

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

STONEBRIDGE LIFE INSURANCE COMPANY
Rutland, Vermont

**AS OF
May 3, 2005**

COMMONWEALTH OF PENNSYLVANIA
Insurance Department

COMMONWEALTH OF KENTUCKY
Office of Insurance

STATE OF ILLINOIS
Department of Financial and Professional
Regulation – Division of Insurance

Issued: June 23, 2005

STONEBRIDGE LIFE INSURANCE COMPANY

COLLABORATIVE EXAMINATION

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STONEBRIDGE LIFE INSURANCE COMPANY

Market Conduct Examination

Pennsylvania Docket No. MC05-06-004

ORDER

A market conduct examination of Stonebridge Life Insurance Company was conducted in accordance with applicable laws and regulations of Pennsylvania, Kentucky and Illinois, for the period January 1, 2003 through December 31, 2003. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Insurance Departments of each State are satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

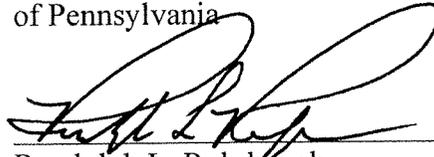
It is hereby ordered as follows:

1. The attached modified Examination Report will be adopted and filed as an official record of the Insurance Departments of each of the three participating States. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with Kentucky statutes and regulations.
4. Respondent shall comply with Illinois statutes and regulations.
5. Respondent shall comply with all recommendations contained in the attached Report.
6. Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

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

BY: Insurance Department of the Commonwealth
of Pennsylvania

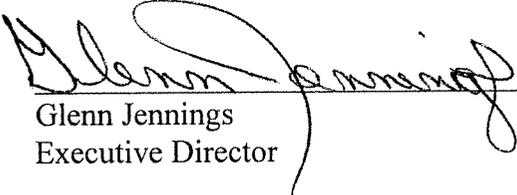


Randolph L. Rohrbaugh
Deputy Insurance Commissioner

(June 23, 2005)

NOW, THEREFORE, after consideration and review of the Market Conduct Examination Report of Stonebridge, it is ORDERED, pursuant to KRS 304.2-260(3) that said report is hereby adopted in its entirety.

BY: Kentucky Office of Insurance

 (June 18 2005)
Glenn Jennings
Executive Director

RECEIVED

JUN 14 2005

KY DEPT. OF INS.
ADM. SERVICES

BY: Department of Financial and Professional Regulation, State of Illinois

 (June 15, 2005)
Michael T. McRaith, Director
Illinois Division of Insurance

INTRODUCTION

The Collaborative Market Conduct Examination was conducted on Stonebridge Life Insurance Company, hereinafter referred to as "Company," at their Administrative Office located at 2700 West Plano Parkway, Plano, Texas, from September 20, 2004, through November 11, 2004. Subsequent review and follow-up was conducted in the offices of the Pennsylvania Insurance Department, Illinois Insurance Department and Kentucky Insurance Department.

The Market Conduct Examination Report generally notes only those items to which the Departments, after review, takes exception. A violation, criticism or exception is any instance of Company activity that does not comply with an insurance statute or regulation. Violations, criticisms or exceptions contained in this Report may result in the imposition of penalties. Generally, practices, procedures, or files that were reviewed by the examiners from each of the three State Insurance Departments 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 Departments, 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 personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

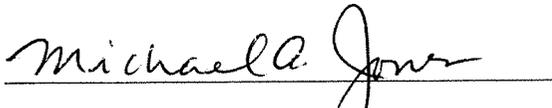
The courtesy and cooperation extended by the Company officers and employees during the course of the examination is hereby acknowledged.

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



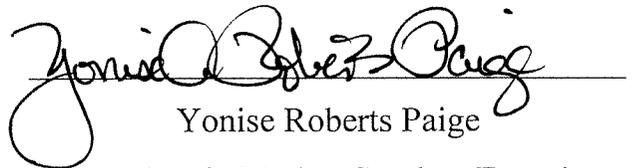
Daniel Stemcosky, AIE, FLMI

Pennsylvania Market Conduct Division Chief



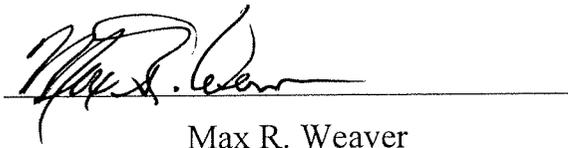
Michael A. Jones

Pennsylvania Market Conduct Examiner



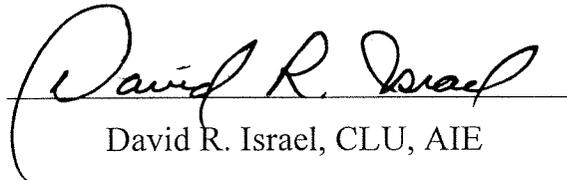
Yonise Roberts Paige

Pennsylvania Market Conduct Examiner



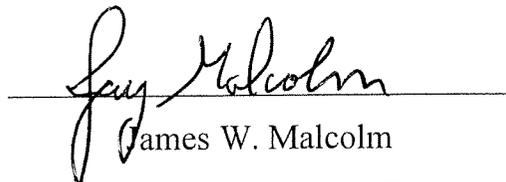
Max R. Weaver

Illinois Performance Examiner III



David R. Israel, CLU, AIE

Illinois Performance Examiner



James W. Malcolm

Kentucky Market Conduct Examiner

PART I

PENNSYLVANIA REPORT

STONEBRIDGE LIFE INSURANCE COMPANY

STONEBRIDGE LIFE INSURANCE COMPANY

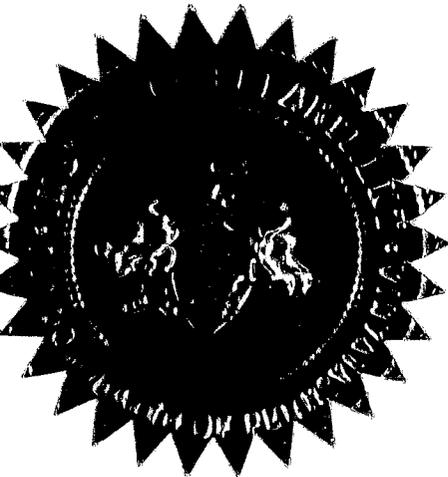
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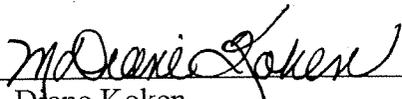
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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

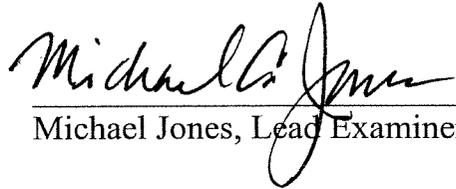




M. Diane Koken
Insurance Commissioner

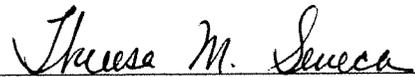
Verification

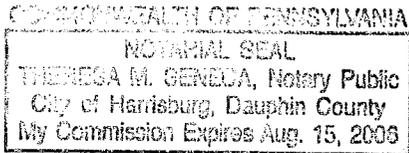
Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


Michael Jones, Lead Examiner

Sworn to and Subscribed Before me

This 25 Day of April, 2005


Notary Public



I. INTRODUCTION

The Market Conduct Examination was conducted on Stonebridge Life Insurance Company, hereinafter referred to as "Company," at their Administrative Office located at 2700 West Plano Parkway, Plano, Texas, from September 20, 2004, through November 11, 2004. Subsequent review and follow-up was conducted in the offices of the Pennsylvania Insurance Department.

The Market Conduct Examination Report generally notes only those items to which the Departments, 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 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 Departments, 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 personnel to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

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, 2003, through December 31, 2003, 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, Consumer Complaints, Forms, Agent/Broker Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

Stonebridge Life Insurance Company was chartered as the Vermont Accident Insurance Company by the Vermont legislature in 1900 and incorporated on November 19, 1900. The Company officially commenced business on May 6, 1906, writing business on the advance premium mutual plan until February 15, 1949, at which time the Company converted to a stock company. This conversion was supported by a public hearing held pursuant to Vermont Statutes.

In 1967, the Company was acquired by J.C. Penney Company, Inc. and subsequently renamed J.C. Penney Life Insurance Company. Effective January 1, 1979, J.C. Penney Insurance Company and J.C. Penney Life Insurance Company were merged, with the surviving company being domiciled in Vermont.

On June 18, 2001, Commonwealth General Corporation, a Delaware holding company acquired J.C. Penney Life Insurance Company from J.C. Penney Company, Inc. Commonwealth General Corporation is wholly-owned by Aegon U.S. Corporation, an Iowa corporation, which is in turn owned by Aegon U.S. Holding Corporation, a Delaware Corporation, and Aegon U.S.A. Inc., an Iowa Corporation. A Delaware business trust, called "The Aegon Trust" exists between Aegon U.S. Holding Corporation and Aegon International N.V. Aegon International NV is wholly owned by Aegon NV with Vereniging Aegon as the ultimate parent of Commonwealth General Corporation.

Effective April 1, 2002, Stonebridge Insurance Company, (a Wisconsin domicile authorized to sell Life and Accident and Health insurance) was merged into J.C. Penney Life Insurance Company. On May 17, 2002, J.C. Penney Life Insurance Company changed its name to Stonebridge Life Insurance Company.

As of their 2004 annual statement for Pennsylvania, the Company reported direct premium for ordinary and group life insurance in the amount of \$11,479,050; and direct premium for accident and health insurance in the amount of \$15,321,453.

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 for reviewing advertising, requested the Company provide copies of all advertising materials used for solicitation and sales during the experience period. The Company provided 99 advertisements (Plano) and 86 (Frazer) of which 2 were published in Spanish. The remaining advertisements were classified as Direct Response Advertisement. The company also provided 100 telemarketing scripts from their various business units.

All advertisements including the Company’s websites at www.aegon.com and www.stonebridgelife.com were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapters 51 and 89, and Act 205, Unfair Insurance Practices Act (40 P.S. §1171). The following violations were noted:

19 Violations -Title 31, Pennsylvania Code, Section 51.29

(a) An advertisement shall not directly or by implication falsely represent that a contract or combination of contracts is an introductory, initial, or special offer, or that applicants will receive substantial advantages not available later or that the offer is available only to a specified group of individuals.

(b) An advertisement shall not directly or by implication falsely represent that only a number of policies will be sold, or that a time is fixed for the discontinuance of the sale or the particular policy advertised.

The following 8 advertising pieces listed at least one of the following phrases: “Special (pre) or Birthday Offer”, “Special Savings”, or “Special Opportunity”.

Product Code	Application	Mailed	Description	Type
GC274	GUL062	18958	UW Term	Direct Response
GC282D (17)	GGL066	31695	GBL (Rider, Non-rider)	Direct Response
GC229	GUL058	3369	Term	Direct Response
GC288W (7)	GUL069	30444	Simplified Term	Direct Response
GC291H (5)	GUL068	20296	Auto Term Non-Guar.	Direct Response
GC290H (2)	GUL068	6766	Automated Term	Direct Response

Application	Policy Form	Insert Code	Type
SMA052	SLC-SUWL-0503	HFL382	Direct Mail
MP02694 (2)	SLC-T100-0902	HFL382	Direct Mail

The following 11 telephone scripts from the business partner unit listed at least one of the following phrases: “Special Insurance Offer”, “Special Offer”, or “Special Birthday Offer”.

	Script Number
1	1904
2	1906
3	1937
4	2308
5	2403
6	2405
7	2414
8	2454
9	2489
10	516
11	568

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

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” The 34 telephone scripts noted did not contain the required fraud statement.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the administrative agreements, riders, amendments, endorsements, enrollment applications and policy forms used in order to verify compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b). Applications and claim forms were also reviewed to determine compliance with Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Warning Notice. The following violations were noted:

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

All applications for insurance and all claim forms shall contain or have attached thereto the following notice: *“Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”* The electronic enrollment application in the files noted did not provide the required fraud statement. The form description and the frequency of use for each underwriting section of the examination is listed in the table below.

Form Description	Exam Section	Frequency of Use
Telephone Enrollment	Group Health Certificates Issued	48
Telephone Enrollment	Group Life Certificates Issued	30
Telephone Enrollment	Group Certificates Issued Baltimore	25
	Total	103

13 Violations – Title 31, Pennsylvania Code, Section 87.12 (a)(b)(c)(d)

- (a) The Insurance Commissioner has disapproved any further issue of limited benefit life policies. Limited benefit life policies are those plans that provide only the following or similar coverage's during certain specified periods.
- (b) This type of policy purports to offer life insurance coverage when it does not do so during the initial period, lends itself to misrepresentation, has the capacity and tendency to mislead the purchaser, fails to provide the coverage, benefits and provisions required by law and, therefore, is contrary to the public interest.
- (c) A life insurance policy where the benefits payable are not at least as great as the following shall be considered a limited benefit life policy, and thereby prohibited by subsection (a):
 - (3) The death benefit on the second year is more than 130% of the total premiums due and payable through the 2nd year and is at least:
 - (i) 15% of the ultimate amount for issue ages over 55
 - (ii) 10% of the ultimate amount for issue ages 46- 55
 - (iii) 15% of the ultimate amount for issue ages 36- 45
 - (iv) 30% of the ultimate amount for issue ages under 36
- (d) Policies such as conventional jumping juvenile policies, increasing or decreasing term policies, increasing whole life policies issued or marketed in conjunction with term insurance policies, policies in which the death benefit is graded because the insured as a result of individual underwriting has been determined to be uninsurable on a standard basis, policies made available through employers to provide benefits for employees, and postretirement life policies are not considered limited benefit life insurance policies; and issuance thereof is permitted.

The following group certificate form reviewed in the Forms Section of the Examination is used for limited benefit life policies, an insurance product that has been disapproved by the Insurance Commissioner for issuance in Pennsylvania.

Form #	Form Type	Policy Type	Form Description
GC282PA	Certificate	Group Guaranteed Issue	Graded Benefit Life Insurance

The following group certificate form reviewed in the Group Life Certificates Issued Section of the examination is used for limited benefit life policies, an insurance product that has been disapproved by the Insurance Commissioner for issuance in Pennsylvania. The certificate form description and frequency of use is listed in the table below.

Form #	Policy Type	Form Description	Frequency of Use
GC282PA	Group Guaranteed Issue	Graded Benefit Life Insurance	12

1 Violation – Act 205, Section 5(a)(7)(iii) (40 P.S. §1171.5)

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: Making or permitting any unfair discrimination between individuals of the same class and essentially the same hazard with regard to underwriting standards and practices or eligibility requirements by reason of race, religion, nationality or ethnic group, age, sex, family size, occupation, place of residence or marital status. The terms "underwriting standards and practices" or "eligibility rules" do not include the promulgation of rates if made or promulgated in accordance with the appropriate rate regulatory act of this commonwealth and regulations promulgated by the commissioner pursuant to such act. The following Health Insurance form/application seeks an answer to a question in its health questionnaire section “Have you ever been diagnosed or been treated for Sickle Cell Anemia” a form of “Anemia” that is associated to a specific racial group.

Form #	Form Type	Policy Type	Form Description
SLGA-3390-0930	Application	Group Critical Illness	Rider

VI. PRODUCER LICENSING

The Company was requested to provide a list of all agents/producers active and terminated during the experience period. 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 license. Title 31, Pennsylvania Code, Section 37.61 requires the Company to report all agent terminations to the Department.

Effective June 4, 2003, Insurance Department Act, No. 147, Licensing of Insurance Producers, replaced Section 601 through Section 663 of the Insurance Department Act and any sections of Title 31, Pennsylvania Code, Chapter 37 which are inconsistent with the new statute.

The Company provided a list of 288 active agents. A random sample of 150 active agents was compared to departmental records of agents to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam. No violations were noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2000, 2001, 2002, and 2003. The Company identified 28 written consumer complaints and 17 complaints forwarded from the Department. All 45 complaint files were requested, received, and reviewed. 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 14 general segments.

- A. Underwriting Guidelines
- B. Group Health Certificates Issued
- C. Group Life Certificates Issued
- D. Group Certificates Issued (Fraser)
- E. Group Certificates Issued (Baltimore)
- F. Group Certificate Holders Declined
- G. Group Conversions
- H. Individual Life Policies Issued
- I. Accident and Health Policies Issued
- J. Life Policies Declined
- K. Life Policies Declined (Fraser)
- L. Individual Accident and Health Policies Declined
- M. Life Policies Terminated
- N. Individual Accident and Health Policies Terminated

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 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 violations were noted.

The following list represents the underwriting material provided and reviewed:

- Life Guide 7.0 Swiss re
 1. Legislation affecting Underwriting including risk factors
 2. Medical Underwriting including: A&P, Lab etc.
 3. Occupations including various sporting activities
 4. Financial Underwriting
 5. Residential including foreign travel i.e., Political Climate
- Compliance Manual – Corporate Compliance Coordination/Review Procedures
- Complaints and Customer Feedback
- Special Request i.e., Medical and Testing Limits
- Underwriting Procedures for: “GC” (267, 268, 274 and 374)
- Auditing Procedures
- Underwriting Procedures, Frazer

B. Group Health Certificates Issued

The Company was requested to provide a list of all group health certificates issued during the experience period. The company identified 26115 group health certificates issued during the experience period. A random sample of 50 files was requested, received and reviewed. The certificates were reviewed to determine compliance to issuance statutes and regulations. No violations were noted.

C. Group Life Certificates Issued

The Company was requested to provide a list of all group life certificate holders enrolled during the experience period. The Company provided a universe of 6733 group certificate holders enrolled via direct response and telephone. A random sample of 50 group certificate holders was requested, received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k). No violations were noted.

D. Group Certificates Issued (Fraser)

The Company was requested to provide a list of all certificate holders enrolled during the experience period. The Company provided a list of 1,372 certificate holders. A random sample of 50 certificate holders enrolled was requested, received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k). No violations were noted.

E. Group Certificates Issued (Baltimore)

The Company was requested to provide a list of all group certificates issued during the experience period. The company identified 356 group certificates issued. A random sample of 25 certificates was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. No violations were noted.

F. Group Certificate Holders Declined

The Company was requested to provide a list of all certificates declined during the experience period. The Company identified 833 group certificate holders declined. A random sample of 50 files was requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice. No violations were found.

The following table is a synopsis of the 50 declination files reviewed.

Number	Group Coverage	Declination Reason	Percent
1	Permanent	Medical History	2%
1	Special - Cancer	Duplicate Coverage	2%
4	Accidental Hospital	Duplicate Coverage	8%
8	Hospital	Medical History	16%
13	AD & D	Duplicate Coverage	26%
23	Term Life	Medical History	46%
50			100%

G. Group Conversions

The Company was requested to provide a list of all certificate holders converting group insurance during the experience period. The Company identified a universe of 3 certificate holders converting their group life coverage upon termination to an optional life insurance plan. All 3 conversion files were requested, received and reviewed. The following violations were noted:

3 Violations - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. The Company failed to use an application in the 3 files noted.

3 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the producer delivers the individual policy or annuity to the policyholder by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from

which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in the 3 files noted.

H. Individual Life Policies Issued

The Company identified a total universe of 14 life policies issued during the experience period. All 14 individual life policy files were requested, received and reviewed. Of the 14 individual life policy files received, 12 were Term Conversions. The 14 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

12 Violations - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. The Company failed to use an application in the 3 files noted.

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

The appropriate officer of each direct response or mail-order insurer shall certify, in conjunction with the annual statement of the insurer, that all written disclosure statements have been provided in accordance with this subchapter. Failure to so certify shall constitute prima facie evidence that written disclosure statements have not been provided to prospective purchasers of life insurance. The delivery of a disclosure statement could not be verified in the 2 files noted.

10 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in the 10 files noted.

I. Accident and Health Policies Issued

The Company was requested to provide a list of all accident and health policies issued during the experience period. The Company identified 4 accident and health policies issued. All 4 accident and health policies were requested, received and reviewed. The files were reviewed to determine compliance to issuance, replacement and underwriting statutes and regulations. No violations were noted.

J. Life Policies Declined

The Company was requested to provide a list of all individual life policies declined during the experience period. The Company identified a total of 3 applications declined. All 3 files were requested, received, and reviewed. The files were reviewed for compliance with Title 18 PA. C.S., Section 4117(k), the Unfair Insurance Practices Act, No. 205, and to ensure no practices of a discriminatory nature were used. No violations were noted.

K. Life Policies Declined (Fraser)

The Company was requested to provide a list of all individual life policies declined during the experience period. The Company identified a total of 50 applications declined. All 50 files were requested, received, and reviewed. The files were reviewed for compliance with Title 18 PA. C.S., Section 4117(k), the Unfair Insurance Practices Act, No. 205, and to ensure no practices of a discriminatory nature were used. The following violations were noted:

3 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 such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The 3 files noted were missing the declination letter.

L. Individual Accident and Health Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 1 accident and health policy declined. The file was requested, received and reviewed. The file was reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. No violations were noted.

M. Life Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 325 life insurance policies terminated. A random sample of 35 files was requested, received, and reviewed. The 35 policies were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted:

N. Individual Accident and Health Policies Terminated

The Company was requested to identify all policies terminated during the experience period. The Company identified 224 individual accident and health policies terminated. A random sample of 25 terminated files was requested, received and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

IX. 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 Company provided a single page explanation of the “ADMS Plano Claims Department”, and a three-page outline of the “Life Claim Examiner and Claims Processing and Accident and Health Claim Handling Procedures”. The policy contract is the guideline used in determining payment or denial of a claim. The claim 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 Claims review was sorted and conducted in 4 general segments.

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

All claim files 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. Group Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 2,690 claims. Of the 2,690 claims received, a “query” through an auditing program was performed to identify those claims that were paid, suspended or denied over 14 days from the date of receipt. The result of that query was 267 claims. A random sample of 25 claims files was requested, received, and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code and Chapter 146. 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.

3 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 3 claims noted.

B. Group Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 1,668 individual life claims. A random sample of 100 claims was requested, received and 50 claims were reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violation was noted:

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the claim noted.

C. Individual Accident and Health Claims

The Company was requested to provide a list of all individual accident and health claims received during the experience period. The Company provided a list of 3 claims received. All 3 claims were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

D. Individual Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 144 individual life claims. A random sample of 50 claims was requested, received and 25 claims were 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.

X. RECOMMENDATIONS

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

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. 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.
3. The Company must review procedures to ensure all books, records, papers, and documents relating to the business of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
4. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.
5. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
6. The Company must review internal control procedures to ensure compliance with requirements for limited benefit life policies of Title 31, Pennsylvania Code, Chapter 87.12.
7. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
8. Deleted
9. The Company must review internal control procedures to ensure compliance with application requirements of Section 412 of the Insurance Company Law of 1921 (40 P.S. §512).

PART II

KENTUCKY REPORT

STONEBRIDGE LIFE INSURANCE COMPANY

MARKET CONDUCT
EXAMINATION

Stonebridge Life
Insurance Company

29 South Main Street

Rutland, Vermont 05701

AS OF

November 17, 2004

January 21, 2005

Martin Koettters
Executive Director
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

RE: Market Conduct Examination # MC 2004-13

Dear Executive Director Koettters,

Pursuant to your appointment, and in accordance with the provisions of KRS 304.2-100, KRS 304.2-210, KRS 304.2-230, Kentucky Administrative Regulations Title 806, other applicable laws, and the procedures established by the National Association of Insurance Commissioners, an examination of the market conduct activities has been conducted regarding:

Stonebridge Life Insurance Company

**29 South Main Street
Rutland, Vermont 05701**

The report, based on the activities of the company as of November 17, 2004, is hereby respectfully submitted.

JAY MALCOLM
MARKET CONDUCT EXAMINER

TITLE PAGE

NAME OF COMPANY: Stonebridge Life Insurance Company

NAIC COMPANY CODE: 65021

NAIC GROUP CODE: 0468

EMPLOYER'S ID NUMBER: 03-0164230

DATE INCORPORATED: November 19, 1900

STATE OF DOMICILE: Vermont

DATE BUSINESS COMMENCED: May 7, 1906

DATE ADMITTED IN KENTUCKY: May 12, 1969

NAIC EXAM TRACKING SYSTEM NO.: KY040-M132

HOME OFFICE: 29 South Main Street
Rutland, VT 05701-5014

PRIMARY LOCATION OF BOOKS AND RECORDS: 520 Park Avenue
Baltimore, MD 21201

MAIN ADMINISTRATIVE OFFICE: 2700 West Plano Parkway
Plano, TX 75075

TIME FRAME OF EXAMINATION: January 1, 2003, through
December 31, 2003

LENGTH OF TIME FOR EXAMINATION: September 21, 2004, through
November 17, 2004

EXAMINATION COORDINATOR: Elizabeth Davis
Compliance Manager

COMPANY CONTACT PERSON: Elizabeth Davis
Compliance Manager
(972) 881-6957
E-Mail: LDAVIS1@AegonUSA.com
Fax: (972) 881-4096

PARTICIPATING JURISDICTIONS:

Office of Insurance
Commonwealth of KY
Phone: (502) 564-1936
Fax: (502) 564-9902

Department of Insurance
Commonwealth of PA
Phone: (717) 772-4335
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Department of Insurance
State of Illinois
Phone: (217) 524-5769

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ABBREVIATION PAGE

Audit Command Language	ACL
Kentucky Office of Insurance	KOI
National Association of Insurance Commissioners	NAIC

FOREWORD

This examination report reflects the activities of the Stonebridge Life Insurance Company with respect to business transacted in the Commonwealth of Kentucky. This market conduct examination report is one by test and includes a description and commentary on each test applied during the examination. The results of each test applied during the examination are also reported in this report, whether favorable or unfavorable.

The goal of the examiner is that of producing a document which reflects the agreement in content between the parties. Where agreement is not possible, the company's disagreement is indicated and, when practical, the company's position is noted.

The examination was conducted at the company's administrative office located at 2700 West Plano Parkway, Plano, Texas 75075. The opening date of the examination was September 21, 2004.

SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

Pursuant to instructions of the Executive Director, Kentucky Office of Insurance (KOI), and in accordance with the provisions of KRS 304.2-100, KRS 304.2-210, KRS 304.2-230, Kentucky Administrative Regulations Title 806, other applicable laws, and the procedures established by the National Association of Insurance Commissioners (NAIC), a target examination of the market conduct activities has been conducted regarding:

Stonebridge Life Insurance Company

**29 South Main Street
Rutland, Vermont 05701**

This examination is of the company's activities beginning January 1, 2003, and ending December 31, 2003.

PURPOSE

The purpose of this examination was to determine compliance by the company with Kentucky insurance statutes and KOI regulations, and to determine if the company's operations were consistent with the public interest.

While a report was given on the errors found in individual files, the examination also focuses on the general business practices of the company. The

KOI utilizes the error tolerance ratio guidelines published by the NAIC. Unless otherwise noted, a ten percent (10%) error criterion was applied to all operations of the company, with the exception of claims handling. The threshold applied to claims matters was seven percent (7%). Any error ratio in excess of these thresholds indicates a general business practice. In some instances, such as filing requirements and producer licensing, the KOI applies a zero (0) tolerance standard.

SCOPE

The examination included, but was not limited to, the following areas of the company's operation in Kentucky:

1. Producer Licensing and Appointments
2. Marketing and Sales Aids
3. Filing and Approval of Policy Forms, Applications, Endorsements, Riders, and Rates
4. Underwriting and Rating Practices
5. Claims Handling Practices
6. Policyholder Service
7. Complaint Handling
8. Taxes

The examiner may not have discovered every unacceptable or non-compliant activity in which the company is engaged. The failure to identify, comment on, or criticize specific company practices does not constitute an acceptance of the practices by the Kentucky Office of Insurance.

PREMIUM VOLUME

Kentucky Direct Premium Received

(Per Schedule T of The Annual Statement)

Lines of Business	2001	2002	2003
Life Insurance	5,432,872	5,166,351	4,720,783
Accident and Health	9,528,966	8,456,579	6,911,924
TOTALS	14,961,838	13,622,930	11,632,707

PRODUCER LICENSING AND APPOINTMENTS

There were five hundred fifty-five (555) producers that represented the company during the examination time frame. The producers were compared to the KOI register of licensed and appointed producers. The producers were licensed and appointed as required by KRS 304.9-080(5) and KRS 304.9-270.

The examiner was advised that the company did not terminate any Kentucky producers for cause during the examination time frame.

No exceptions were noted.

MARKETING AND SALES

Enrollment form GGA257 uses the phrase "Up To" to emphasize the benefits of an insurance plan. The company did not explain the phrase "Up To" on the enrollment form. **RE: 806 KAR 12:010 Section 3(2)(a) (The words, "Up To" shall not be used so as to exaggerate any benefit beyond the terms of the policy.) and 806 KAR 12:010 Section 5 (All information required to be disclosed by the advertisement regulations shall be set out conspicuously and in close conjunction with the statement.).**

The company provided copies of the Certificate On Advertising-Accident And Health - Form 440 for the years 2002 and 2003 that were submitted to the KOI in accordance with 806 KAR 12:010 Section 18(2). A Vice President of the company certified that all advertisements, advertising materials, sales literature, and sales aids disseminated during the year complied with the insurance laws of the Commonwealth of Kentucky.

UNDERWRITING AND RATING

Prior to the commencement of the examination, the KOI requested that Stonebridge Life Insurance Company provide a complete listing of all issued policies and/or certificates for the examination time frame. The company provided the listing in an electronic format. From this listing, the examiner identified the sample to be pulled for review using Audit Command Language (ACL) software. The examination findings follow.

ISSUED INDIVIDUAL LIFE

There were eighty-one (81) individual life policies issued during the examination time frame. The examiner requested, received, and reviewed twenty-five (25) issued individual life applications.

No exceptions were noted.

ISSUED INDIVIDUAL HEALTH

There were three (3) individual health policies issued during the examination time frame. The examiner requested, received, and reviewed three (3) issued individual health applications.

No exceptions were noted.

ISSUED GROUP LIFE

There were one thousand six hundred seventy-eight (1,678) group life policies issued during the examination time frame. The examiner requested, received, and reviewed fifty (50) issued group life applications.

No exceptions were noted.

ISSUED GROUP HEALTH

There were two thousand nine hundred forty-seven (2,947) group health policies issued during the examination time frame. The examiner requested, received, and reviewed fifty (50) issued group health applications.

No exceptions were noted.

ISSUED CREDIT INSURANCE

There were seventy-seven (77) credit certificates issued during the examination time frame. The examiner requested, received, and reviewed seventy-seven (77) issued credit certificates.

No exceptions were noted.

TERM CONVERSION

There was one term life policy converted to permanent life insurance during the examination time frame. The examiner reviewed one (1) term life conversion.

No exceptions were noted.

GROUP CONVERSION

There were three (3) group life certificates converted to individual life policies during the examination time frame. The examiner requested, received, and reviewed three (3) group life conversions.

No exceptions were noted.

NON-TAKEN LIFE

There was one (1) life policy that was not accepted by the policyholder during the examination time frame. The examiner reviewed one (1) non-taken policy.

No exceptions were noted.

DECLINED INDIVIDUAL LIFE

There were forty-nine (49) individual life applications declined during the examination time frame. The examiner requested, received, and reviewed twenty-five (25) declined individual life applications.

No exceptions were noted.

DECLINED GROUP

There were two hundred thirty-three (233) group enrollment forms declined during the examination time frame. The examiner requested, received, and reviewed fifty (50) declined group enrollment forms.

No exceptions were noted.

DECLINED CREDIT INSURANCE

There were fourteen (14) credit certificates declined during the examination time frame. The examiner requested, received, and reviewed fourteen (14) declined credit certificates.

No exceptions were noted.

POLICIES AND FORMS

The examiner reviewed all policies and forms in use by the company. All policies and forms reviewed were filed with and approved by the KOI, with one (1) exception. The filed version of enrollment form GGL065KY contained a fraud statement as required by **KRS 304.47-030(1)**. However, the company utilized a version of enrollment form GGL065KY that did not contain a fraud statement.

RE: KRS 304.47-030(1) (required statement for applications).

CLAIMS PRACTICES

The KOI requested that Stonebridge Life Insurance Company provide a complete listing of all claims during the examination time frame. The listing was provided, as requested, in an electronic format. From this listing, the examiner identified the sample to be pulled for review using Audit Command Language (ACL) software. The examiner's findings are as follows:

PAID LIFE CLAIMS

There were seven hundred twenty-three (723) life claims paid during the examination time frame. The examiner requested, received, and reviewed fifty (50) paid life claims.

No exceptions were noted.

PAID AND DENIED ACCIDENTAL HEALTH CLAIMS

There were eight hundred ninety-six (896) accidental health claims paid or denied during the examination time frame. The examiner requested, received, and reviewed fifty (50) accidental health claims. One (1) error was found in a paid claim in which the claimant was admitted to the hospital but only the emergency room rate was applied. An additional one hundred dollars (\$100) was paid for benefits due. **RE: KRS 304.12-230(1) (misrepresenting**

pertinent facts or insurance policy provisions relating to coverage at issue).

No other exceptions were noted.

PAID AND DENIED ACCIDENT AND SICKNESS CLAIMS

There were three hundred sixty-one (361) accident and sickness claims paid or denied during the examination time frame. The examiner requested, received, and reviewed fifty (50) accident and sickness claims.

No exceptions were noted.

PAID AND DENIED CREDIT LIFE CLAIMS

There were one hundred six (106) credit life claims paid or denied during the examination time frame. The examiner requested, received, and reviewed fifty (50) credit life claims.

No exceptions were noted.

PAID AND DENIED CREDIT DISABILITY CLAIMS

There were one hundred fifty-eight (158) credit disability claims paid or denied during the examination time frame. The examiner requested, received, and reviewed fifty (50) credit disability claims.

No exceptions were noted.

POLICYHOLDER SERVICE

TERMINATED INDIVIDUAL LIFE POLICIES

There were two hundred two (202) individual life policies terminated during the examination time frame. The examiner requested, received, and reviewed fifty (50) terminated individual life policies. The terminated policies included policies that were placed on automatic premium loan and extended term insurance that either did lapse or would have lapsed during the examination time frame.

The company did not inform the insured of the cash surrender value or the insured's options as to the application of the cash surrender value as provided in the policy upon default of premium payment. **RE: KRS 304.15-322 (notification to insured of cash surrender value).** An error rate of one hundred percent (100%) exceeds the error tolerance guidelines established by the NAIC.

The company's response to the criticism states, in part, as follows:

The company has opened a project to change existing letters that are sent upon default of a premium payment. This project should be completed prior to the end of 2004. Once the project is complete, the applicable letters will provide the non-forfeiture options available for an insured.

TERMINATED INDIVIDUAL HEALTH

There were ninety-four (94) individual health policies terminated during the examination time frame. The examiner requested, received, and reviewed twenty-five (25) terminated individual health policies.

No exceptions were noted.

CONSUMER COMPLAINTS

CONSUMER COMPLAINTS

There were nineteen (19) consumer complaints during the examination time frame. Ten (10) of the consumer complaints were via the KOI, and nine (9) consumer complaints were sent directly to the company.

In addition to the complaints received during the examination time frame, the examiner also reviewed consumer complaints for the years 2000, 2001, and 2002. The following is a recap of the company's complaint activity during these years:

- ⇒ In 2000, seven (7) consumer complaints were filed through the KOI and six (6) were sent directly to the company.
- ⇒ In 2001, six (6) consumer complaints were filed through the KOI and five (5) were sent directly to the company.
- ⇒ In 2002, twelve (12) consumer complaints were filed through the KOI and three (3) were sent directly to the company.

The complaints appeared to be handled by the company in a manner consistent with the requirements of **KRS 304.2-165 (company response to consumer complaints required)**.

No exceptions were noted.

LITIGATED CLAIMS

There were two (2) claims that were litigated during the examination time frame. The examiner requested, received, and reviewed two (2) litigated claims. The two (2) claims were denied by the company due to exclusions in the policies.

No exceptions were noted.

TAXES

KENTUCKY LOCAL GOVERNMENT PREMIUM TAXES

The company purchased software from an outside vendor that determines the taxing jurisdiction based upon the street address of the policyholder.

No exceptions were noted.

GUARANTY FUND ASSESSMENTS

The Kentucky Life and Health Insurance Guaranty Association informed the examiner that no assessment or refunds were issued to Stonebridge Life Insurance Company, NAIC # 65021 in 2003. During the years 1999 through 2002, a net refund of \$33,049.82 was made to Stonebridge Life Insurance Company.

SUMMARY AND RECOMMENDATIONS

MARKETING AND SALES

The company should establish and implement procedures to ensure that words or phrases on enrollment forms do not exaggerate any benefit beyond the terms of the policy in accordance with **806 KAR 12:010 Section 3(2)(a)**.

The company should establish and implement procedures to ensure that all information required to be disclosed by the advertisement regulations shall be set out conspicuously and in close conjunction with the statement in accordance with **806 KAR 12:010 Section 5**.

UNDERWRITING AND RATING

The company should establish and implement procedures to ensure that enrollment forms contain a fraud statement in accordance with **KRS 304.47-030(1)**.

POLICYHOLDER SERVICE

The company should establish and implement procedures to ensure that, in the event of default on the premium payments, insured's are given written notice of cash surrender values and the insured's options as to the application of the cash surrender value in accordance with **KRS 304.15-322**.

SUBMISSION

The examiner would like to express appreciation to the company for the cooperation extended during this examination.

The examiner respectfully submits this examination report to the Executive Director, Office of Insurance, Commonwealth of Kentucky, for his further action.

JAY MALCOLM
MARKET CONDUCT EXAMINER

Bob Rutledge, Market Data Analyst, also participated in this examination.

PART III

ILLINOIS REPORT

STONEBRIDGE LIFE INSURANCE COMPANY

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: September 13, 2004 through
November 19, 2004

EXAMINATION OF: Stonebridge Life Insurance Company

LOCATION: 2700 West Plano Parkway
Plano, Texas

PERIOD COVERED BY EXAMINATION: January 1, 2003 through
December 31, 2003

EXAMINERS: David R. Israel, AIE
Max R. Weaver, Examiner-in-Charge

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I. SUMMARY

1. The Company was criticized under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for failure to pay interest at the correct rate of 9% on life claims not paid within 15 days after receipt of due proof of loss. The underpaid amount of interest totaled \$78.33 on three (3) claims.
2. The Company was criticized on one (1) life claim under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for failure to pay interest on a claim, originally denied, not paid within 15 days after due proof of loss.
3. The Company was criticized under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for failure to notify beneficiaries at time of claim that 9% interest would be paid if the claim was not paid within 15 days.
4. The Company was criticized for failure to abide by the Illinois Insurance Laws pertaining to required notices and payment of interest on Illinois issued life policies when the insured moves to another state and death occurs.
5. The Company was criticized under Section 234.1 of the Illinois Insurance Code [215 ILCS 5/234.1] for failure to notify the policyholder of all available non-forfeiture options prior to enactment of a non-forfeiture option.

II. BACKGROUND

The Company was chartered as the Vermont Accident Insurance Company by the Vermont legislature in 1900 and incorporated on November 19, 1900. The Company officially commenced business on May 7, 1906, writing business on the advance premium mutual plan until February 15, 1949, at which time the Company converted to a stock company.

In 1967, the Company was acquired by J. C. Penney, Inc. and subsequently renamed J. C. Penney Life Insurance Company.

On June 18, 2001, Commonwealth General Corporation acquired J. C. Penney Life Insurance Company. Commonwealth General Corporation is wholly-owned by Aegon U. S. Corporation.

Effective April 1, 2002, Stonebridge Insurance Company was merged into J. C. Penney Life Insurance Company. On May 17, 2002, J. C. Penney Life Insurance Company changed its name to Stonebridge Life Insurance Company.

The Company was originally licensed to do business in Illinois on August 19, 1969.

III. METHODOLOGY

The Market Conduct Examination places emphasis on evaluating an insurer's system and procedures used in the dealing with insureds and claimants. The following categories are the general areas examined:

1. Producer Licensing and Production Analysis
2. Policy Forms and Advertising Material Analysis
3. Non-forfeiture Analysis
4. Claims Analysis
5. Insurance Department Complaints

The review of these categories is accomplished through examination of producer files, cash surrender policy, extended term and reduced paid-up policy files, claim files, Insurance Department complaint files, policy forms and advertising material. Each of these categories is examined for compliance with Department regulations and applicable State Laws. The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated to the insurer but not cited in the report if not indicative of a general trend except to the extent that there were underpayments in claim surveys or undercharges and/or overcharges in underwriting surveys. The following methods were used to obtain the required samples and to assure a methodical selection.

Producer Licensing and Production Analysis

Populations for the producer file reviews were determined by whether or not the producers were licensed by the State of Illinois. New business listings were retrieved from the Company records selecting newly solicited insurance applications which reflected Illinois addresses for the applicants.

Policy Forms and Advertising Material Analysis

The Company was requested to provide specimen copies of all policy forms and samples of all advertising material in use during the survey period.

Non-forfeiture Analysis

Listings were requested of all policies cash surrendered placed on extended term insurance status or converted to reduce paid-up insurance during the period covered by the examination. These listings were retrieved by a search of Illinois life policies which either lapsed for nonpayment of premium or were requested non-forfeiture option conversions made by the policyholders.

Claims

Claim surveys were selected using the following criteria:

1. Paid Claims – Payment for a coverage made during the survey period.
2. Denied Claims – Denial of benefits for losses not covered by policy provisions.
3. Individual or Franchise Claims – Determine whether the contracts were issued on an individual or franchise basis.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code [215 ILCS] and Illinois Administrative Code (50 Ill. Adm. Code).

Insurance Department Complaints

The Company was requested to provide all files relating to complaints which had been received via the Department as well as those received directly by the Company from insureds or his/her representative. A copy of the Company's complaint register was also reviewed.

Median periods were measured from the date of notification of the complaint to the date of response to the Department.

The examination period for Departmental complaints was January 1, 2000 through September 1, 2004.

Selection of Samples

<u>Survey</u>	<u>Population</u>	<u># Reviewed</u>	<u>% Reviewed</u>
<u>Producers Analysis</u>			
Terminated Producers	0	0	0%
Producers Production	48834	48834	100%
<u>Non-forfeiture Review</u>			
Cash Surrendered Life Policies	334	86	25%
Extended Term and Reduced Paid-up	126	48	38%
<u>Claims Analysis</u>			
Paid Individual Life	378	55	15%
Denied Individual Life	1	1	100%
Paid Group Life	1299	57	5%
Denied Group Life	4	4	100%
Paid Hospital Indemnity	1843	103	6%
Denied Hospital Indemnity	409	66	17%
Paid Credit Disability	272	55	21%
Denied Credit Disability	60	30	50%
Paid Credit Life	33	32	97%
Paid Group A D & D	79	22	28%
Denied Group A D & D	34	16	47%
<u>Policy Forms and Advertising</u>	1243	1243	100%
<u>Complaints</u>			
Departmental	113	113	100%
Consumer	72	50	70%

IV. FINDINGS

A. Producer Analysis

A review of terminated producers revealed that no producer had been terminated for a cause during the examination period.

A review of the producer submitted production resulted in no criticisms.

B. Non-forfeiture Analysis

1. Cash Surrendered Life

A review of 86 cash surrendered life policies produced no criticisms.

The median for surrender was seven (7) days.

2. Extended Term and Reduced Paid-Up

A review of 48 extended term and reduced paid-up policy files produced one (1) general criticism. A general criticism was made under Section 234.1 of the Illinois Insurance Code [215 ILCS 5/234.1] for failure to notify the policy-owners of all available non-forfeiture options.

C. Claims Analysis

1. Paid Individual Life

A review of 50 paid individual life claim files produced two (2) criticisms. A criticism was made under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for failure to notify beneficiaries, at the time of claim, that interest would be included if the claim was not paid within 15 days after due proof of loss. A general criticism was also made under Section 224 (1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for paying interest on claims not paid within 15 days, at the rate of 6% instead of the correct rate of 9%.

The median for payment was eight (8) days.

2. Denied Individual Life

A review of the one (1) denied individual life claim file produced no criticisms.

No median for denial could be established.

3. Paid Group Life

A review of 57 paid group life claim files produced no criticisms.

The median for payment was four (4) days.

4. Denied Group Life

A review of the four (4) denied group life claim files produced no criticisms.

No median for denial could be established.

5. Paid Hospital Indemnity

A review of 103 paid hospital indemnity claim files produced no criticisms.

The median for payment was two (2) days.

6. Denied Hospital Indemnity

A review of 66 denied hospital indemnity claim files produced no criticisms.

The median for denial was two (2) days.

7. Paid Credit Disability

A review of the paid credit disability claim files produced no criticisms.

The median for initial payment was five (5) days.

The median for subsequent payment was seven (7) days.

8. Denied Credit Disability

A review of the denied credit disability claim files produced no criticisms.

The median for denial was five (5) days.

9. Paid Credit Life

A review of the paid credit life claim files produced no criticisms.

The median for payment was four (4) days.

10. Denied Credit Life

A review of the denied credit life claim files produced no criticisms.

The median for payment was five (5) days.

D. Policy Forms and Advertising Review

A review of the policy forms and advertising produced no criticisms.

E. Complaints

1. Departmental Complaints

A review of 113 Departmental complaint files produced one (1) criticism under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for underpayment of interest on a claim not paid within 15 days in the amount of \$158.00.

The median for response to the Department was seven (7) days.

2. Consumer Complaints

A review of 50 consumer complaint files produced two (2) criticisms. Both criticisms were made under Section 224(1) of the Illinois Insurance Code [215 ILCS 5/224(1)] for payment of interest at the rate of 6% instead of the rate of 9% as required, resulting in under-payments in the amount of \$73.20.

The median for response was eight (8) days.

V. INTERRELATED FINDINGS

During the review of paid individual life claims it was discovered that the Company policy for processing death claims for Illinois issued policies where the insured had since moved to another State, uses the laws of that State in determining the types of notices sent and the rate of interest paid when the claim is not paid within 15 days. The life claims reviewed by the examiners involved no deaths out of the State of Illinois that were not paid within 15 days. The Company then reviewed those claims not selected by the examiners and determined that nine (9) Illinois issued policies on which claims were submitted, involved an insured that had moved to another State and later died. Of those nine claims only one (1) claim involved interest calculated at 6% interest instead of the required 9% rate. The Company made payment of the additional \$5.13 to the beneficiary prior to the termination of the examination.

VI. APPENDICES

This Market Conduct Examination was conducted pursuant to Sections 131.21, 132, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/402 and 5/425). It was conducted in accordance with standard procedures of the Market Conduct Examination Section by duly qualified examiners of the Illinois Department of Insurance.

This report is divided into five parts. They are as follows: Summary, Background, Methodology, Findings and Technical Appendices. All files reviewed were reviewed on the basis of the files' contents at the time of the examination. Unless otherwise noted, all overcharges (underwriting) and/or underpayments (claims) were reimbursed during the course of the examination.

No company, corporation, or individual shall use this report or any statement, excerpt, portion or section thereof for any advertising, marketing or solicitation purpose. Any company, corporation or individual action contrary to the above shall be deemed a violation of Section 149 of the Illinois Insurance Code (215 ILCS 5/149).

The Examiner-in-Charge was responsible for the conduct of this examination. The Examiner-in-Charge did approve of each criticism contained herein and has sworn to the accuracy of this report.

Larry A. Wieties, CIE, FLMI, ALH, AIRC
Acting Assistant Deputy Director
Market Conduct Examination Section

STATE OF ILLINOIS



Department of Financial and Professional Regulation Division of Insurance

IN THE MATTER OF
THE EXAMINATION OF

STONEBRIDGE LIFE INSURANCE COMPANY
2700 W. PLANO PARKWAY
PLANO, TEXAS 75075

MARKET CONDUCT EXAMINATION WARRANT

I, the undersigned, Director of Insurance of the State of Illinois, pursuant to Sections 131.21, 132, 401, 402, 403 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425) do hereby appoint Max Weaver, Examiner-In-Charge, David Israel and associates as the proper persons to examine the insurance business and affairs of Stonebridge Life Insurance Company of Plano, Texas, and to make a full and true report to me of the examination made by them of Stonebridge Life Insurance Company with a full statement of the condition and operation of the business and affairs of Stonebridge Life Insurance Company with any other information as shall in their opinion be requisite to furnish me a statement of the condition and operation of its business and affairs and the manner in which it conducts its business.

The persons so appointed shall also have the power to administer oaths and to examine any person concerning the business, conduct, or affairs of Stonebridge Life Insurance Company.

DEPARTMENT OF FINANCIAL AND
PROFESSIONAL REGULATION of the State of
Illinois; FERNANDO E. GRILLO, SECRETARY

DIVISION OF INSURANCE

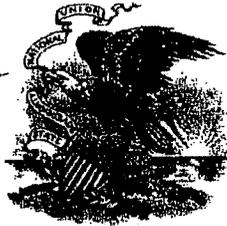
Deirdre K. Manna

DEIRDRE K. MANNA
Acting Director of Insurance

DATE 9-24-04



STATE OF ILLINOIS



Department of Financial and Professional Regulation Division of Insurance

STATE OF ILLINOIS)
COUNTY OF SANGAMON) ss

Max Weaver, being first duly sworn upon his oath, deposes and says:

That he is an examiner employed by the Department of Insurance of the State of Illinois;

That an examination was made of the affairs of Stonebridge Life Insurance Company of Plano, Texas, a foreign stock company, organized and authorized under the laws of the State of Vermont, pursuant to authority vested in the Warrant issued by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a true and complete report of the activities of the above named company, concerning the claim practices and procedures, rating, underwriting and marketing practices as of December 31, 2003 as determined by the examiners.



Examiner-In-Charge

Subscribed and sworn to before me
this 20th day of April,
A. D. 2005.



Notary Public



PART IV

STONEBRIDGE LIFE INSURANCE COMPANY

COMPANY REPORT RESPONSE



Insurance Company

2700 West Plano Parkway • Plano, Texas 75075-8200

VIA OVERNIGHT MAIL

June 1, 2005

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

RE: Stonebridge Life Insurance Company
Pennsylvania/Illinois/Kentucky Collaborative Market Conduct Examination
Your letter and draft report dated May 3, 2005

Dear Mr. Stemcosky:

The Company has received and reviewed your letter dated May 3, 2005 and the attached draft market conduct report. We are providing responses to the report from each state and item in the order presented in the report.

Thank you for the opportunity to respond to this report. If you have any questions or would like to discuss this report, please contact me .

Sincerely,

STONEBRIDGE LIFE INSURANCE COMPANY

A handwritten signature in cursive script that reads "Elizabeth Davis".

Elizabeth Davis
Compliance Analyst
(972) 881-6957
ldavis1@aegonusa.com

Attachments

Part I. Pennsylvania

IV. Advertising

Title 31, Pennsylvania Code 51.29

The Department has quoted Pennsylvania Code, Section 51.29, which states that (a) An advertisement shall not directly or by implication ***falsely*** represent that a contract or combination of contracts is an introductory, initial, or special offer, ...”The Department has then cited the Company for using 8 advertising pieces and 11 telemarketing scripts that contain phrases such as “special birthday offer,” “special savings” or “special opportunity.” Based on conversations with department personnel, it is our understanding Pennsylvania Department has taken the position that use of the term “special” in advertising is prohibited in its entirety.

The Company disagrees that it has falsely represented the offer by using these terms. These offers are truly “special” in that they are limited to specific groups where the master policyholder has chosen these products to be offered to the group, or to the Company’s own policyholders and certificate holders.

The solicitations for some of the Company’s group term certificates contain the phrase “special pre-birthday offer” one time. Use of this phrase is accurate since the quoted rate will be higher once the person has his/her birthday and the offer being made will no longer be available.

The Trans Union Opt Out flyer which contains the verbiage “special offer” was directed towards those individuals on the Trans Union list which we purchased for this direct mail offer. Individuals on the list met our initial criteria of age, gender, state and propensity to buy insurance

Although the Company does not feel it has violated Pennsylvania Code, Section 51.29, the Company is taking steps to ensure the direct mail kits and telemarketing scripts do not use the word “special” going forward.

Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)

The Pennsylvania Department has cited the Company for using 34 telephone scripts that did not contain a fraud statement.

We respectfully submit that the Company is not in violation of Title 18 PA. C.S., Section 4117(k) for the following reasons:

1. Section 18-4117(k) requires insurance applications to contain a fraud statement. The sales were made through telemarketing calls, and no application form was used to process the sale.
2. Section 18-4117 is a criminal statute. It says that insurance fraud exists if a person makes a statement in connection with, or in support of, a claim with the intent to defraud an insurer. Section 18- 4117(l) defines "insurance policy" as a "document setting forth the terms and conditions of a contract of insurance or agreement for the coverage of health or hospital services." This requirement does not apply to life insurance. All of the accident and health products being sold provide indemnity benefits, and most products are accident only. None of the scripts were for a policy that provided health or hospital services.

Although the Company does not believe it has violated Title 18, Section 4117(k) the Company has agreed to implement a process where the agent , during the telemarketing call, will tell the proposed insured that the certificate, when issued, will contain information regarding fraud. The fulfillment kit, which includes the certificate being issued, will then include a Fraud Warnings page that includes the Pennsylvania fraud warning.

V. Forms

Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
The Pennsylvania Department has cited the Company for using an insurance application that did not contain a fraud statement; however, the files in question were for group life and health certificates that were solicited through telemarketing methods. Enrollment Forms are not included in a telemarketing sale. The document referenced as an electronic application (SVIF) is an internal document that is not used for the purposes of enrolling individuals in an insurance plan and is not an application or any other type of policy form. The Company has researched Pennsylvania statutes and can find no requirement for an enrollment form for group accident and health insurance, nor has the Pennsylvania Department provided an applicable statute.

In addition, Title 18-4117 is a criminal statute. It says that insurance fraud exists if a person makes a statement in connection with, or in support of, a claim with the intent to defraud an insurer. Section 18- 4117(l) defines "insurance policy" as a "document setting forth the terms and conditions of a contract of insurance or agreement for the coverage of health or hospital services." This requirement does not apply to life insurance. All of the accident and health products being sold provide indemnity benefits, and most products are accident only. None of the scripts were for a policy that provided health or hospital services.

Although the Company does not believe it has violated Title 18, Section 4117(k) the Company has agreed to implement a process where the agent, during the

telemarketing call, will tell the proposed insured that the certificate, when issued, will contain information regarding fraud. The fulfillment kit will then include a Fraud Warnings page that includes the Pennsylvania fraud warning.

Title 31, Pennsylvania Code, Section 87.12 (a-d)

We respectfully submit that the Company is not in violation of title 31, Pennsylvania Code, Section 87.12 (a)(b)(c)(d) for the following reasons:

1. Section 31-87.12 is a regulation that applies to Pennsylvania policies. The 31 group certificates listed in the Initial Summary are not policies. Since the master policy for these certificates was issued and delivered in Illinois, Section 31-87.12 is not applicable.
2. Section 40-37-210.1 is a statute governing out of state group policies. It is our understanding that, as long as the requirements of Section 40-37-210.1 and other applicable acts are met, group certificates issued under out-of-state group policies are not subject to approval in Pennsylvania. In 1994, the Company submitted a product like the GC282 to Pennsylvania, and the filing was returned on January 23, 1995 with a letter stating it was exempt and that the Company may use the forms in Pennsylvania to provide coverage.

Although we disagree on this item, the Company, in good faith, will cease soliciting the GC282 in Pennsylvania on a going forward basis.

40 P.S. Section 1171.5

The Company respectfully disagrees with this alleged violation. The application in question is for critical illness coverage, a limited benefit product, which pays a lump sum benefit for the diagnosis of a covered illness, specifically cancer, heart attack and stroke. The underwriting of this product is done on a simplified accept/reject basis. Sick cell anemia is one of the many conditions listed in the question. If a "yes" answer is given with respect to any of the conditions listed on the application, coverage is declined.

Please note that **Section 6.8 UNINSURABLE LIVES** of the Underwriting manual that was previously provided lists illnesses that are **not** considered for Critical Illness insurance. The application in question was developed based upon this underwriting manual. Please be advised that the conditions in question are expressly itemized on the application and that no specific racial group was associated with any of these conditions. This coverage was priced based upon our ability to exclude the conditions set forth in the underwriting manual. . Since this application was developed based upon sound actuarial principles and since a given condition and no one race, religion, nationality, etc. is expressly excluded, it is our position that we are not in violation of Act 205, Section 5(a)(8)(iii).

The Company has searched its records and has found that this application has not been in use for some time, and no applicant has been denied coverage due to a "yes" response to this question.

VIII. Underwriting

G. Group Conversions

40 P.S. Section 512

The Company respectfully submits that it has not violated 40 P.S. § 512. These three policies were issued as the result of a written request for conversion. The original coverage was a group term life certificate properly issued that provided, upon written request, a new policy would be issued without evidence of insurability. The insured was simply exercising a contractual right available under the policy; therefore, no new application was needed or required. In each case, the insured provided a written request for conversion that was maintained in the file.

40 P.S. §625-4

The Company has a procedure in place to comply with 40 P.S. §625-4. The Company provided a detailed description of the Certificate of Mailing procedure during the examination. Another copy of this procedure is attached. During 2003, the Company's New Business Department relocated from a different building. Unfortunately, during the course of the move, some of the Certificates of Mailing that were maintained for PA policies were misplaced and have not been located. However, the Company does have a compliant process in place, and some of the files provided for this examination did contain the Certificate of Mailing.

H. Individual Life Policies Issued

40 P.S. § 512

The 12 life policies issued under this section were issued as a result of a request for conversion. The Company respectfully submits that it has not violated 40 P.S. § 512. These policies were issued as the result of a request for conversion. The original coverage was properly issued with a completed application, and the policy provided that, upon written request, a new policy would be issued without evidence of insurability. The insured was simply exercising a contractual right available under the policy; therefore, no new application was needed or required. In each case, the insured made a written request for conversion that was maintained in the file.

Title 31, Pennsylvania Code Section 83.4c

Please be aware that the Company has not actively solicited individual life insurance in PA. These two policies were issued as a result of someone printing an application off of the website and mailing it to the Company. At the time these policies were issued, a policy summary that provided substantially the information required by Title 31, Pennsylvania Code, Section 83.4c was included with the issued policy. A copy of this document was contained in the files that were reviewed. The company no longer makes the application for this policy available on the internet.

40 P.S. §625-4

The Company has a procedure in place to comply with 40 P.S. §625-4. The Company provided a detailed description of the Certificate of Mailing procedure during the examination. Another copy of this procedure is attached. During 2003, the Company's New Business Department relocated from a different building. Unfortunately, during the course of the move, some of the Certificates of Mailing that were maintained for PA policies were misplaced and have not been located. However, the Company does have a compliant process in place, and some of the files provided for this examination did contain the Certificate of Mailing.

M. Life Policies Terminated

The report states "The following violations were noted" but does not include any violations. We believe the report should read, "No violations were noted."

IX. Claims

A. Group Accident and Health Claims

Title 31, Pennsylvania Code, Section 146.6

The Pennsylvania Department has cited the Company for 3 violations of Title 31, Section 146.6, which requires an insurer to complete investigation of a claim within 30 days after notification of a claim. The Company disagrees that it has violated this section of the Pennsylvania Code. Title 31, Section 146.6 defines notification of claim as a notification by a claimant or insured which reasonably apprises the insurer of the facts pertinent to a claim. Claim is defined as a demand for payment by a claimant. In each of the 3 cases cited, the Company has complied with Pennsylvania's requirements. Summaries of these 3 files are provided below:

Gibbons 74AY079046 B-291016-01

Notice of death was received by telephone on 1-28-03 and claim forms for filing the claim were sent on the same day. Claim proofs, including the death certificate and claim forms, were not received until 3-11-03. The claim was denied on 3-18-03; 7 calendar days later.

Mong 82AV9V0209 B-291687-01

Notice of death was received by telephone on 1-30-03 and claim forms were sent the same day. The letter of instruction for filing the claim was returned with the death certificate and claim forms on 3-3-03. The claim was denied on 3-7-03; 4 calendar days later.

The 1-30-03 call advised the Company of the death of the insured and provided the name and address of the person to whom claim forms should be sent. The Company was not reasonably apprised of the facts pertinent to a claim until claim proofs were received on 3-3-03.

Atherholt 82AR8T0837 B-295935-01

Notice of the insured's 6-6-02 death was received by telephone from the spouse on 6-6-02. He informed the Company that death was due to natural causes. Since the coverage was for accidental death only, there was no request for claim forms.

The spouse again called the Company on 2-13-03 to advise that his wife's death had been ruled accidental after the autopsy. Claim forms were sent for filing accidental death the same day. The Company did not receive a death certificate or any proof of death that would allow the investigation of a claim and the claim number was closed on 4-24-03 until proofs were received.

The spouse again called the Company on 8-11-04 and claim forms for filing were again sent. Claim proofs, including the death certificate and claim forms, were received on 8-17-04. Additional information was needed to evaluate the claim and the beneficiary was provided with a reasonable written explanation for the delay on 8-19-04, 9-3-04, 9-20-04, 10-4-04, 10-27-04, and 11-22-04. The Company received proper information in order to make a determination on 12-15-04, and the claim was denied on 12-20-04.

D. Individual Life Claims

Notice of death was received by telephone on 6-11-03 and claim forms for filing the claim were sent on the same day. Claim proofs, including the death certificate and claim forms, were not received until 7-16-03. The claim was paid on 7-19-03; 3 calendar days later.

The Company believes it is in compliance since this claim was closed prior to the date a status letter would be required.

X. RECOMMENDATIONS

1. Although the Company does not believe it has violated Title 18, Section 4117(k) the Company has agreed to implement a process where the agent, during the telemarketing call, will tell the proposed insured that the certificate, when issued, will contain information regarding fraud. The fulfillment kit will then include a Fraud Warnings page that includes the Pennsylvania fraud warning.
2. The Company believes it currently complies with Pennsylvania requirements of Title 31, Chapter 146, Unfair Claims Settlement Practices.
3. The Company will review procedures to ensure records are maintained in compliance with Section 903(a) of the Insurance Department Act of 1921.
4. The Company has taken steps to ensure compliance with the advertising certification requirements of Title 31, Chapter 51 if individual life products are ever solicited in Pennsylvania again. Currently, the company only issues conversion policies in Pennsylvania, which are not subject to the certification requirements.
5. The Company is reviewing internal control procedures to ensure compliance with the disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
6. The Company, in good faith, will discontinue soliciting out of state group Graded Benefit Life certificate, GC282.
7. The Company currently has a procedure in place that complies with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. Section 625-4).
8. While the Company agrees to review internal control procedures to ensure agents are not misrepresenting terms or benefits of contracts, this issue was not presented in the text of the report. 40 P.S. , Section 1171.5 was referenced with regard to a direct response enrollment form that was being used that did not involve agents.
9. The Company is reviewing its procedures with regard to conversion policies in light of the position of the Pennsylvania Department.

PART II
Kentucky Report

SUMMARY AND RECOMMENDATIONS

Marketing and Sales

The company believes it was accurately representing the benefits of the product. However, the Company is currently reviewing the advertising for products that allow for an extended payout in order to ensure compliance.

Underwriting and Rating

The Company's current procedures require fraud language to be printed on all applications and enrollment forms used in Kentucky. This requirement is also on the Company's advertising checklist. The particular application cited in the report was printed incorrectly one month without the required fraud language. The solicitation was corrected for the next mailing of the product, and the corrected copy was provided to the examiner.

The Company will continue to review advertising to ensure fraud language is included where required, and will stress to others the importance of ensuring copy is printed correctly.

Policyholder Service

The Company has now implemented a process to ensure that insureds are informed of their non-forfeiture options upon default of a premium. We have implemented this same process for use in all states. Sample copies of the letters are attached.

**Part III.
Illinois**

1. The Company has corrected the underpayment of interest that affected 3 claims for a total of \$78.33.
2. The Company feels it was correct in not paying interest on the claim in question. For this claim, the Company made an administrative decision to pay a settlement amount equivalent to the face amount. Since the company was not paying the actual claim, it does not feel that interest was required to be paid.
3. The Company has implemented a procedure to notify beneficiaries at the time of claim that interest at the rate of 9% will be paid if the claim is not paid within 15 days.
4. The Company has revised procedures to comply with Illinois requirements regarding notices and interest on life policies when the insured moves to another state.
5. The Company has implemented a procedure to notify the policyholder of all available nonforfeiture options. Sample letters are attached.



Insurance Company

2700 West Plano Parkway • Plano, Texas 75075-8200

To: Michael Jones
Pennsylvania Market Conduct Examiner

From: Elizabeth Davis
Dept: Law
Location: Plano
Phone: (972) 881-6957
Date: October 18, 2004

I am providing the company procedures for handling the Certificates of Mailing for Pennsylvania.

1. The Documerge system has been coded to print "INSERTOFMAIL" on the tab page of each individual life policy that is issued. The Tab Page is a page that summarizes all of the items that print with the policy at issue. The INSERTOFMAIL notation is the instruction to mail the policy using a Certificate of Mailing.
2. The Certificate of Mail Procedures document provides step by step instructions for mailing a policy using a Certificate of Mailing.

Please let me know if you have any questions regarding this process.

Elizabeth Davis

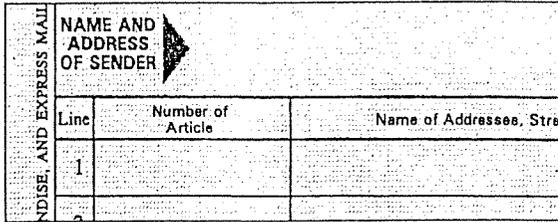
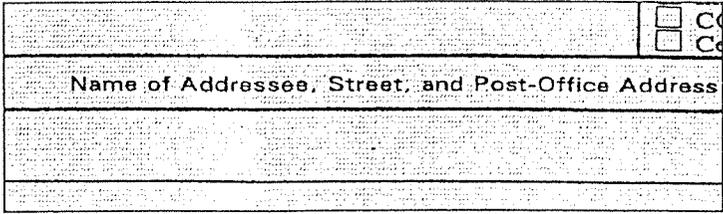
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- STATE-PA
- ALL NOTICES ARE BEING SUPPRESSED FOR OLD PRODUCTS WITH POL-CO '2'
-
- GAN = GUARANTY NOTICE
- RPL = REPLACEMENT NOTICE
- CMP = COMPLAINT NOTICE
- END = ENDORSEMENT NOTICE
- FRD = FRAUD NOTICE
- BG = BUYERS GUIDE
-
INCLUDE=PP-REPLACEMENT-NOTICE
-
IF BASE-POL-FORM=GC185 THEN FORM(ALE)=JCP.ENALECAS.NOTICE
-
IF POL-CO=59 THEN GOTO PASSNOTICE
IF BASE-POL-FORM=2810 THEN GOTO PASSNOTICE
IF BASE-POL-FORM=2813 THEN GOTO PASSNOTICE
IF BASE-POL-FORM=2832 THEN GOTO PASSNOTICE
IF BASE-POL-FORM=2838 THEN GOTO PASSNOTICE
-
IF POL-INS-TYP=LF AND POL-CO=71 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=33 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=71 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=72 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=79 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=81 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=83 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=85 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=87 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
IF POL-INS-TYP=LF AND POL-CO=90 -
  THEN TAG=(SPECIAL.TAB,'INSERTOFMAIL')
-
:PASSNOTICE
-
TAG=(STATE.CODE,'PENNSYLVANIA')

```

Certificate Of Mail Procedures

The following instruction detail ONLY additional steps needed to process Certificate of Mail Policies. Use these in conjunction with the instructions outlined in the Fulfillment Agreement as well as the corresponding line of business procedures located in this manual.

Step	Action
1	Meter policies using the regular postage rate.
2	Obtain postal form #3877.
3	<p>Enter the policy Certificate number in the 'Number of Article' column.</p> 
4	<p>Enter the policyholders Name and Address in the 'Name of Addressee, Street, and Post Office Address' column.</p> 

APL



May 18, 2005

NOTICE OF AUTOMATIC PREMIUM LOAN

Premiums were paid for you by placing a loan against the cash value of your policy as provided by the Automatic Premium Loan provision. Your policy is in force although the premium was not received from you. The purpose of this provision is to keep your policy from lapsing when the premium is not paid within the grace period.

The Automatic Premium Loan provision should be used only when an emergency makes it impossible for you to pay the premiums. Continued use of this provision, with the loans remaining unpaid, will decrease the policy cash value and there may not be sufficient value to cover accumulated loans, interest and the premiums then due. The policy then would lapse and you would lose the benefit of considerable investments made to meet your insurance needs.

You will benefit by repaying the loan as soon as possible so that the cash value of your policy will be restored for future emergencies. If you cannot repay the full amount, we urge you to send monthly installments of \$10.00 or more. You may view the Automatic Premium Loan chart for details of the loan that was processed.

In addition to the Automatic Premium Loan provision, other options you may choose from are:

- You may choose to reduce the face amount of your insurance by electing the Reduce Paid Up option. This means you would not pay any further premiums, and your cash value would continue to accumulate based on the reduced face amount. You may view the corresponding chart for the reduced face amount available.
- You may use the cash value to purchase term insurance by electing the Extended Term Insurance option. This means no further premiums are paid and the term insurance will provide coverage for a certain period of time. You may view the corresponding chart for the face amount available and the expiry date of coverage.
- Or, you may choose to surrender your policy for the full cash value less any outstanding loans. This means that you would be without your valuable insurance protection. You may view the corresponding chart for the surrender amount available.

If you prefer to exercise a different option other than the Automatic Premium Loan, please contact our office. A Customer Service Representative will be happy to assist you.

CUSTOMER SERVICE DEPARTMENT

Automatic Premium Loan Information

Premium Due Date	Number of Months	Amount of Premium	Loan Interest Rate	Interest Amount	Loan Amount
03/24/05	3	\$24.55	5.68%	\$1.11	\$25.66
Policy/Certificate Number		Toll-free Number		Hours of Operation	
		1-800-527-9027		Monday - Friday: 8:00 a.m. - 8:00 p.m., CST Saturday: 8:00 a.m. - 2:00 p.m., CST	

Other Available Options

Reduced Face Amount	Extended Term Insurance	Extended Term Expiry Date	Surrender Amount
\$1,570.00	\$8,488.47	07/07/16	\$470.52

For online services, visit our website at www.stonebridge-jcp.com

CSBAPL



STONEBRIDGE LIFE
Insurance Company
2700 West Plano Parkway • Plano, Texas 75075-8200

May 18, 2005

BETH L TOOTH
14413 S RAVINIA AVE # N2
ORLAND PARK IL 60462

Dear BETH L TOOTH

We understand that you have many choices when it comes to selecting insurance, and we are glad that you chose us as your insurance provider.

Because premiums have not been paid within the grace period, this letter is to advise you that your policy/certificate has automatically been placed on Extended Term Insurance. Your benefit amount and expiry date of the Extended Term Insurance is shown below, and no further premiums are due. If you would like to be considered for reinstatement, please call us at the number shown in the chart.

In addition to the Extended Term Insurance option, other options you may choose from are:

- You may choose to have premiums paid by placing a loan against the cash value of your policy as provided by the Automatic Premium Loan provision.
- You may choose to reduce the face amount of your insurance by electing the Reduced Paid Up option. This means you would not pay any further premiums, and your cash value would continue to accumulate based on the reduced face amount. See the corresponding chart for the reduced face amount available.
- Or, you may choose to surrender your policy for the full cash value less any outstanding loans. This means that you would be without your valuable insurance protection. See the corresponding chart for the surrender amount available.

If you prefer to exercise a different option other than Extended Term Insurance, please contact our office. A Customer Service Representative will be happy to assist you.

CUSTOMER SERVICE DEPARTMENT

Extended Term Information

Policy/Certificate Number	Expiry Date	Coverage Amount	Toll-free Number	Hours of Operation
52LR332889	02/15/24	\$7,500.00	1-800-527-9027	Monday - Friday: 8:00 a.m. - 8:00 p.m., CST Saturday: 8:00 a.m. - 2:00 p.m., CST

Other Available Options

Reduced Face Amount	Surrender Amount
\$4,055.00	\$1,782.37

For online services, visit our website at www.stonebridge-jcp.com

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Dear #####

We understand that you have many choices when it comes to selecting insurance, and we are glad that you chose us as your insurance provider.

Because premiums have not been paid within the grace period, this letter is to advise you that your policy/certificate has automatically been placed on Extended Term Insurance. Your benefit amount and expiry date of the Extended Term Insurance is shown below, and no further premiums are due. If you would like to be considered for reinstatement, please call us at the number shown in the chart.

In addition to the Extended Term Insurance option, other options you may choose from are:

- You may choose to have premiums paid by placing a loan against the cash value of your policy as provided by the Automatic Premium Loan provision.
- You may choose to reduce the face amount of your insurance by electing the Reduced Paid Up option. This means you would not pay any further premiums, and your cash value would continue to accumulate based on the reduced face amount. See the corresponding chart for the reduced face amount available.
- Or, you may choose to surrender your policy for the full cash value less any outstanding loans. This means that you would be without your valuable insurance protection. See the corresponding chart for the surrender amount available.

If you prefer to exercise a different option other than Extended Term Insurance, please contact our office. A Customer Service Representative will be happy to assist you.

CUSTOMER SERVICE DEPARTMENT

Extended Term Information

Policy/Certificate Number	Expiry Date	Coverage Amount	Toll-free Number	Hours of Operation
#####	#####	#####	#####	##### #####

Other Available Options

Reduced Face Amount	Surrender Amount
#####	#####

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Dear #####

We understand that you have many choices when it comes to selecting insurance, and we are glad that you chose us as your insurance provider.

Because premiums have not been paid within the grace period, this letter is to advise you that your policy/certificate has automatically been placed on the Reduced Paid Up benefit option. Your reduced benefit amount is shown below and no further premiums are due. If you would like to be considered for reinstatement, please call us at the number shown in the chart.

In addition to the Reduced Paid Up option, other options you may choose from are:

- You may choose to have premiums paid by placing a loan against the cash value of your policy as provided by the Automatic Premium Loan provision.
- You may use the cash value to purchase term insurance by electing the Extended Term Insurance option. This means no further premiums are paid and the term insurance will provide coverage for a certain period of time. You may view the corresponding chart for the face amount available and the expiry date of coverage.
- Or, you may choose to surrender your policy for the full cash value less any outstanding loans. This means that you would be without your valuable insurance protection. You may view the corresponding chart for the surrender amount available.

If you prefer to exercise a different option other than Reduced Paid Up, please contact our office. A Customer Service Representative will be happy to assist you.

CUSTOMER SERVICE DEPARTMENT

Reduced Paid Up Information

Policy/Certificate Number	Effective Date of Reduced Paid Up	Reduced Benefit Amount	Toll-free Number	Hours of Operation
#####	#####	#####	#####	##### #####

Other Available Options

Extended Term Insurance	Extended Term Expiry Date	Surrender Amount
#####	#####	#####

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NOTICE OF AUTOMATIC PREMIUM LOAN

Premiums were paid for you by placing a loan against the cash value of your policy as provided by the Automatic Premium Loan provision. Your policy is in force although the premium was not received from you. The purpose of this provision is to keep your policy from lapsing when the premium is not paid within the grace period.

The Automatic Premium Loan provision should be used only when an emergency makes it impossible for you to pay the premiums. Continued use of this provision, with the loans remaining unpaid, will decrease the policy cash value and there may not be sufficient value to cover accumulated loans, interest and the premiums then due. The policy then would lapse and you would lose the benefit of considerable investments made to meet your insurance needs.

You will benefit by repaying the loan as soon as possible so that the cash value of your policy will be restored for future emergencies. If you cannot repay the full amount, we urge you to send monthly installments of \$10.00 or more. You may view the Automatic Premium Loan chart for details of the loan that was processed.

In addition to the Automatic Premium Loan provision, other options you may choose from are:

- You may choose to reduce the face amount of your insurance by electing the Reduce Paid Up option. This means you would not pay any further premiums, and your cash value would continue to accumulate based on the reduced face amount. You may view the corresponding chart for the reduced face amount available.
- You may use the cash value to purchase term insurance by electing the Extended Term Insurance option. This means no further premiums are paid and the term insurance will provide coverage for a certain period of time. You may view the corresponding chart for the face amount available and the expiry date of coverage.
- Or, you may choose to surrender your policy for the full cash value less any outstanding loans. This means that you would be without your valuable insurance protection. You may view the corresponding chart for the surrender amount available.

If you prefer to exercise a different option other than the Automatic Premium Loan, please contact our office. A Customer Service Representative will be happy to assist you.

CUSTOMER SERVICE DEPARTMENT

Automatic Premium Loan Information

Premium Due Date	Number of Months	Amount of Premium	Loan Interest Rate	Interest Amount	Loan Amount
#####	#####	#####	#####	#####	#####
Policy/Certificate Number		Toll-free Number	Hours of Operation		
#####		#####	##### #####		

Other Available Options

Reduced Face Amount	Extended Term Insurance	Extended Term Expiry Date	Surrender Amount
#####	#####	#####	#####

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