REPORT OF
MARKET CONDUCT EXAMINATION
OF

THE UNION LABOR LIFE INSURANCE COMPANY

Baltimore, Maryland

AS OF
May 12, 2004

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: July 7, 2004

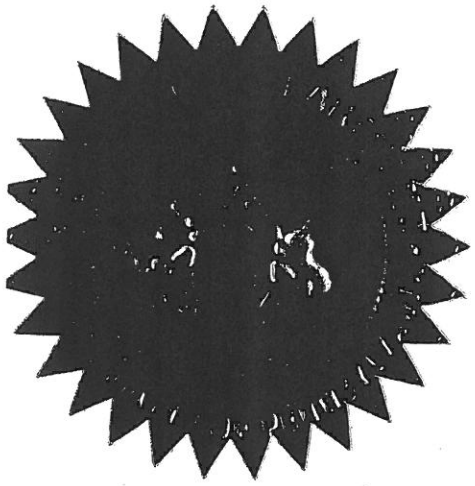
THE UNION LABOR LIFE INSURANCE COMPANY

TABLE OF CONTENTS

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
THE UNION LABOR LIFE INSURANCE COMPANY 1625 Eye Street, N.W. Washington, DC 20006	:	Section 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. § 323.3)
	:	
	:	Sections 404-A, 406-A, 411-B and 617(A)(9) of the Insurance Company Law, Act of May 17, 1921, P.L. 682, No. 284 (40 P.S. §§ 625-4, 625-6, 511b and 752(A)(9))
	:	
	:	Section 5(a)(11) of the Unfair Insurance Practices Act, Act of July 22, 1974, P.L. 589, No. 205 (40 P.S. § 1171.5)
	:	
	:	Title 31, Pennsylvania Code, Sections 83.3, 83.4b, 89a.108, 89.119, 89a.121, 146.3, 146.5, 146.6 and 146.7
	:	
	:	Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC04-06-089

CONSENT ORDER

AND NOW, this 7th day of July, 2004, 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 The Union Labor Life Insurance Company, and maintains its address at 1625 Eye Street, N.W., Washington, DC 20006.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2001 through June 30, 2002.

(c) On May 12, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on June 11, 2004.

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

(i) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

(ii) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered to the policyholder by a means other

than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

(iii) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. §625-6), prohibits 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;

(iv) Section 411B of the Insurance Company Law, No. 284 (40 P.S. § 511b), which states (a) life insurance death benefits not paid within 30 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. (b) Notwithstanding Section 6 of Act No. 367, referred to as the Group Life Insurance Policy Law, this section shall apply to all life insurance policies except variable insurance

policies. 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.

(v) Section 617(A)(9) of the Insurance Company Law, No. 284 (40 P.S. § 752(A)(9)), which mandates coverage for physically handicapped/ mentally retarded children;

(vi) Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205, (40 P.S. § 1171.5), which requires a complete record of all complaints received during the preceding four years;

(vii) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;

(viii) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's

certification from the files of the insurer shall constitute *prima facie* evidence that no disclosure statement was provided to the prospective purchaser of insurance;

(ix) Title 31, Pennsylvania Code, Section 89a.108, which provides that long term care policies, other than policies for which no applicable premium rate or rate schedule increases can be made, insurers shall provide all of the information listed in this subsection to the applicant at the time of application or enrollment, unless the method of application does not allow for delivery at that time. In such a case, an insurer shall provide all of the information listed in this section to the applicant no later than time of delivery, with a statement that the policy may be subject to rate increases in the future;

(x) Title 31, Pennsylvania Code, Section 89a.119, which requires prior to an insurer or similar organization offering group long-term care insurance to a resident of this Commonwealth under Section 1104 of the Act, it shall file with the Commissioner evidence that the group policy or certificate there under has been approved by a state having statutory or regulatory long-term care insurance requirements substantially similar to those adopted in this Commonwealth;

(xi) Title 31, Pennsylvania Code, Section 89a.121, which requires every insurer to: (a) develop and use suitability standards to determine whether the purchase or replacement of long-term care insurance is appropriate for the needs of the applicant, train its producers to use the suitability standards, and maintain a copy of the standards and make them available for inspection upon request by the Commissioner;

(b) to determine whether the applicant meets the standards, the producer and issuer shall develop procedures that take into consideration the ability to pay for the proposed coverage and pertinent financial information, the applicant's goals or needs and the advantages or disadvantages of insurance to meet those goals, the values, benefits and costs of the applicant's existing insurance when compared to the values, benefits and costs of the recommended purchase or replacement. The issuer, and when a producer is involved, the producer shall make reasonable efforts to obtain the information above. The efforts shall include a presentation to the applicant, at or prior to the application, a "Long-Term Care Insurance Personal Worksheet". The personal worksheet shall contain, at a minimum, the information required, in at least 12 point type. The issuer may request the applicant to provide additional information to comply with suitability standards, and a copy of the worksheet shall be filed with the Commissioner. A completed personal worksheet shall be returned to the issuer prior to the issuer's consideration of the applicant for coverage, except the personal worksheet need not be returned for sales of employer

group long-term care insurance to employees and their spouses. The sale or dissemination outside the company or agency by the issuer or producer of information obtained through the personal worksheet in Appendix B is prohibited.

(c) The issuer shall use the suitability standards it has developed under this section in determining whether issuing long-term care insurance is appropriate.

(d) Producers shall use the suitability standards developed by the issuer in marketing long-term care insurance.

(e) At the same time as the personal worksheet is provided to the applicant, the disclosure form entitled "Things You Should Know Before You Buy Long-Term Care Insurance" shall be provided. The form shall be in the format contained in the Appendix C.

(f) If the issuer determines that the applicant does not meet its financial suitability standards, or if the applicant has declined to provide the information, the issuer may reject the application. In the alternative, the insurer shall send the applicant a letter similar to the one presented in Appendix D. If the applicant has declined to provide financial information, the issuer may use some other method to verify the applicant's intent. Either the applicant's returned letter or a record of the alternative method of verification shall be made part of the applicant's file.

(g) The issuer shall report annually to the Commissioner the total number of applications received from residents of this Commonwealth, the number of those who declined to provide information on the personal worksheet, the number of applicants who did not meet the suitability standards and the number of those who chose to confirm after receiving a suitability letter.

(xxii) Title 31, Pennsylvania Code, Section 146.3, which requires the claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed;

(xxiii) 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;

(xxiv) 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;

(xxv) Title 31, Pennsylvania Code, Section 146.7(a)(1) requires that within 15 working days after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer. The denial shall be given to the claimant in writing and the claim file of the insurer shall contain a copy of the denial; and

(xxvi) 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

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 Sections 404-A, 406-A, 411-B and 617(A)(9) the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6, 625-8, 511b and 752(A)(9)) 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 Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. § 1171.5) are punishable by the following, 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.

(d) 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).

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3 and 83.4b are punishable under Title 31, Pennsylvania Code, Section 83.6:

(i) For failing to make 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.

(f) Respondent's violations of Title 31, Pennsylvania Code, Sections 89a.108, 89.119 and 89a.121, are punishable under 40 P.S. § 991.1114, Penalties, an insurer or agent found to have violated requirements relating to the regulations of long-term care insurance or the marketing of such insurance shall be subject to a civil penalty of up to three times the amount of any

commissions paid for each policy involved in the violation, or $10,000, whichever is greater.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9), as above.

ORDER

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

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

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

(c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Twenty Thousand Dollars ($20,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

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

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

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate

action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

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

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

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

BY: THE UNION LABOR LIFE INSURANCE COMPANY, Respondent

President / Vice President

Asst. Secretary / Treasurer

RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on The Union Labor Life Insurance Company, hereinafter referred to as "Company," at their Administrative Office located at 111 Massachusetts Avenue N.W., Washington, D.C., from March 5, 2003, through May 9, 2003. 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 this Report may result in the imposition of penalties. Generally, practices, procedures, or files that were reviewed by the Department examiners during the course of an examination many 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 potential impact upon Company operations or future compliance issues.

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 Company officers and employees during the course of the examination is hereby acknowledged.

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

Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief

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

Lonnie L. Suggs
Market Conduct Examiner

Deborah Lee
Market Conduct Examiner

Gary L. Boose
Market Conduct Examiner

Jerry O'Hara
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §323.3 and §323.4) of the Insurance Department Act and covered the experience period of July 1, 2001, through June 30, 2002, unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Pennsylvania Insurance Laws and Regulations.

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

The Company was requested to identify the universe of files for each area of review during the experience period identified. Based on the universe sizes identified, a random sampling was utilized to select the files to be 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 Labor Life Insurance Company (ULLICO), commenced business on May 1, 1927, in Washington, D.C. The Company was admitted in the Commonwealth of Pennsylvania on May 5, 1927. The Company is authorized and licensed to do business in all 50 states and the District of Columbia.

Union Labor Life Insurance Company Inc. traces its roots back to the early 1920s, whereby in 1925, the American Federation of Labor approved the creation of a union-owned insurance company, The Union Labor Life Insurance Company. Its mission was to provide affordable life insurance for union workers and their families. In 1932, Union labor Life Insurance Company introduced a retirement annuity contract for retired union members. Three years later in 1935, the Company relocated headquarters to New York City. In 1943, the Company introduced group insurance and commenced writing coverage for group accident, health and hospitalization insurance. In 1983, Union Labor Life moved its headquarters back to Washington, D.C. from New York City.

Over the years, Union Labor Life grew and diversified, offering health insurance, investment products for pension funds, and services for administering trust fund business. The company began creating other subsidiaries, such as ULICO Casualty Company to offer insurance to trustees of benefit plans. In order to provide for future growth and diversification, ULLICO Inc. was created in 1987, as a holding company for Union Labor Life and other future subsidiaries.

As of their December, 2002, annual statement for Pennsylvania, the Company reported direct premium for life insurance and annuities in the amount of $7,870,228 and direct premium for accident and health insurance in the amount of $4,679,590.

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 these Regulations, may be reviewed at any time at the discretion of the Department." The Department, in exercising its discretionary authority, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company identified and produced a total of 48 brochures mailed during the experience period. The material consisted of enrollment brochures, invitation to enroll mailers, and additional coverage booklets and leaflets. All advertising including the Company's website at www.ullico.com was reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. No violations were noted.

V. FORMS

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

Title 18, Pennsylvania Consolidated Statute, 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 ace, which is a crime and subjects such person to criminal and civil penalties." A break down of the 275 fraud statement violations is noted below.

176 Violations - The following group enrollment documents used with the group enrollments did not contain the required fraud statement.

Form Number	Form Name
Form 26419	Pennsylvania Group Insurance Employee Enrollment Form For Groups of 2-50
Form 26419 (rev.3/2001)	Pennsylvania Group Insurance Employee Enrollment Form

6 Violations – The fraud statement was not included or attached thereto in 6 Medicare Supplement enrollment files, form name Group Enrollment Form marketed by CHCS, a third party administrator.

1 Violation - The fraud statement was not included or attached thereto in one Direct Accidental Death and Dismemberment file, form ADD Enrollment Form ULLGA-494 DB/CC marketed by CBCA, another third party administrator.

5 Violations – The fraud statement was not included or attached thereto in 5 Whole Life Conversion enrollment files, marketed by TAG, a third party administrator.

31 Violations – The ULLICO life claim form 1529.A Group 5M12/92 did not contain or have attached thereto the required fraud notice

13 Violations - The fraud statement was not included or attached thereto in 13 Life Claim files, marketed by TAG, a third party administrator.

24 Violations – The following two Accidental Death and Dismemberment claim forms were identified that did not include or have attached thereto the required fraud statement. The claim forms identified were "1529.6A GROUP 5M 12/92" and "Proof of Death form.

6 Violations - The fraud statement was not included or attached thereto in the following 6 forms:

Form and Description
Form 891-84 Group Life Insurance Conversion Application Form
ULLG-GRP/APP-POL Group Policy Application
ULLGA-HIP-1-F Enrollment Form

CVEN.CO Enrollment for Conversion
Application for Flexible Premium Deferred Annuity 83 - FPRA - APP
Application for Flexible Premium Deferred Annuity 85 – FPRA - APP

13 Violations –The following direct mail application forms did not contain the required fraud statement.

Brochure Description	Application Form Number
Ullico LTU (Control) 6/01	ULLGA T85-393 (L) C-LTU-601 (AP)
Ullico LTU (Teaser) 6/01	ULLGA T85-393 (L) C-UP-LTU-901 (AP)
Ullico SR HIP Nicksic (old) 9/01	ULLGA-HIP-1-F
Ullico HIP (Control) 9/01	(L) HIP-APP801 ULLGAHIP301 (Rev9/01)
Ullico HIP Combo 9/01	ULLGA-HIP-301 (Rev. 9/01)
Union Privilege LTU 12/01	ULLGA-T85-393 (L) C-UP-LTU-1201 (AP)
Ullico LTU (Mod Control) Jan 02	ULLGA-T85-393 (L) C-UP-LTU-1201 (AP)
Ullico Birthday Life 2/02	6061211A 606100 (# on right)
Ullico HAP (Cost Savings) 5/02	612121SNM
Ullico HAP Control 5/02	612121SNM
Ullico Charmin T100 6/02	ULLGA-TL-0302 (UL) ULL-T100-0602
Ullico Charmin LTU Test 6/02	ULLGA-TL-0302 (UL) LTU-NC-0602
Ullico LTU Stripe Control	ULLGA-T85-393 (UL) C-LTU-0602 (AP)

2 Violations - Physically Handicapped/Mentally Retarded Child, Pennsylvania Insurance Law, Chapter 2, Section 617(A)(9) (40 P.S. §752(A)(9)) This required mandated coverage was not included in the Group Hospital Indemnity Certificate of Insurance – ULLC-HIP-301 and Group Hospital Indemnity Policy - ULLG-HIP-494.

VI. AGENT LICENSING

The Company was requested to provide a list of all agents active and terminated during the experience period. Section 606 (40 P.S. §236) of the Insurance Department Act requires all entities to report all appointments and terminations to the Insurance Department. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 623 (40 P.S. §253) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. The Company identified 102 licensed agents during the period. All 102 agents were selected for review. The Company's list of agents and those agents identified in the underwriting files during the examination were compared to Insurance Department licensing records to verify compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act. No violations were noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 1998, 1999, 2000, and 2001. The Company identified 14 written consumer complaints received during the experience period and provided complaint logs for 2000, and 2001. All 14 complaint files was requested, received and reviewed. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 2 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. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The Company failed to provide the claim file related to a consumers complaint.

2 Violations – Title 31, Pennsylvania Code, Section 146.5

(b) Every insurer, upon receipt of an inquiry from the Department respecting a claim shall, within 15 working days of receipt of the inquiry, furnish the Department with an adequate response to the inquiry.

(c) An appropriate reply shall be made within 10 working days on other pertinent communication from a claimant, which reasonably suggest that a response is expected. The Company failed to respond to the Department and claimant within the required time period.

79 Violations - Unfair Insurances 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.

The Company failed to maintain consumer complaint logs for 2 calendar years, 1998 and 1999. The nature of the complaint was not recorded for 37 complaints and the disposition of the complaint was not recorded for 40 complaints in the year 2000, complaint log.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 8 general segments.

A. Underwriting Guidelines
B. Group Accounts In-Force
C. Group Medicare Supplemental Policies In-Force
D. Direct Whole Life Policies In-Force
E. Individual Long-Term Care In-Force
F. Direct Whole Life Policies Not Taken
G. Accidental Death and Dismemberment Certificate Issued
H. Individual Life Conversion Policies In-Force

Each segment was reviewed for compliance with underwriting practices and verification of premium rates, forms identification and agent identification. Issues relating to forms and agent licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

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

The following manuals and guides were provided and reviewed:

Group Underwriting

1. Life and Health
2. Accidental Death and Dismemberment

Direct Marketing

1. Birthday Life, Term to 100, Senior Life
2. Juvenile Whole Life ("Sure Start")
3. AFT Takeover Business
4. Ten Year Term
5. Term to 70
6. Long Term Care

No violations were noted.

B. Group In-Force Accounts

The Company was requested to identify all group accounts in-force during the experience period. The Company reported 38 group accounts in-force during the examination period. Of the 38 group accounts identified, all but 4 groups were self-funded or self-insured groups. Member enrollment files were requested for all newly enrolled members during the experience period for the 4 fully-insured group accounts. A total of 186 new members were enrolled in the 4 group accounts during the period. All 186 enrollment files were requested for review. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 89, Title 18 Pennsylvania Consolidated Statute, Section 4117(k), Accident and Health Filing Reform Act of Dec 18, 1996, P.L. 1066 No. 159 (40 P.S. §3806) and the Unfair Insurance Practices Act, No. 205 (40 P. S. §1171). The following violations were noted:

2 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
Every company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any of all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department, at its discretion, may require in order that its authorized representatives may ascertain whether the company or person has complied with the laws of this Commonwealth. The Company failed to provide enrollment files for 2 members.

C. Group In-Force Medicare Supplement Policies

The Company was requested to identify all Medicare Supplement certificates in-force during the experience period. The Company identified 19 individual Medicare Supplement certificates in-force with CHCS Services, Inc. (CHCS), a third party administrator. All 19 files were requested, received and reviewed. The files were reviewed to determine compliance with issuance, underwriting, and replacement statutes and regulations. No violations were noted.

D. Direct In-Force Whole Life Policies

The Company was requested to identify all whole life policies in-force during the experience period. The Company identified 81 whole life policies in-force with CHCS, a third party administrator. A random sample of 14 policies was requested, received, and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

14 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement
(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. The 14 life policy files noted did not contain a copy of the required disclosure statement.

14 Violations - Title 31, Pennsylvania Code, Section 83.4b
The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie

evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 14 life policy files noted did not contain a copy of the required agent's certification of disclosure.

14 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 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. The 14 life policy files noted did not contain a copy of the signed policy delivery receipt.

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 application in the file noted contained an alteration without the applicant's written consent.

E. Long-Term Care Policies

The Long-Term Care Group (LTCG), a third party administrator, markets and administrates the Company's Long-Term Care product. The Company was requested to provide a listing of all Long-Term Care policies in-force or issued during the experience period. The Company identified a universe of 4 Long-Term Care policies in-force and stated no Long-Term Care policies were issued during the experience period. The 4 in-force policy files were requested, received and reviewed. Since the Company did not issue any Long-Term Care policies during the experience period and with the promulgation of Title 31, Pennsylvania Code, Chapter 89a, Long-Term Care Regulation, March 16, 2002, the exam period was expanded to include all policies issued after the effective date of this law. The Company identified 3 policies issued after the effective date of the Long-Term Care Regulation. The 3 policy files were requested, received and reviewed. The following violations were noted:

3 Violations - Title 31, Pennsylvania Code, Chapter 89a.119. Filing requirement.

Prior to an insurer or similar organization offering group long-term care insurance to a resident of this Commonwealth under section 1104 of the act (40 P. S. §991.1104), it shall file with the Commissioner evidence that the group policy or certificate there under has been approved by a state having statutory or regulatory long-term care insurance requirements substantially similar to those adopted in this Commonwealth. The Department has no record of the Company complying with the filing requirements of The Long-Term Care Model Regulation. The Company has failed to file the required Appendices B, C, D, and F for approval by the Department.

3 Violations - Title 31 Pennsylvania Code, Chapter 89a.121. Suitability.

(a) Every insurer, nonprofit hospital plan and professional health services plan corporation or other entity marketing long-term care insurance (the issuer) shall meet the following conditions:

(1) Develop and use suitability standards to determine whether the purchase or replacement of long-term care insurance is appropriate for the needs of the applicant.

(2) Train its producers in the use of its suitability standards.

(3) Maintain a copy of its suitability standards and make them available for inspection upon request by the Commissioner.

(b) To determine whether the applicant meets the standards developed by the issuer, the producer and issuer shall develop procedures that take the items in paragraph (1) into consideration.

(1) The producer and issuer shall take the following into consideration:

(i) The ability to pay for the proposed coverage and other pertinent financial information related to the purchase of the coverage.

(ii) The applicant's goals or needs with respect to long-term care and the advantages and disadvantages of insurance to meet these goals or needs.

(iii) The values, benefits and costs of the applicant's existing insurance when compared to the values, benefits and costs of the recommended purchase or replacement.

(2) The issuer, and when a producer is involved, the producer shall make reasonable efforts to obtain the information in paragraph (1). The efforts shall include presentation to the applicant, at or prior to application of the ''Long-Term Care Insurance Personal Worksheet.'' The personal worksheet used by the issuer shall contain, at a minimum, the information in the format contained in Appendix B (relating to long-term care insurance personal worksheet), in at least 12 point type. The issuer may request the applicant to provide additional information to

comply with its suitability standards. A copy of the issuer's personal worksheet shall be filed with the Commissioner.

(3) A completed personal worksheet shall be returned to the issuer prior to the issuer's consideration of the applicant for coverage, except the personal worksheet need not be returned for sales of employer group long-term care insurance to employees and their spouses.

(4) The sale or dissemination outside the company or agency by the issuer or producer of information obtained through the personal worksheet in Appendix B is prohibited.

(c) The issuer shall use the suitability standards it has developed under this section in determining whether issuing long-term care insurance coverage to an applicant is appropriate.

(d) Producers shall use the suitability standards developed by the issuer in marketing long-term care insurance.

(e) At the same time as the personal worksheet is provided to the applicant, the disclosure form entitled "Things You Should Know Before You Buy Long-Term Care Insurance" shall be provided. The form shall be in the format contained in Appendix C (relating to things you should know before you buy long-term care insurance), in at least 12 point type.

(f) If the issuer determines that the applicant does not meet its financial suitability standards, or if the applicant has declined to provide the information, the issuer may reject the application. In the alternative, the issuer shall send the applicant a letter similar to the one presented in Appendix D (relating to long-term care insurance suitability letter). If the applicant has declined to provide financial information, the issuer may use some other method to verify the applicant's intent. Either the applicant's returned letter or a record of the alternative method of verification shall be made part of the applicant's file.

(g) The issuer shall report annually to the Commissioner the total number of applications received from residents of this Commonwealth, the number of those

who declined to provide information on the personal worksheet, the number of applicants who did not meet the suitability standards and the number of those who chose to confirm after receiving a suitability letter.
The Company has failed to demonstrate compliance with the Long Term Care suitability standards and auditable procedures requirements.

3 Violations - Title 31, Pennsylvania Code, Chapter 89a.108. Required disclosure of rating practices to consumers.

(a) This section shall apply as follows:

(1) Except as provided in paragraph (2), this section applies to a long-term care policy or certificate issued in this Commonwealth on or after September 16, 2002.

(2) For certificates issued on or after March 16, 2002, under a group long-term care insurance policy as defined in section 1103 of the act (40 P. S. §991.1103), which policy was in force on March 16, 2002, this section shall apply on the policy anniversary following March 17, 2003.

(b) Other than policies for which no applicable premium rate or rate schedule increases can be made, insurers shall provide all of the information listed in this subsection to the applicant at the time of application or enrollment, unless the method of application does not allow for delivery at that time. In such a case, an insurer shall provide all of the information listed in this section to the applicant no later than at the time of delivery of the policy or certificate. A statement that the policy may be subject to rate increases in the future. There is no indication the Company has complied with this requirement.

F. Direct Whole Life Policies Not-Taken

The Company was requested to identify all life policies not-taken during the experience period. The Company identified 7 life policies not-taken with CBCA Inc., a third party administrator which administrates the Company's direct marketing of life and health coverage. A not-taken policy is a contract that was issued by the Company, but the insured decides to decline the contract. All 7 files were requested, received and reviewed. The files were reviewed to ensure compliance with the free look provisions of the contract. The following violations were noted:

2 Violations – Insurance Department Act, Section 903 (40 P.S. §323.3)
Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for time periods as the Department, at its discretion, may require in order that its authorized representatives may readily verify whether the Company or person has complied with the laws of this Commonwealth. The Company failed to provide complete documentation for the 2 files noted.

G. Direct Accidental Death and Dismemberment Certificates Issued

The Company identified a total of 2,162 Accidental Death and Dismemberment certificates issued to Pennsylvania residents during the experience period. A random sample of 50 enrollment files was requested, received and reviewed. The files were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). No violations were noted.

H. Individual Life Conversion Policies Issued

The Company through its contractual agreement with Transactional Application Group (TAG) identified a universe of 5 individual Life conversion policies issued during the experience period. All 5 Life conversion files were requested, received and reviewed to ensure compliance with underwriting, forms and rating statutes and regulations. The following violations were noted:

2 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 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. The 2 files noted did not contain a copy of a signed policy delivery receipt.

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

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

(1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.

(2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.

(3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

X. CLAIMS

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

1. Transactions Application Group – Life Claim Procedural Manual
2. CHCS – Medicare and VA Claims Guide
3. ULLICO - Claims and Care Management Requirements & Analysis Document (LTC)
4. Special Handling Claims Cases Guidelines – Appendix A
5. Establishing a Definition of Chronic Disability – Appendix B
6. Aegon/CBCA – Accident and Health Claim Handling Procedures
7. Trilogy – Claims Administrative Handbook, Section 3 Claim Review and Processing Telephone Communications

No violation were noted, however, the Department noted the following Concerns.

CONCERNS:

(1). The Company's claims procedural guidelines failed to reference the requirements of Chapter 146.5. This Chapter requires claims to be acknowledged within ten business days and status letters provided at 30 days and every 45 days thereafter with payment or denial in 15 days following receipt of proof of loss.

(2). No claims processing guidelines were noted addressing the requirements of Act 68, Prompt Payment of Clean Claims, providing for payment of provider-

submitted clean claims within 45 days and the application of any required interest payments due to providers for clean claims processed over 45 days.
(3). No claims processing guidelines were provided to ensure compliance to Title 31, Pennsylvania Code, Section, 154.18(a) requiring payment of the interest due under Act 68 within 30 days.

The Claim file review consisted of 3 areas:

A. Life Claims
B. Accidental Death and Dismemberment Claims
C. Major Medical Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171); Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices; and Act 68, Section 2166 (40 P.S. §991.2166) Prompt Payment of Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Life Claims

The Company identified a universe of 545 Life claims processed during the experience period by the Company and their third-party administrators. A random sampling of 70 Life claim files was requested, received and reviewed. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The Company failed to provide 2 claim files.

3 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 three claims within 10 working days.

6 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 status letters in the 6 files noted.

4 Violations - Title 31, Pennsylvania Code, Chapter 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 in the 4 files noted.

3 Violations - 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. 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 required interest, due after 30 days after receipt of proof of death, was not paid in the 3 claim files noted.

B. Accidental Death and Dismemberment Claims

The Company identified a total universe of 32 Accidental Death and Dismemberment claims processed during the experience period. All 32 claim files were requested, received and reviewed. The following violations were noted:

6 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 6 Accidental Death and Dismemberment claims within 10 working days.

4 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 status letters in the 4 files noted.

3 Violations - Title 31, Pennsylvania Code, Chapter 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 in the 3 files 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.

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 required interest, due after 30 days after receipt of proof of death, was not paid in the claim file noted.

C. Major Medical Claims

The Company identified a universe of 25 major medical claims processed during the experience period. All 25 major medical claim files were requested for review. Of the 25 claim files requested, 24 were received and reviewed. The following violation was noted:

1 Violation - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The Company failed to provide the claim file 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 implement procedures to ensure compliance with the requirements of Title 18, Pa. C. S., §4117(k) whereby all applications for insurance and all claim forms shall contain or have attached thereto a required fraud notice.

2. The Company must implement procedures to ensure compliance with the complaint maintenance requirements of the Unfair Insurance Practices Act, No. 205 (40 PS. §1171).

3. The Company must implement procedures to ensure compliance with the files and record maintenance requirements of Insurance Department Act, Section 903 (40 P.S. §323.3).

4. The Company must implement procedures to ensure compliance with the disclosure requirements of Title 31, Pennsylvania Code, Section 83.3.

5. 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.

6. The Company must implement procedures to ensure compliance with all the requirements of Pennsylvania Mandated Coverages such as: the Physically Handicapped/Mentally Retarded Child, Pennsylvania Insurance Law, Chapter 2, Section §617(A)(9) (40 P.S. §752(A)(9)).

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

8. The Company must implement procedures to ensure compliance with the interest payment requirements of Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b).

9. The Company must review and revise internal control procedures to ensure compliance with the filing, suitability and disclosure requirements of Title 31, Pennsylvania Code, Chapter 89a. Long-Term Care Model Regulation.

XII. COMPANY RESPONSE

ULLICO Inc.

1625 Eye Street, NW
Washington, DC 20006
202.682.0900

www.ullico.com

Teresa E. Valentine
Vice President and
Associate General Counsel
202/962-8996 Facsimile: 202/682-6784

June 10, 2004

VIA FACSIMILE AND OVERNIGHT MAIL

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

RE: The Union Labor Life Insurance Company ("Union Labor Life")
Report of Examination for July 1, 2001 through June 30, 2002

Dear Mr. Stemcosky:

We would like to express our appreciation to the Pennsylvania Insurance Department (the "Department") and its Examination Personnel for the courtesy and cooperation that was extended during the examination.

This letter acknowledges our review of the Department's Report on Examination of Union Labor Life as of May 12, 2004 (the "report"). We offer the following responses to the recommendations outlined in the report.

1. **The Company must implement procedures to ensure compliance with the requirements of Title 18, Pa. C.S., §4117(k) whereby all applications for insurance and all claim forms shall contain or have attached thereto a required fraud notice.**

RESPONSE

The Company will implement procedures to ensure compliance with the requirements of Title 18, Pa. C.S. §4117(k). We are in the process of ensuring that all application and claim forms currently in use comply with Pa. C.S. §4117(k) by exhibiting the proper fraud notice.

2. The Company must implement procedures to ensure compliance with the complaint maintenance requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171).

RESPONSE

The Company has implemented procedures to ensure compliance with the complaint maintenance requirements of the Unfair Insurance Practices Act. We have modified our Complaint Log to contain all the information required by the Unfair Insurance Practices Act.

3. The Company must implement procedures to ensure compliance with the files and record maintenance requirements of Insurance Department Act, Section 903 (40 P.S. §323.3).

RESPONSE

The Company will implement procedures to ensure compliance with Section 903 (40 P.S. §323.3). With regard to the violations found by the Department concerning the files and record maintenance requirements of Section 903 (40 P.S. §3233), the files found to be in violation were part of the policies issued by a previous third party administrator ("TPA") retained by the Company. The administration of these policies was subsequently transferred to another TPA. The previous TPA maintained the policy files on microfiche and was efficient at retrieving paper copies of necessary documents. However, some problems were experienced retrieving document copies after moving the microfiche files to the new TPA. We will notify our current TPA of the mandated file maintenance requirements and ask the TPA to review its procedures to ensure files are maintained in accordance with Pennsylvania Law.

4. The Company must implement procedures to ensure compliance with the disclosure requirements of Title 31, Pennsylvania Code, Section 83.3.

RESPONSE

There are no continuing violations as this product is no longer available. If this or a similar product were made available in Pennsylvania in the future, we will establish practices and procedures to ensure delivery of the required disclosure statement and to ensure that the agent's certification of delivery of the disclosure statement was received by the Company and maintained in the files for at least three years.

5. 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.

RESPONSE

The Company will review and revise internal control procedures to ensure compliance with the requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. We have notified Claim Processing Areas of the violations found by the Department. In addition, we are preparing guidelines that contain all the procedural and time requirements that must be observed in the processing of Pennsylvania claims and will distribute these guidelines to the Claim Processing Areas.

6. **The Company must implement procedures to ensure compliance with all the requirements of Pennsylvania Mandated Coverages such as: the Physically Handicapped/Mentally Retarded Child, Pennsylvania Insurance Law, Chapter 2, Section 617(A)(9) (40 P.S. §752(a)(9)).**

RESPONSE

The Company will implement procedures to ensure compliance with the requirements of Pennsylvania Mandated Coverages. We amended the Group Policy the examiners found to be in violation and sent a copy of the Amendatory Rider to all affected Pennsylvania residents. We supplied the Pennsylvania Market Conduct Examiners with copies of the Amendatory Rider and our cover letter to Pennsylvania residents. Our Compliance Areas have been notified of this violation and will check to ensure that all policies comply with Pennsylvania Mandated Coverages.

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

RESPONSE

There are no continuing violations as this product is no longer available. If this or a similar product were made available in Pennsylvania in the future, we will establish practices and procedures to ensure that a signed policy delivery receipt was received by the Company.

8. **The Company must implement procedures to ensure compliance with the interest payment requirements of Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b).**

RESPONSE

The Company will implement procedures to ensure compliance with the interest payment requirements of Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b). We have made the interest payments on all the life insurance death benefits that were found to be in violation. We have distributed a chart setting out the time requirements that trigger interest payments and the parameters for calculating such interest payments to all areas paying life insurance death benefits.

9. **The Company must review and revise internal control procedures to ensure compliance with the filing, suitability and disclosure requirements of Title 31, Pennsylvania Code, Chapter 89a, Long-Term Care Model Regulation.**

RESPONSE

There were no violations of Chapter 89a.108, 89a 119, and 89a 121 during the examination period. We agree that 3 violations did occur on policies issued after the examination period and after the subject requirements became effective on September 16, 2002. Before we were able to file the necessary forms and institute the appropriate procedures, management made a decision to withdraw from the Long Term Care market. There are no continuing violations as this product is no longer available. If Long Term Care products are made available in Pennsylvania in the future, we will file the necessary forms and

establish the appropriate procedures for complying with the Long Term Care requirements in effect at such time.

Please call me should you have any questions.

Yours truly,

Teresa E. Valentine

cc: E. Grebow
K. Ellston
S. Noon
T. Green
D. Taylor