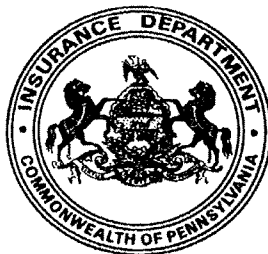


**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF**

**STANDARD INSURANCE COMPANY**  
Portland, Oregon

**AS OF  
February 13, 2007**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: April 5, 2007**

# STANDARD INSURANCE COMPANY

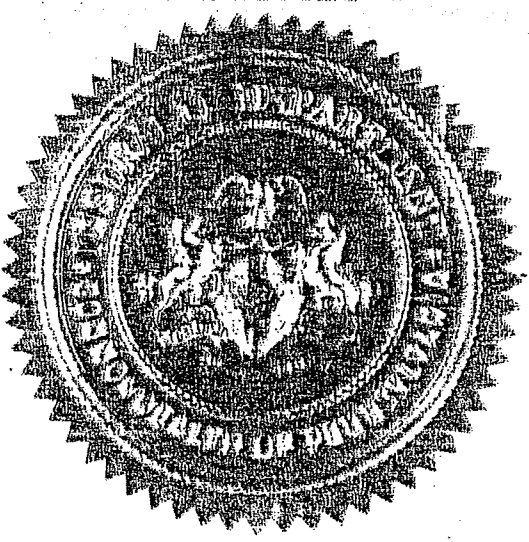
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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 20<sup>th</sup> day of February, 2007, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. § 323.5, I hereby designate Terrance A. Keating, Deputy Chief Counsel, 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.



A handwritten signature in black ink, appearing to read "Randolph L. Rohrbaugh". The signature is written in a cursive style with large, sweeping loops.

\_\_\_\_\_  
Randolph L. Rohrbaugh  
Acting Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
STANDARD INSURANCE	:	Sections 641.1-A and 671-A of Act
COMPANY	:	147 of 2002 (40 P.S. §§ 310.41 and
1100 South West Sixth Avenue	:	310.71)
Portland, OR 97204-1093	:	
	:	Section 404-A of the Insurance
	:	Company Law, Act of May 17, 1921,
	:	P.L. 682, No. 284 (40 P.S. §625-4)
	:	
	:	Section 3 of the Health and Accident
	:	Reform Act, No. 159 (40 P.S. § 3803)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	51.5, 88.102, 146.5, 146.6 and 146.7
	:	
Respondent.	:	Docket No. MC07-03-022

CONSENT ORDER

AND NOW, this *5<sup>th</sup>* day of *APRIL*, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

#### FINDINGS OF FACT

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

- (a) Respondent is Standard Insurance Company, and maintains its address at 1100 South West Sixth Avenue, Portland, Oregon 97204-1093.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2005 to December 31, 2005.
- (c) On February 13, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on March 15, 2007.
- (e) The Examination Report notes violations of the following:

- (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);
  
- (ii) Section 671-A of Act 147 of 2002 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;
  
- (iii) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand-delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

- (iv) Section 3 of Act 159, Health and Accident Reform Act (40 P.S. § 3803), which requires each insurer and HMO to file with the Department any form which it proposes to issue in this Commonwealth except a type or kind of form which, in the opinion of the Commissioner, does not require filing;
  
- (v) Title 31, Pennsylvania Code, Section 51.5, which states a company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement, a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth;
  
- (vi) Title 31, Pennsylvania Code, Section 88.102, which states upon determining that a sale will involve replacement, an insurer, other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in Section 88.10. One copy of the notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer. A direct response insurer shall deliver to the applicant upon issuance of the policy, the notice described in Section 88.104;

(vii) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;

(viii) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;

(ix) Title 31, Pennsylvania Code, Section 146.7, which requires within 15 working days after receipt by the insurer of properly executed proof of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer; and

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



## CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
  
- (b) Respondent's violations of Sections 641.1-A and 671.1-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
  - (i) suspension, revocation or refusal to issue the certificate of qualification or license;
  - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
  - (iii) an order to cease and desist; and
  - (iv) any other conditions as the Commissioner deems appropriate.
  
- (c) Respondent's violations of Section 404-A of the Insurance Company Law (40 P.S. §625-4 are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may

issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

(d) Respondent's violations of Section 3 of the Health and Accident Reform Act, No. 159, No. 159 (40 P.S. § 3803) are punishable under Section 13 of the Act (40 P.S. § 3813):

(i) Upon satisfactory evidence of the violation of any section of the act by an insurer, HMO or any other person, one or more of the following penalties may be imposed at the Commissioner's discretion:

(1) suspension or revocation of the license of the offending insurer or HMO;

(2) refusal, for a period not to exceed one year, to issue a new license to the offending insurer or HMO;

(3) a fine of not more than \$5,000 for each violation of this Act;

(4) a fine of not more than \$10,000 for each willful violation of this Act;

(5) a fine of not more than \$25,000 for each willful violation of Section 6.

(ii) Fines imposed against an individual insurer under this act shall not exceed \$500,000 in the aggregate during a single calendar year.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 51.5, 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(h) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

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

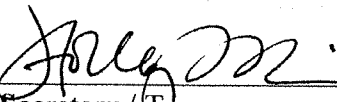
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

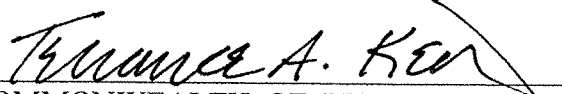
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: STANDARD INSURANCE COMPANY,  
Respondent

  
\_\_\_\_\_  
President / Vice President

  
\_\_\_\_\_  
Secretary / Treasurer

  
\_\_\_\_\_  
COMMONWEALTH OF PENNSYLVANIA  
By: Terrance A. Keating  
Deputy Chief Counsel

## I. INTRODUCTION

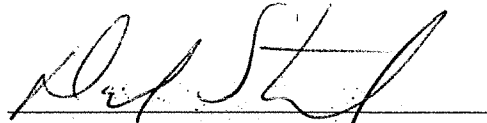
The Market Conduct Examination was conducted on Standard Insurance Company, hereafter referred to as "Company," at the Company's office located in Portland, Oregon, September 11, 2006, through November 3, 2006. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

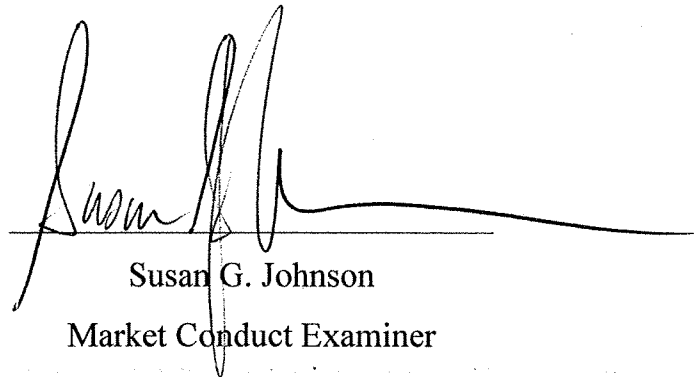
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

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

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

A handwritten signature in black ink, appearing to read "Dan Stemcosky", written over a horizontal line.

Daniel Stemcosky, A/E, FLMI  
Market Conduct Division Chief

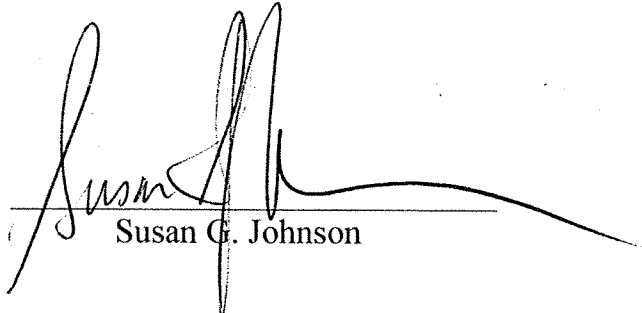
A handwritten signature in black ink, appearing to read "Susan G. Johnson", written over a horizontal line.

Susan G. Johnson  
Market Conduct Examiner



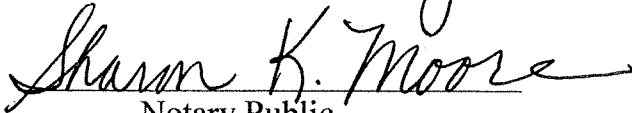
**VERIFICATION**

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

  
Susan G. Johnson

Sworn to and Subscribed Before me

This 12<sup>th</sup> Day of February 2007



Notary Public  
SHARON K. MOORE  
Notary Public, State of New York  
No. 01MOS044824  
Residing in Broome County  
My commission expires July 17, 2010

## **II. SCOPE OF EXAMINATION**

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of January 1, 2005, through December 31, 2005, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

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

Standard Insurance Company ("The Standard") was incorporated in Oregon, on February 24, 1906, and commenced business on April 12, 1906. The Company became a mutual insurer under the name of Oregon Mutual Life Insurance Company in 1929, owned by and operated for the benefit of its policyholders. In 1946, the Company changed its name to Standard Insurance Company. On September 28, 1998, the Company's board of directors approved a Plan of Reorganization providing for the reorganization of the Company from a mutual life insurance company into a stock life insurance company. The Plan of Reorganization was approved by the Director of the Oregon Department of Consumer and Business Services on April 21, 1999.

Today, The Standard is a wholly owned subsidiary of its parent holding company, StanCorp Financial Group, Inc. ("StanCorp"), which was incorporated under the laws of Oregon in 1998 for its subsidiaries that include The Standard. The Standard is licensed to conduct business in 49 states, Guam, Puerto Rico and the Virgin Islands.

The Standard specializes in group long-term disability, group life, group dental and individual disability business through its insurance services group, and in retirement plans and annuities through its asset management group.

As of their December, 2005, annual statement for Pennsylvania, Standard Insurance Company reported direct premium for ordinary life insurance and annuities in the amount of \$719,275; group life and other considerations in the amount of \$41,750,979; and direct premium for accident and health in the amount of \$39,653,281.

#### **IV. ADVERTISING**

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide a copy of their advertising Certificate of Compliance, as required by Title 31, Pennsylvania Code, Section 51.5.

#### **1 Violation - Title 31, Pennsylvania Code, Section 51.5**

##### **Certificate of Compliance**

A Company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth. Evidence that the advertising Certificate of Compliance was filed with the Department could not be established.

## V. FORMS

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

### **2 Violations – Act 159, Section 3 (40 P.S. §3803)**

Each insurer and HMO shall file with the Department any form which it proposes to issue in this Commonwealth except a type or kind of form which, in the opinion of the Commissioner, does not require filing. Evidence that the forms were filed prior to use could not be established.

The form number and description are listed in the table below.

<b>Form Number</b>	<b>Description</b>
9145.3 (6/00) PA	Outline of Coverage for policy B130.3(6/00) PA
XB10056 (7/04) PA	Outline of Coverage for policy SB140 (3/01) PA

## VI. PRODUCER LICENSING

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

The Company provided a list of 100 external producers and 25 employee producers. All 125 producers were compared to departmental records of agents to verify appointments, terminations and licensing. The following violations were noted:

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

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
  - (1) Delineates the services to be provided; and
  - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.

- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer’s holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer’s license is suspended, revoked or otherwise terminated.
- (e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.
- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the following 11 producers or agencies. The Company listed these producers as active; however, Department records did not indicate their appointment.

<b>Producer</b>
Norman Lazarus
Gorga Agency, Inc.
NFC Affinity Marketing
Worthmark Financial
Vivan Fu
Buck Consultants, Inc.
Murray Insurance Association
Dascit White Winston

Richard Eisenmann
Seabury and Smith
Steve Jackson

**1 Violation –Insurance Department Act, No. 147, Section 641.1-A**

**(40 P.S. §310.41a)**

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

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

The noted individual was listed as a producer. Department records did not identify this individual as holding a Pennsylvania insurance license at the time of application.

<b>Individual</b>
Steve Jackson



## VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 2001, 2002, 2003, and 2004. The Company identified 6 written consumer complaints and provided complaints logs for 2001, 2002, 2003 and 2004. All 6 complaints identified were forwarded from the Department. All 6 consumer complaint files were requested, received and reviewed.

The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. No violations were noted.

## **VIII. UNDERWRITING**

The Underwriting review was sorted and conducted in 7 general segments.

- A. Underwriting Guidelines
- B. Group Policies Issued
- C. Group Conversions
- D. Individual Annuity Contracts Issued
- E. Individual Disability Policies Issued
- F. Individual Annuity Contracts Issued as Replacement
- G. Individual Disability Policies Issued as Replacement

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

### **A. Underwriting Guidelines**

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

The following guidelines were reviewed:

1. Group Underwriting Manual (Volume 1)
2. Group Underwriting Manual (Volume 2)
3. Service Bulletins & Miscellaneous Underwriting Guidelines
4. Medical Underwriting Guidelines
5. Individual Disability Underwriting Guidelines
6. Rate Manual (CD Rom)

### **B. Group Policies Issued**

The Company was requested to provide a list of all group policies issued during the experience period. The Company identified a universe of 9 group policies issued. All 9 group policy files were requested, received and reviewed. After further review it was determined that 2 files were duplicated. The remaining 7 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

### **C. 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 20 certificate holders converting their group life coverage upon termination to an optional group life insurance plan. All 20 conversion files were requested, received and reviewed. No violations were noted.

#### **D. Individual Annuity Contracts Issued**

The Company identified a universe of 40 annuity contracts issued during the experience period. All 40 annuity contracts were requested, received and reviewed. The annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted:

##### **27 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 annuity contract delivery could not be established in the 27 files noted.

#### **E. Individual Disability Policies Issued**

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 309 individual disability

policies issued. A random sample of 100 individual disability policy files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

#### **F. Individual Annuity Contracts Issued as Replacements**

The Company identified a universe of 3 individual annuity contracts issued as replacements during the experience period. All 3 replacement files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

#### **G. Individual Disability Policies Issued as Replacements**

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 23 individual disability policies issued as replacements. All 23 files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

#### **9 Violations - Title 31, Pennsylvania Code, Section §88.102**

Upon determining that a sale will involve replacement, an insurer, other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in §88.103 (relating to notice

form). One copy of such notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer. A direct response insurer shall deliver to the applicant upon issuance of the policy the notice described in §88.104 (relating to notice form for direct response insurer). In no event, however, will §§88.101—88.104 (relating to requirements for replacement) apply to the solicitation of single premium nonrenewable policies and accident only policies. The replacement form was dated after the application date in the 9 files noted.

## IX. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The Company provided the following claim manuals:

1. Classroom Training Schedule for Disability Benefits Analysts
2. Life Procedure Manual
3. Life Claim Manual
4. Waiver Procedure Manual
5. Waiver Claim Manual
6. STD contested Claims Process
7. Early Starts Opportunities Manual
8. Continuing Education
9. Guidelines and Procedures
10. New Analyst Training
11. Regulatory Training
12. New Life Analyst Training Material
13. Employee Benefits Manuals
14. Continuing Education Training Topic
15. New Employee Training
16. Process/Examiner Classroom
17. LTD Analyst Post Grad
18. Approved Policies and Procedures
19. Contract 2000
20. Group Benefits LTD Claims Manual
21. Life Waiver of Premium Claims Administration Reference Guide For Employee Benefits Analysts and Processors
22. Reserve and Payment Guidelines

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

The Claim file review consisted of 7 areas:

- A. Long-Term Disability Claims
- B. Group Short-Term Disability Claims
- C. Group Term Life and Waiver of Premium Claims
- D. Accidental Death and Dismemberment Claims
- E. Individual Accident and Sickness Claims
- F. Dental Claims Closed
- G. Dental Claims Pending

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

#### **A. Long-Term Disability Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 577 long-term disability claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

#### **2 Violations - Title 31, Pennsylvania Code, Section 146.5**

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the



insurer and dated. The Company failed to acknowledge the 2 claims noted within 10 working days.

**1 Violation - Title 31, Pennsylvania Code, Section 146.7**

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

**B. Group Short-Term Disability Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 3,072 group short-term disability claims. A random sample of 50 claim files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

**5 Violations - Title 31, Pennsylvania Code, Section 146.5**

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 5 claims noted within 10 working days.

### **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.

### **1 Violation - Title 31, Pennsylvania Code, Section 146.7**

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the insurer shall advise the first-party claimant of the acceptance or denial of the claim. The Company failed to provide notice of acceptance or denial within 15 working days in the following claims. The date listed as the "Acceptance Date" reflects the date the company accepted or denied the claim. The Company did not provide any evidence that the claim was paid within 15 working days of the proof of loss.

### **C. Group Term Life and Waiver of Premium Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 893 group term life and waiver of premium claims received. A random sample of 100 group term life and waiver of premium claims was requested, received and reviewed. After further examination 25 waiver of premium files were removed to prevent duplication of file review. The remaining claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

#### **4 Violations - Title 31, Pennsylvania Code, Section 146.7**

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first- party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide notice of acceptance or denial within 15 working days for the 4 claims noted.

#### **D. Accidental Death and Dismemberment Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 41 accidental death and dismemberment claims. A random sample of 10 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violation was noted:

#### **1 Violation - Title 31, Pennsylvania Code, Section 146.5**

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the claim noted within 10 working days.

### **E. Individual Accident and Sickness Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 4 accident and sickness claims. All 4 files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

### **F. Dental Claims Closed**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 3,671 dental claims closed. A random sample of 25 dental claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

### **G. Dental Claims Pending**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 57 dental claims pending. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

## **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 review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
2. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A and Section 671-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71 and 310.71a).
3. The Company must implement procedures to ensure compliance with the advertising certification requirement of Title 31, Pennsylvania Code, Chapter 51.
4. 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).
5. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 88.
6. The Company must implement procedures to ensure compliance with the filing requirements of Act 159, Section 3 (40 P.S. §3803).

**XI. COMPANY RESPONSE**



TheStandard<sup>SM</sup>  
Positively different.

March 14, 2007

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

Re: Standard Insurance Company Report of Examination

Dear Mr. Stemcosky:

We have thoroughly reviewed the Report of Examination covering the period January 1, 2005 through December 31, 2005, and attached is our response for your consideration. We would like to respectfully request that the Department take into consideration the remedial actions taken by the Standard prior to completion of the Department's final report.

Thank you for the courtesy and consideration provided by the Department during its examination of The Standard.

Regards,

Justin Delaney  
Vice President & Assistant General Counsel

Enclosure

## XI. COMPANY RESPONSE

### IV. ADVERTISING

#### **1 Violation – Title 31, Pennsylvania Code, Section 51.5 – Certificate of Compliance**

Resolution: The Standard took immediate remedial action by filing an Advertising Certificate of Compliance on June 29, 2006 in our initial response to the Pennsylvania data call. In the future The Standard will submit the Advertising Certificate of Compliance annually with the Annual Statement.

### V. FORMS

#### **2 Violations – Act 159, Section 3 (40 P.S. §3803)**

Resolution: Use of one of the forms cited was discontinued on October 1, 2005. The Standard took immediate remedial action regarding the second form cited, which was submitted to the Department on December 14, 2006.

### VIII. UNDERWRITING

#### **D. Individual Annuity Contracts Issued**

#### **27 Violations – Insurance Company Law, Section 404-A (40 P.S. §625-4)**

Resolution: These annuities did not involve a producer at the point of sale and in many cases involved a non-responsive policyholder. In some cases annuities do not fit within the profile of a typical annuity delivery, e.g., a rollover from a retirement account when a participant left an employer and a rollover was performed by a plan administrator rather than the individual annuity owner. In these cases, instructions are usually not provided on where to send the funds, and the plan administrator sends the funds to The Standard's Individual Annuity department and directs The Standard to set up an IRA in the policyholders' name. In each of these cases, an IRA was issued and sent to the policyholder, along with a contract delivery receipt with instructions to sign and return it.

However, upon receipt of these examination findings, The Standard took immediate remedial action by sending a certified letter addressed to the policyholder or the policyholder's guardian requesting the return of the policy delivery receipt for each of the denoted records.

#### **G. Individual Disability Policies Issued as Replacements**

#### **9 Violations – Title 31, Pennsylvania Code, Section §88.102**

Resolution: In each of the violations cited, an applicant completed an application with an insurance agent or broker who was not an employee of The Standard, and upon receipt of



the completed application The Standard determined that the sale involved a replacement. The Standard took immediate action upon detection that a replacement was involved and a notice was sent and signed by the applicant prior to the examination period for each of the cited files.

### COMPANY RESPONSE TO RECOMMENDATIONS

1. *The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.*

The Standard is reviewing to determine if changes are appropriate to existing practices, policies and procedures for consistent compliance with timeliness practices. Customer service is of paramount importance to The Standard.

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

The Standard has initiated a partnership with Sircon, the State of Pennsylvania's vendor, to systematically process all producer appointments and ensure an accurate comparison between producer licensing and appointment data with each state's data.

3. *The Company must implement procedures to ensure compliance with the advertising certification requirement of Title 31, Pennsylvania Code, Chapter 51.*

The Standard has provided the annual advertising certification for 2005 and 2006 and has implemented procedures to ensure that the advertising certificate of compliance will be furnished to the Department annually with the Annual Statement.

4. *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)*

See The Standard's response to VIII.D above.

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

See The Standard's response to VIII.G above.

6. *The Company must implement procedures to ensure compliance with the filing requirements of Act 159, Section 3 (40 P.S.3803).*

The Standard has filed the forms in question with the Department and has procedures in place to ensure that all forms are properly filed with the Department prior to use.