company must implement procedures to ensure compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133.
4. The Company must review and revise internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company Law of 1921 (40 P.S. §511b).
5. The Company must review and revise procedures to ensure compliance with refund requirements of Title 31, Pennsylvania Code, Section 73.127.

XII. COMPANY RESPONSE



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October 31, 2006

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

RE: Examination Warrant Number: 05-M24-080
Union Fidelity Life Insurance Company ("Company")

Dear Mr. Stemcosky:

The Company has reviewed the Report of Examination, dated October 4, 2006, of Union Fidelity Life Insurance Company ("Company") covering the period January 1, 2005 through December 31, 2005. The Company greatly appreciates the opportunity to provide a response to the Department's findings and recommendations.

We offer the following response to the Department's recommendations, as outlined in Section XI. Recommendations, in the same order in which they appear in the examination report.

- 1. 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.**

The Company has reviewed and revised its procedures to ensure compliance with the requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. Specifically, the Company reinforced the notice time requirements relating to claims status, acknowledgement of claims, acceptance/denial of claims, and timely claims payment and communicated the appropriate timeframes and requirements to the Claims Department. In addition, the Company revised its procedures with respect to claims received for the TPA by immediately forwarding the claim to the TPA. The Company implemented a similar procedure whereby the TPA will forward misdirected claims directly to the Company for processing.

- 2. The Company must review and revise procedures to ensure compliance with record retention requirements of Title 31, Pennsylvania Code, Section 73.133(h).**

The Company has reviewed and revised its procedures to ensure compliance with record retention requirements of Title 31, Pennsylvania Code, Section 133(h) in the areas of annual audit and examination requirements and customer records (certificate of coverage and refund notice). The Company reinforced and re-distributed the record retention procedures to the Operations and Claims Departments. In addition, the Company has taken steps to obtain customer records during the annual audit examinations of the credit insurance producers.

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

The Company implemented procedures to ensure future compliance with annual audit and examination requirements of Title 31, Pennsylvania Code, Section 73.133. During the exam, the Company provided audit procedures and checklist to the Department. The Company will commence the audit examinations of the credit insurance producers by year-end, and will follow up with annual audit examinations thereafter.

- 4. The Company must review and revise internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company Law of 1921 (40 P.S. §511b).**

The Company reviewed and revised internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company Law of 1921 (40 P.S. §511b). During the exam, interest payment was made on the one (1) life insurance death benefit that was found to be in violation. The Company reinforced the procedures and re-distributed the chart that outlines the time requirements that trigger interest payment and the elements for calculating such interest payments to the Claims Department.

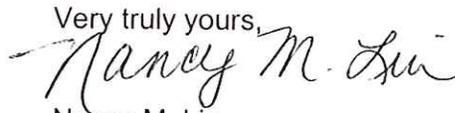
- 5. The Company must review and revise procedures to ensure compliance with refund requirements of Title 31, Pennsylvania Code, Section 73.127.**

The Company reviewed and revised its procedures to ensure compliance with refund requirements of Title 31, Pennsylvania Code, Section 73.127. During the exam, the correct refund payment was made on the one (1) life certificate terminated that was found to be in violation. The Company has instituted a new procedure that requires credit insurance producers to provide evidence of customer premium refund payment to the Company at the time that the producer submits a request for reimbursement.

Daniel A. Stemcosky
October 31, 2006
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We would like to express our appreciation for the professionalism and efficiency of this exam. The Company especially wants to thank the examiners for the knowledge, consideration and cooperation extended to the Company while they were on-site.

If you should have any questions or need any further information, please feel free to contact me at (215) 542-4592.

Very truly yours,

Nancy M. Liu