



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

MARKET CONDUCT  
EXAMINATION REPORT

OF

**AMERICAN INCOME LIFE  
INSURANCE COMPANY**  
INDIANAPOLIS, IN

As of: August 21, 2023  
Issued: October 12, 2023

**BUREAU OF MARKET ACTIONS  
LIFE AND ANNUITY DIVISION**



PENNSYLVANIA INSURANCE DEPARTMENT
EXAMINATION VERIFICATION

I, Nicholas Klug, Senior Manager, Examiner-in-Charge from

Examination Resources, LLC certify that I was the Examiner-In-Charge of the Report of

Examination of American Income Life Insurance Company made as of 07/14/2023

The last date of examination file review was 06/07/2023 and the written Report

of Examination was reviewed and accepted by Paul E. Towsen III

on 8/21/23

I have reviewed the completed written Report of Examination and certify that the facts and figures recited therein are true and accurate, according to the records, documents and other evidence obtained during the course of the examination.

Nicholas Klug (Examiner-in Charge)

Examination Resources, LLC (Name of Vendor/Department)

20 10th Street, NW, Suite 803, Atlanta, GA 30309 (Address of Vendor/Department)

Nicholas Klug Digitally signed by Nicholas Klug Date: 2023.07.14 09:02:31 -05'00' (Examiner in Charge Signature)

07/14/2023 (Date)

IN ORDER TO SATISFY SECTION 40 P.S. § 323.5(b), THAT PROVIDES FOR NO LONGER THAN SIXTY (60) DAYS FROM THE COMPLETION OF THE EXAMINATION, THE EXAMINER IN CHARGE SHALL FILE WITH THE DEPARTMENT A VERIFIED WRITTEN REPORT OF EXAMINATION UNDER OATH.

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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

**ORDER**

AND NOW, this \_\_3rd\_\_ day of \_July\_\_, 2023, 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 David J. Buono, Jr., 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.



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Michael Humphreys  
Insurance Commissioner



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 American Income Life Insurance Company and maintains its address at 1200 Wooded Acres Dr., Waco, TX 76710.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience period from July 1, 2021, through June 30, 2022.
- (c) On August 21, 2023, the Insurance Department issued a Market Conduct Examination Report to Respondent.



- (d) A response to the Examination Report was provided by Respondent on September 20, 2023.
- (e) The Market Conduct Examination of Respondent revealed violations of the following:
  - (i) All findings and conclusions in the Examination Report, which is attached hereto, are hereby incorporated into this Consent Order.

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) Violations of 40 Pa. C.S.A. §3703(a) are punishable by the following, under (40 P.S. §3705). Upon a determination by hearing that this article has been violated, the Commissioner may pursue one or more of the following courses of action:
  - (i) Issue an order requiring the insurer to cease and desist from engaging in the violation or suspend, revoke or refuse to the issue of the certificate of qualification or license of the offending insurer;

- (ii) Impose a civil penalty of not more than \$5000 for each violation;
- (c) Respondent's violations of Sections 40 P.S. §§477b, 625-6, and 625-9 are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease-and-desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.
- (d) Violations of 40 P.S. §§1171.5(a)(1)(vi) and 1171.5(a)(12) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):
- (i) cease and desist from engaging in the prohibited activity;
  - (ii) suspension or revocation of the license(s) of Respondent.
- (e) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.15, the Commissioner may, under (40 P.S. §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 under 40 P.S. 1171.5 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 under 40 P.S. 1171.5 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).

(f) Respondent's violations of 31 Pa. Code, Chapter 83 Subchapter B are punishable under 31 Pa. Code §83.57:

(i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under 40 P.S. §475, for violations of sections 347-349 of that act 40 P.S. §§472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§1171.1 through 1171.15.

(g) Respondent's violations of 31 Pa. Code §§146.5(a), 146.5(d), 146.6, and 146.7(c)(1) are punishable under Sections 1 through 5 and Section 9 of the Unfair Insurance Practices Act (40 P.S. §§1171.1 – 1171.5 and 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

#### 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 pay One Hundred and Thirty Thousand Dollars (\$130,000.00) in settlement of all violations contained in the Report.
- (c) Payment of this matter shall be made at <https://www.bpp.ob.pa.gov/Customer> Instructions on how to do this are provided in the attached cover letter to this order. Payment must be made no later than thirty (30) days after the date of this Order.
- (d) To determine Respondent's compliance with the full and timely implementation of all recommendations in the Examination Report, the Department shall conduct a re-examination of Respondent no earlier than eighteen (18) months from the date of this Order.
- (e) Respondent shall share the Examination Report and this Order with each of its directors and submit affidavits executed by each of its directors, stating under oath that they have received a copy of the Examination Report and this Order. Such affidavits shall be submitted within thirty (30) days of the date of this Order.
- (f) Respondent shall comply with all recommendations contained in the attached Report.

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.

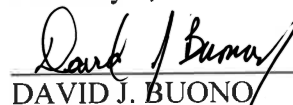
BY: AMERICAN INCOME LIFE INSURANCE  
COMPANY  
Respondent



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



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



\_\_\_\_\_  
DAVID J. BUONO  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## ***I. INTRODUCTION***

The Market Conduct Examination (Examination) was conducted as a targeted examination of American Income Life Insurance Company (the Company) (NAIC #60577). All reviews were conducted remotely at off-site locations.

Pennsylvania Market Conduct Examination Reports generally note the items that have been reviewed and whether there is a violation of law or regulation. A violation is any instance of a Company activity that does not comply with an insurance statute or regulation. Violations contained in an Examination Report may result in the imposition of penalties. An Examination Report also includes 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 to determine the potential impact upon Company operations for future compliance. Findings identified in all summaries issued to the Company throughout the Examination process are included in this Examination Report; however, in some instances, the content of multiple summaries may be combined into a single report section. This only applies to sections in which no violations were found.

Throughout the course of the Examination, Company officials were provided status memoranda or summaries, which reference specific policy numbers with citations to each section of law violated. Additional information was requested to clarify apparent violations. Multiple conference calls, status meetings, and an exit conference were conducted with Company officials to discuss the various types of violations identified during the Examination and to review written summaries provided for the violations that the examiners identified.

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

The following examiners participated in the Examination and in the preparation of this Examination Report.

Pennsylvania Insurance Department

Paul Townsen, MCM  
Chief Property & Casualty/Life & Annuity Division  
PA Insurance Department

Craig Leonard, CIE, CPCU, CCP, FLMI, ARC, AIAF, ARM, MCM  
Contract Examination Manager

Nicholas Klug, JD, CIE, MCM, AIRC  
Contract Examiner-in-Charge

Susan Zwaschka, JD, MCM  
Contract Market Conduct Examiner

Dixie Carroll, JD, MCM, FLMI, AIRC  
Contract Market Conduct Examiner

Frank Fricks, CIE, CFE, FLMI, AIRC  
Contract Market Conduct Examiner



## ***II. SCOPE OF EXAMINATION***

The 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 examination period of July 1, 2021, through June 30, 2022, unless otherwise noted. The purpose of the Examination was to ensure compliance with Pennsylvania insurance laws and regulations.

The Examination focused on the Company's policies, procedures, and processes in the following areas: Complaints, Underwriting, Policyholder Services, and Claims. The lines of business examined included Individual Cash Value and Non-Cash Value Life Insurance.

Examiners requested that the Company identify the universe of files for: Consumer Complaints, Pennsylvania Insurance Department Complaints, New Life Policies Issued, New Life Applications Declined, New Life Policies Not Taken, Life Non-forfeitures, Life Lapsed, Life Cash Surrenders, Life Policies Converted, Life Replacements with Illustration, Life Replacements without Illustration, and Life Claims Paid and Denied. Based on the universe sizes identified, random sampling was utilized to select files to review for analysis.

For control purposes, some of the review segments identified in this Examination Report may be broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Examination Report, are included, and grouped within the respective categories of the Examination Report. All reviews conducted throughout the Examination included consideration of Company responses to examiner requests pursuant to 40 P.S. §§ 323.3 and 323.4. While these statute and regulation sections are included in all reviews completed during the Examination, the Examination Report only notes where examiners found a violation of these sections in a particular sub-category, such as incomplete file documentation or incorrect information provided in response to the requests.

### **III. COMPANY HISTORY**

The Company was incorporated on July 16, 1954, as a stock, life insurance company under the laws of the State of Indiana and commenced business on August 1, 1954.

The Company began operations issuing predominantly accident and health insurance and in the early 1970's made the transition to issuing predominantly life insurance products. In 1989, all the outstanding shares of the Company's common stock were acquired by Trust Life Insurance Company (Trust Life), which in turn was simultaneously acquired by American Income Holding, Inc. (AI Holding). In November 1994, Torchmark Corporation (TMK), a publicly traded insurance and diversified financial services holding company, acquired 100% interest in AI Holding.

On November 16, 1995, the Board of Directors approved a Plan of Reorganization and Liquidation (Plan) involving TMK, AI Holding, Trust Life, and the Company. The Plan resulted in eliminating Trust Life and AI Holding as intermediate holding companies of the Company and making the Company a direct subsidiary of TMK. On November 5, 1998, TMK contributed 100% of the common stock of the Company to Globe Life and Accident Insurance Company (Globe), an insurance company domiciled in the State of Delaware. On November 7, 2013, the Company's common stock was transferred by Globe to TMK as an extraordinary dividend payment. On August 9, 2019, TMK was renamed Globe Life Inc.

### **OVERVIEW AND ORGANIZATION OF THE COMPANY**

The Company is a wholly owned subsidiary of Globe Life Inc. and is licensed in 49 states. The Company is authorized to transact the business of life insurance, including Whole Life and Term Life.

#### ***IV. COMPLAINTS***

Examiners requested documentation relating to Consumer Complaints and Pennsylvania Insurance Department Complaints. Unless noted, all documents identified in the universe provided by the Company were requested, received, and reviewed by the examiners. In the event the initial documents provided by the Company did not provide enough information, examiners issued information requests which resulted in additional documents that were included in the review. Documents provided pursuant to examiner requests under this section were reviewed to ensure compliance with applicable standards, including 40 P.S. §§ 323.3, 323.4, and 1171.5, and 31 Pa. Code §§ 59.12 and 146.5.

##### **A. Complaint Handling Procedures**

The Company was asked to provide its policies and procedures related to complaint handling, including how the Company received and responded to complaints received via social media, during the examination period. The Company identified a universe of four (4) documents. In accordance with the requirements of the examination, the documents were reviewed to ensure compliance with applicable state laws and regulations. No violations were noted.

##### **B. Complaints**

Examiners requested a listing of all Consumer Complaints and Pennsylvania Insurance Department Complaints closed during the examination period. The Company identified 20 complaints closed during the experience period. Of the 20 complaints identified, eight (8) were forwarded from the Department. The examiners verified this information with the Department's records. All 20 complaint files were received and reviewed to ensure compliance with applicable state laws and regulations. No violations were noted.

### **C. Complaint Log**

Examiners requested copies of the Company's complaint logs covering the period July 1, 2018, through June 30, 2022. The Company provided complaint logs as requested. In accordance with the requirements of the examination, the documents were reviewed to ensure compliance with applicable state laws and regulations. The following concern was noted.

#### **Concern:**

The Company failed to include 1) the total number of complaints by year; 2) the disposition of each complaint; and 3) the time it took to process each complaint in the Company's complaint logs for the preceding four years. All of the required information per statute should be contained in one log and there should be a specific field in the log for each of the three items noted above. This would be considered a violation in the future.

## V. POLICYHOLDER SERVICES

Examiners requested documentation relating to policyholder services. The documents were reviewed to ensure policyholder service guidelines were in place, being followed in a uniform and consistent manner, and that no policyholder service practices, or procedures were in place that could be discriminatory in nature, or specifically prohibited by statute or regulation. Unless noted, all documents identified in the universe by the Company were requested, received, and reviewed by the examiners. In the event the initial documents provided by the Company did not provide enough information, examiners issued information requests, which resulted in additional documents that were included in the review. Documents provided pursuant to examiner requests under this section were reviewed to ensure compliance with applicable standards, including 40 P.S. §§ 477, 477b, 323.3, 323.4, 1171.5, and 625-6, and 31 Pa. Code §§ 83.55c, 90c.5, and 90f.4.

### A. **New Life Policies Issued**

The Company was asked to provide a complete listing of all new Life Insurance Policies Issued during the examination period of July 1, 2021, through June 30, 2022. From the universe of 22,821 policies identified as new Life Insurance Policies Issued, 116 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa. Code § 83.55 and 40 P.S. §§ 477b, 625-8, 510, and 310. One (1) violation and one (1) concern were noted.

#### **1 Violation - 31 Pa. Code § 83.55c. Certification of surrender comparison index disclosure delivery by insurers delivering policies by mail.**

If it is the practice of the insurer to mail the policy directly to the applicant, the appropriate officer of the insurer shall certify, in conjunction with the annual statement of the insurer, that in accordance with this subchapter surrender comparison index disclosures have been included with policies at delivery or provided earlier upon request. Failure to so certify shall constitute prima facie

evidence that surrender comparison index disclosures have not been provided to prospective purchasers of life insurance.

**The Company failed to have an officer certify, in the 2021 Annual Statement, that the comparison index disclosures have been included with policies at delivery or provided earlier upon request.**

**Concern:**

The Company failed to obtain approval from the Insurance Commissioner for use of one (1) application form that was associated with one (1) issued policy. This is labeled as a Concern instead of a Violation in this section because the Company was cited for the Violation in the review of Life Policies Converted.

**B. New Life Applications Declined**

The Company was asked to provide a complete listing of all new Life Insurance Applications Declined during the examination period of July 1, 2021, through June 30, 2022. From the universe of 1,628 policies identified as New Life Applications Declined, 114 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa. Code §§ 89.84 and 146b.11, and 40 P.S §§ 1171.4, 1171.5, 625-6, and 512. Two (2) violations were noted.

**2 Violations – 40 P. S. § 625-6. Application.**

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent, except that insertions may be made by the insurer, for administrative purposes only, in such manner as to indicate clearly that such insertions are not to be ascribed to the applicant.

**The Company failed to obtain the applicant's written consent to alter material information on the applications in two (2) files.**

### **C. New Life Policies Not Taken**

The Company was asked to provide a complete listing of all Life Insurance Policies Not Taken during the examination period of July 1, 2021, through June 30, 2022. From the universe of 1,112 policies identified as Life Insurance Policies Not Taken, 114 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 40 P.S. §§ 323.3, 510c, and 310.3. One (1) violation and one (1) concern were noted.

#### **1 Violation - 40 P.S. § 323.3(a). Authority, scope, and scheduling of examinations.**

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 Company failed to produce documentation in one (1) file.**

#### **Concern: – Returned Mail**

Three (3) files in the sample contain correspondence from the Company to the insured that was returned due to a bad address. The Company failed to provide documentation showing the Company's research located a new address after receiving returned mail, or that a letter was re-sent in the three (3) files.

### **D. Underwriting Guidelines**

The Company was asked to provide a complete listing of all Underwriting Guidelines used during the examination period of July 1, 2021, through June 30, 2022. The Company provided 21 underwriting guidelines in response to the request for the Company's Underwriting and Rating Manual. The Company provided five (5) documents in response to the request for the Company's Producer Manual, including all producer training, field underwriting and rating manuals provided to producers. All 26 documents were selected for

review. In accordance with the requirements of this Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 40 P.S §§ 1171.4, 1171.5, and 477b, and 73 P.S. § 2260.701. One (1) concern was noted.

**Concern:**

In certain instances, the Company may not obtain the applicant’s signature on state-approved forms and is, instead, relying on an informal document signed by the applicant.

**E. Policy Forms**

The Company was asked to provide a complete listing of all Forms used during the examination period of July 1, 2021, through June 30, 2022, that were required to be filed in Pennsylvania. From the universe of 61 Forms identified, all 61 Forms were selected for review, in addition to the Company’s Forms Approval Register and four (4) disclosure forms that were not required to be filed with the Department. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa. Code §§ 90c.5 and 90f.4, and 40 P.S. §§ 477b, 323.3(a), and 510(g). Nine (9) violations and two (2) concerns were noted.

**6 Violations - 31 Pa. Code § 90c.5(d)(1). Underwriting Questions.**

*(d) Alcohol and drug use.*

(1) An application contains alcohol and drug use or dependency questions if the application clearly defines words such as “excessive,” “dependency,” “habitual,” “abuse,” “regular,” and the like. An application does not contain these questions if the application does not clearly define “excessive,” “dependency,” “habitual,” “abuse,” “regular,” and the like. In relation to alcohol, these words are defined in terms of number of drinks consumed per day or some similar measure. In relation to drugs, they are defined in terms of being treated by a doctor for drug use or dependency.

**The Company failed to clearly define the terms “abuse,” “abused,” and/or “alcohol related problems” in six (6) forms.**



**1 Violation - 31 Pa. Code § 90c.5(g)(3) and (6). Underwriting Questions.**

(g) *Additional AIDS questions.* The following AIDS questions do not appear:

(3) Have you ever had a known indication or symptom of AIDS or ARC or other health condition?

NOTE: Questions about whether a proposed insured has had a known indication or symptom do not appear on an application. Unless a condition has been previously diagnosed or treated, this question places the applicant in the position of making a self-diagnosis. Also, it is difficult to define what constitutes a “known indication or symptom of.”

(6) Have you ever had an AIDS related blood test?

NOTE: “AIDS related blood test” is vague and not in compliance with § 89.12.

**The Company’s question on one (1) form contains a phrase that failed to meet the statutory requirements.**

**1 Violation - 31 Pa. Code § 90f.4(b)(9). Exclusions and Restrictions.**

(a) The form contains none of the following exclusions and restrictions:

(9) Drug addiction.

**The Company’s exclusion and restriction on one (1) form failed to meet the statutory requirements.**

**1 Violation - 40 P. S. § 323.3(a). Authority, scope, and scheduling of examinations.**

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 Company failed to produce a record of state approval for one (1) form.**

**Concern:**

The Company's Grace Period definition failed to state what happens at the end of the grace period in three (3) forms.

**Concern:**

Pennsylvania Insurance Department Submission Checklists & Product Requirements – Individual Accelerated Benefit Riders and Built In Benefits dated 06/18/2012.

If the form provides that the insurer has the right to require a physical examination as proof of eligibility or continuation of eligibility, the form must disclose the timing of the examination(s), i.e., as often as the insurer determines. The Company failed to disclose the timing of a physical examination required by the Company as proof of eligibility for the benefit on one (1) form.

**F. Life Non-forfeitures**

The Company was asked to provide a complete listing of all Life Insurance Non-Forfeitures during the examination period of July 1, 2021, through June 30, 2022. From the universe of 134 policies identified as Life Insurance Non-Forfeitures, 79 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 40 P.S. § 510.1. One (1) concern was noted.

**Concern: Non-forfeiture Letter**

In 67 files, the Company included a copy of a letter sent to the policyholder explaining the nonforfeiture option(s) available under the policy when the policyholder failed to pay the required premium. However, in 12 files, the Company failed to include a copy of such letter.

**G. Life Policies Lapsed**

The Company was asked to provide a complete listing of all Life Insurance Policies Lapsed during the examination period of July 1, 2021, through June 30, 2022. From the universe of

9,226 policies identified as Life Insurance Policies Lapsed, 116 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa Code § 82.24 and 40 P.S. § 510(b). No violations were noted.

#### **H. Life Cash Surrenders**

The Company was asked to provide a complete listing of all Life Insurance policies that were surrendered for the full cash value during the examination period of July 1, 2021, through June 30, 2022. From the universe of 2,075 policies identified as Life Cash Surrenders, 115 files were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 40 P.S. § 323.3. No violations were noted.

#### **I. Life Policies Converted**

The Company was asked to provide a complete listing of all Life Insurance Policies Converted during the experience period of July 1, 2021, through June 30, 2022. From the universe of 921 policies identified as Life Insurance Policies Converted, 113 were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 40 P.S. §§ 477b, 625-8, and 310. Four (4) violations were noted.

#### **4 Violations – 40 P.S. § 477b. Approval of policies, contracts, etc.; prohibiting the use thereof unless approved; judicial review; penalty.**

It shall be unlawful for any insurance company, association, or exchange, including domestic mutual fire insurance companies, doing business in this Commonwealth, to issue, sell, or dispose of any policy, contract, or certificate, covering life, health, accident, personal liability, fire, marine, title, and all forms of casualty insurance, or contracts pertaining to pure endowments or annuities, or any other contracts of insurance, or use applications, riders, or endorsements, in connection therewith, until the forms of the same have been submitted to and formally approved by the

Insurance Commissioner, and copies filed in the Insurance Department, except riders and endorsements relating to the manner of distribution of benefits, and to the reservation of rights and benefits under any such policy, and used at the request of the individual policyholder, and except any forms which, in the opinion of the Insurance Commissioner, do not require his approval.

**The Company failed to obtain approval from the Insurance Commissioner for use of four (4) application forms that were associated with 31 issued policies.**

**J. Life Replacements with Illustration**

The Company was asked to provide a complete listing of all Life Insurance Replacements with Illustration during the experience period of July 1, 2021, through June 30, 2022. The Company's response to the examiners stated that it "sells fully guaranteed traditional whole life and term policies. All policies are marketed and sold without illustration." As such, the examiners did not review any files for Life Replacements with Illustration.

**K. Life Replacements without Illustration**

The Company was asked to provide a complete listing of all Life Replacements without Illustration during the experience period of July 1, 2021, through June 30, 2022. From the universe of 193 policies identified as Life Replacements without Illustration, 79 were selected for review. In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa. Code § 83.55c and 40 P.S. §§ 625-9 and 1171.5. One hundred and ninety-five violations were noted.

**1 Violation - 31 Pa. Code § 83.55c. Certification of surrender comparison index disclosure delivery by insurers delivering policies by mail.**

If it is the practice of the insurer to mail the policy directly to the applicant, the appropriate officer of the insurer shall certify, in conjunction with the annual statement of the insurer, that in accordance with this subchapter surrender comparison index disclosures have been included with policies at delivery or

provided earlier upon request. Failure to so certify shall constitute prima facie evidence that surrender comparison index disclosures have not been provided to prospective purchasers of life insurance.

**The Company failed to have an officer certify, in the 2021 Annual Statement, that the comparison index disclosures have been included with policies at delivery or provided earlier upon request.**

**77 Violations - 40 P.S. § 625-9. Replacements with the same insurer or insurer group.**

When there is solicitation for the replacement of an existing life insurance policy or annuity with the same insurer or insurer group, the insurer shall, through its producers where appropriate, provide a “Notice Regarding Replacement of Life Insurance and Annuities” in the form set forth under 31 Pa. Code Ch. 81 (relating to replacement of life insurance and annuities).

**The producer failed to provide the Notice of Replacement to the Consumer at the time the application was completed in 77 files.**

**68 Violations - 40 P.S. § 1171.5(a)(12). Unfair methods of competition and unfair or deceptive acts or practices defined.**

(a) "Unfair methods of competition" and "unfair or deceptive acts or practices" in the business of insurance means:

(12) Making false or fraudulent statements or representations on or relative to an application for an insurance policy, for the purpose of obtaining a fee, commission, money or other benefit from any insurers, agent, broker or individual.

**For the purpose of obtaining a fee or commission, the Company’s producers falsely stated in the applications that they were not aware of an existing life insurance policy and, therefore, the transactions were not replacements in 68 files.**

**48 Violations - 40 P.S. § 1171.5(a)(1)(vi). Unfair methods of competition and unfair or deceptive acts or practices defined.**

(a) "Unfair methods of competition" and "unfair or deceptive acts or practices" in the business of insurance means:

(1) Making, publishing, issuing, or circulating any estimate, illustration, circular, statement, sales presentation, omission comparison which:

(vi) Is a misrepresentation for the purpose of inducing or tending to induce the lapse, forfeiture, exchange, conversion or surrender of any insurance policy.

**The Company's producers were involved in deceptive practices when they induced or tended to induce the lapse of existing life insurance coverage by failing to contact the policyholders as instructed by the Company in 48 files.**

## **VI. CLAIMS PROCEDURES**

Examiners requested documentation relating to claims procedures, including policies and procedures for claims handling, record keeping, dispositions, and timelines. Unless noted, all documents identified in the universe by the Company were requested, received, and reviewed by the examiners. In the event the initial documents provided by the Company did not provide enough information, examiners issued information requests, which resulted in additional documents that were included in the review. Documents provided pursuant to examiner requests under this section were reviewed to ensure compliance with applicable standards, including 31 Pa. Code Ch. 146, 40 P.S. §§ 323.3, 511B, and 1171.5, and 40 Pa.C.S.A. § 3703(a).

### **A. Claims Procedures Manuals**

The Company was asked to provide all claims procedures manuals regarding claims handling utilized during the examination period for each line of business identified. In response, the Company provided 10 supporting documents. In accordance with the requirements of the Examination, the documents were reviewed to ensure compliance with applicable state laws and regulations noted above. No violations were noted.

### **B. Claims Training Manuals**

The Company was asked to provide all claims training manuals utilized during the examination period for each line of business identified. In response to the request, the Company provided a universe of one (1) supporting document. In accordance with the requirements of the Examination, the document was reviewed to ensure compliance with applicable state laws and regulations noted above. No violations were noted.

### **C. Claims Universes**

The Company was asked to provide a complete listing of all Life Insurance Claims Paid and Denied during the experience period of July 1, 2021, through June 30, 2022. From the

universe of 1,260 paid and denied claims identified, 107 were selected for review (106 paid claims and one (1) denied claim). In accordance with the requirements of the Examination, all documentation was reviewed to ensure compliance with applicable state laws and regulations, including 31 Pa. Code Ch. 146, 40 P.S. §§ 1171.5 and 323.3(a), and 40 Pa.C.S.A. § 3703(a). Sixty-one violations were noted.

**3 Violations – 31 Pa. Code § 146.5(d). Failure to acknowledge pertinent communications.**

(d) Every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions, and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer. Compliance with this subsection within 10 working days of notification of a claim shall constitute compliance with subsection (a).

**The Company failed to provide the necessary documents or instructions to the beneficiary within 10 working days following the notification of a claim in three (3) files.**

**18 Violations - 31 Pa. Code § 146.7(c)(1). Standards for prompt, fair and equitable settlements applicable to insurers.**

(c) The following provisions govern acceptance or denial of a claim where additional time is needed to make a determination:

(1) If the insurer needs more time to determine whether a first-party claim should be accepted or denied, it shall so notify the first-party claimant within 15 working days after receipt of the proofs of loss giving the reasons more time is needed. If the investigation remains incomplete, the insurer shall, 30 days from the date of the initial notification and every 45 days thereafter, send to the claimant a letter setting forth the reasons additional time is needed for investigation and state when a decision on the claim may be expected.

**The Company failed to notify the beneficiary that more time was needed to pay the claim within 15 working days of the proof of loss and/or 30 days from the date of initial notification in 18 files.**



**31 Violations - 31 Pa. Code § 146.6. Standards for prompt investigation of claims.**

Every insurer shall complete investigation of a claim within 30 days after notification of 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 the beneficiary with a reasonable written explanation for the delay in investigating the claim along with the expected time frame for payment within 30 days after the notification of the claim in 31 files.**

**2 Violations – 40 Pa.C.S.A § 3703(a). Death master file comparison.**

(a) Comparison. An insurer shall implement procedures for performing a comparison of its insureds' in-force life insurance policies, contracts and retained asset accounts against the same death master file, on at least a semiannual basis, by using the full death master file once and thereafter using the death master file update files for future comparison to identify potential matches of its insureds.

**The Company failed to include policies issued after December 2019 in the mandated semiannual death master file comparison process. As a result, two (2) files were not included in the data reviewed for potential matches.**

**1 Violation - 31 Pa. Code § 146.5(a). Failure to acknowledge pertinent communications.**

(a) Every insurer, upon receiving notification of a claim, shall, within 10 working days, acknowledge the receipt of the notice unless payment is made within the period of time. If an acknowledgment is made by means other than writing, an appropriate notation of the acknowledgment shall be made in the claim file of the insurer and dated. Notification given to an agent of an insurer shall be notification to the insurer, dating from the time the insurer receives notice.

**The Company failed to acknowledge the notice of loss within 10 working days for one (1) file.**

**2 Violations – 31 Pa. Code § 146.5(d). Failure to acknowledge pertinent communications.**

(d) Every insurer, upon receiving notification of claim, shall provide within 10 working days necessary claim forms, instructions, and reasonable assistance so that first-party claimants can comply with the policy conditions and reasonable requirements of the insurer. Compliance with this subsection within 10 working days of notification of a claim shall constitute compliance with subsection (a).

**The Company failed to provide the claim forms, instructions, and reasonable assistance within 10 working days upon receiving notification of a claim in two (2) files.**

## **VII. DATA INTEGRITY**

At the beginning of the examination, the examiners sent an Initial Request Letter and Coordinator's Handbook which provided specific information related to the examination. The purpose of the packet was to provide certain basic examination information, identify preliminary requirements and to provide specific requirements for requested data call information. Once the Company provided all requested information and data contained within the data call, the examiners reviewed and validated the data to ensure its accuracy and completeness to determine compliance with Insurance Department Act, Section 904(b) [40 P.S. § 323.3]. The following violation was noted.

### **General Violation - 40 P.S. § 323.3(a) – Authority, scope, and scheduling of examinations.**

- (a) 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, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth.

**The Company failed to exercise sufficient due diligence to ensure compliance with the above-referenced Insurance Department Act. The Company's initial data file submitted for Life Replacements without Illustration was incomplete and inaccurate.**

## ***VIII. RECOMMENDATIONS***

The recommendations made below identify corrective measures the Department finds necessary due to the number, nature or severity of violations noted in this Examination Report.

1. The Company must ensure that complaint logs are complete and accurate and shall maintain, in one (1) document, a complete record of all complaints which it has received during the preceding four years as required by 40 P.S. § 1171.5(a)(11), so the violations, as noted in the exam report, do not occur in the future.
2. The Company must ensure that an officer certifies, in the Annual Statement, that the comparison index disclosures have been included with policies at delivery or provided earlier upon request as required by 31 Pa. Code § 83.55c, so the violations, as noted in the exam report, do not occur in the future.
3. The Company must ensure it obtains the applicant's written consent to alter a written application for a life insurance policy as required by 40 P.S. § 625-6, so the violations, as noted in the exam report, do not occur in the future.
4. The Company must ensure to maintain comprehensive file documentation as required by 40 P.S. § 323.3(a), so the violations, as noted in the exam report, do not occur in the future.
5. The Company must ensure that it clearly defines the terms "abuse," "abused," and "alcohol related problems" in its forms as required by 31 Pa. Code § 90c.5(d)(1), so the violations, as noted in the exam report, do not occur in the future.
6. The Company must ensure that the questions in its forms meet the statutory requirements as required by 31 Pa. Code § 90c.5(g)(3) and (6), so the violations, as noted in the exam report, do not occur in the future.
7. The Company must ensure that the exclusions and restrictions in its forms meet the statutory requirements as required by 31 Pa. Code § 90f.4(b)(9), so the violations, as noted in the exam report, do not occur in the future.
8. The Company must ensure that it receives approval from the Insurance Commissioner for use of application forms as required by 40 P.S. § 477b, so the violations as noted in the exam report, do not occur in the future.

9. The Company must ensure that it provides the Notice Regarding Replacement of Life Insurance and Annuities to the consumer as required by 40 P.S. § 625-9, so the violations, as noted in the exam report, do not occur in the future.
10. The Company should take reasonable steps to ensure that its agents are aware of and comply with the recommendations of 40 P.S. § §1171.5(a)(1)(vi) and 1171.5(a)(12).
11. The Company must ensure that it provides the necessary documents and instructions within ten (10) working days after notification of a claim as required by 31 Pa. Code § 146.5(d), so the violations, as noted in the exam report, do not occur in the future.
12. The Company must ensure that it notifies the claimant within 15 working days of receipt of the proof of loss and 30 days from the date of the initial notification that more time is needed to pay the claim as required by 31 Pa. Code § 146.7(c)(1), so the violations, as noted in the exam report, do not occur in the future.
13. The Company must ensure that it provides the claimant with a reasonable written explanation for the delay in investigating the claim and when a decision on the claim may be expected within 30 days after notification of the claim as required by 31 Pa. Code § 146.6, so the violations, as noted in the exam report, do not occur in the future.
14. The Company must ensure that it includes all in-force life insurance policies in its semiannual death master file comparison process as required by 40 Pa.C.S.A § 3703(a), so the violations, as noted in the exam report, do not occur in the future.
15. The Company must ensure that it acknowledges the receipt of the notification of a claim within ten (10) working days as required by 31 Pa. Code § 146.5(a), so the violations, as noted in the exam report, do not occur in the future.
16. The Company must ensure that it provides claim forms, instructions, and reasonable assistance within ten (10) working days upon receiving notification of a claim as required by 31 Pa. Code § 146.5(d), so the violations, as noted in the exam report, do not occur in the future.

***IX. COMPANY RESPONSE***

September 20, 2023

**By Email to:** [ptowsen@pa.gov](mailto:ptowsen@pa.gov)

Paul E. Towsen, III  
P&C/Life & Annuities Division Chief  
Office of Market Regulation  
Bureau of Market Actions  
Pennsylvania Insurance Department  
1321 Strawberry Square  
Harrisburg, PA 17120

Re: Examination Warrant Number: 22-M36-030

Dear Mr. Towsen:

On behalf of American Income Life Insurance Company (“AIL”, or the “Company”), we respectfully submit the attached specific responses to the Pennsylvania Insurance Department’s Report of Examination of AIL dated August 21, 2023 (the “Final Exam Report”).<sup>1</sup> At the outset, the Company notes that it takes its obligations to comply with regulatory and statutory requirements in all states very seriously, and is committed to continued improvement in its processes, procedures and controls to ensure compliance generally. This Examination will assist the Company in seeking to fulfill this commitment.

Through its cooperation and communication during the Examination, the Company notes that it contemporaneously took steps to improve a number of its operational processes, including (i) memorializing in writing its New Business and Policy Issuance Departments’ procedures for handling returned mail, (ii) ensuring that only application forms previously approved by the Pennsylvania Insurance Department are utilized for conversions, and (iii) having a Company officer certify, in the 2022 Annual Statement, that the comparison index disclosures have been included with policies at delivery, to name a few.

The Company also notes that, as a result of its internal reviews prior to and at the outset of the Examination, the Company self-identified two (2) issues to the Examiners, including a technical problem with the Company’s death master file comparison process and a claims audit delay that impacted some claims processed during the Examination experience period, on which the Company owed additional interest. The Company promptly communicated these issues to the Examiners, and described in detail the steps the Company took to resolve them, prior to the issues being identified by the Examiners.

The Company also self-reported these issues in the spirit of transparency and in a cooperative effort to improve its processes. In light of the fact that the Company began correcting these issues before the Examiners knew of their existence, the Company reasonably expected the Final Exam Report to reflect, at the very most, a “concern” for these past issues, with an appropriate acknowledgment that the Company

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<sup>1</sup> The Company notes that the Examination period identified in your August 21, 2023 cover letter attaching the Final Exam Report – January 1, 2021 through December 31, 2021 - is incorrect. As the Final Exam Report reflects, the Examination covered the period July 1, 2021 through June 30, 2022.

timely and dutifully took steps to correct them. This notwithstanding, the Final Exam Report includes purported violations pertaining to these self-reported issues, with no acknowledgment of the cooperation of the Company in bringing the issues to the attention of the Examiners.

The Company also believes it is important to keep in mind that the experience period for this Examination fell within the height of the COVID-19 pandemic, which – like all other carriers - affected the Company's everyday operations and implementation of its processes and procedures. The Company diligently worked to maintain its high level of service and function during this time, continually striving for full and complete compliance with the regulations and statutes of the Commonwealth under very difficult operational circumstances. As the Company noted throughout this Examination, a number of the issues identified by the Examiners, particularly regarding the Company's claims processing and replacement procedures, were adversely (and temporarily) affected by staffing and other logistical issues caused by the pandemic. Fortunately, as the Company has reiterated throughout this Examination, it was able to address and remediate a number of issues either caused or exacerbated by the pandemic.

Finally, the Company acknowledges and appreciates the important role that market conduct examinations play in consumer protection and regulation of the industry generally. We also believe that examination reports should fairly and accurately describe the findings based on the evidence presented and the applicable law. As discussed with the Department throughout the Examination, there are certain findings in the Final Exam Report, particularly with regard to replacements, producer conduct, and claims and forms, where the Company respectfully disagrees with the Examiners and the Department, and believes that the findings and associated violations in those areas are not supported either factually or legally (for the reasons more fully set forth in the detailed attachment accompanying this letter).

The Company hereby incorporates by reference all of its prior responses and materials submitted to the Examiners during the course of this Examination including but not limited to its Responses to the Examiners' Exit Summary, dated June 16, 2023 and its Responses to the Draft Final Report, dated July 17, 2023. The Company further expressly reserves the right to utilize all such responses and materials in the context of any further related proceeding or action and any defenses and claims it may maintain to any allegation or finding in the Final Exam Report, regardless of whether specifically articulated in this or any prior response.

The Company again expresses its appreciation for the Examiners' and the Department's professionalism and insight during the Examination process, and for the opportunity afforded by the Examination for the Company to review its processes and procedures to ensure compliance with Pennsylvania law.

Sincerely,



**Linzee Hakes Ruiz**  
Vice President, Compliance



American Income Life Insurance Company (“AIL”, or “the Company”) submits the following specific responses to the Pennsylvania Insurance Department’s Report of Examination of AIL dated August 21, 2023 (the “Final Exam Report”).

#### **IV. COMPLAINTS**

##### **Section A. Complaint Handling Procedures**

The Department noted no violations for this component of the Examination.

##### **Section B. Complaints**

The Department noted no violations for this component of the Examination.

##### **Section C. Complaint Log**

###### **1 Concern –**

The Company acknowledges the Department’s concern. For purposes of this response, the Company notes that, although 40 P. S. § 1171.5(a)(11) does not provide complaint log formatting requirements, the materials provided by the Company contained all information required by the statute. In the future, the Company will produce its Complaint Log to the Department in the format requested.

#### **V. POLICYHOLDER SERVICES**

##### **Section A. New Life Policies Issued**

###### **1 Violation - 31 Pa. Code § 83.55c. Certification of surrender comparison index disclosure delivery by insurers delivering policies by mail.**

The Company does not dispute that it did not file a certification of the Surrender Comparison Index Disclosure with its 2021 Annual Statement. The Company filed the certification with its 2022 Annual Statement, and will file this certification going forward. The Company does note that the checklist created by the Department - and upon which the Company reasonably relied to provide guidance in preparing Annual Statements - does not include the requirement to file this certification. The Company also notes that, for each of the policies at issue, the Company provided the policyowner with the requisite surrender comparison index disclosure along with the policy issued.

###### **1 Concern –**

The Company acknowledges that the singular application cited under this Concern was not previously approved for use in the Commonwealth.

## **Section B. New Life Applications Declined**

### **2 Violations – 40 P.S. § 625-6. Application.**

While the Company maintains that it did not alter the written application as asserted in this Violation, it does not dispute that its employee made an isolated human error in this instance.

## **Section C. New Life Policies Not Taken**

### **1 Violation - 40 P.S. § 323.3(a). Authority, scope, and scheduling of examinations.**

The Company does not dispute that it was unable to reproduce a copy of the letter it sent to the applicant advising coverage would not begin.

### **1 Concern –**

The Company acknowledges this Concern. The Company notes, however, that during this Examination process, its Underwriting and Policy Issuance Departments memorialized in writing the procedures for handling returned mail and produced a copy to the Department.

## **Section D. Underwriting Guidelines**

### **1 Concern –**

The Company acknowledges this Concern, but nevertheless maintains that it does not affix an applicant's electronic signature onto a rider application document that is taken from an extraneous, informal document the applicant signed outside of the Company's secure system. Additionally, the Company maintains that the statute cited by the Examiners pertains to the use of electronic signatures, whereas the Company's guideline noted in the Concern pertains only to paper applications (and consequently the statute is inapplicable).

## **Section E. Policy Forms**

### **6 Violations - 31 Pa. Code § 90c.5(d)(1). Underwriting Questions.**

The Company disputes these six (6) asserted violations because the Department's Individual Life Insurance Application Checklist - which the Department provides as guidance to carriers in drafting and submitting forms for approval - does not require the words "abuse(d)" or "alcohol related problems" to be defined in the Company's applications and questionnaires. The Company notes that the use of these terms within applications is addressed in the Commonwealth's insurance regulations, and not its statutes. As such, in preparing its forms to comply with the Commonwealth's regulations, the Company is entitled to reasonably rely upon the Department's interpretation of its statutes and regulations and the guidance thereon as set forth in the Department's Checklist. The Department's Checklist expressly states, "the application must

clearly define the terminology unless the terminology is used in questions that appear in the examples” provided within the Checklist.

Example Question 2.(a) from the Department’s Checklist allows:

“Have you ever been medically treated for, been medically advised to have treatment or received counseling for alcoholism, addiction, drug use, dependency, or abuse?”

The Company’s question from its Application Form AG-2662-23:

“In the past 5 years, has any proposed insured been medically advised to receive treatment for alcohol abuse[?]”

and the Company’s question from its Application Form AG-2549-21:

“Has any proposed Insured ever been medically treated or medically advised to be treated for alcoholism or alcohol abuse, including membership in A.A. or been advised by a physician to reduce alcohol consumption?”

are substantially identical to the Department’s example in the Checklist.

Further, Example Question 2.(b) from the Department’s Checklist permits:

“Have you ever been treated for or counseled for alcohol or drug use, dependency, addiction or abuse?”

The Company’s Application Form AG-2366-3 contains the following question:

“Have you ever been treated for drug abuse?  Yes  No”

and the Company’s question from its Drug Questionnaire AG-2199:

“Have you ever been treated for drug abuse? Yes  No   
“Have you ever been treated for alcohol abuse? Yes  No ”

both of which match the Department’s template questions with respect to drug abuse and alcohol abuse.

As shown, the questions in the Company’s applications and questionnaires are substantively identical to those appearing in the Department’s Checklist. The Company also notes that the Department had approved each of these four (4) forms, with the questions as presented above, for use in the Commonwealth prior to this Examination. The Company therefore maintains its dispute of these asserted violations.

**1 Violation - 31 Pa. Code § 90c.5(g)(3) and (6). Underwriting Questions.**

The Company also disputes this asserted violation because the HIV question in the Company's application - "Has any proposed insured...had test results indicating exposure to HIV?" - is perfectly consistent with 31 Pa. Code § 90c.5(g)(3) insofar as it is premised on a previous diagnosis (positive test result) and does not place the applicant in the position of making a self-diagnosis, or rely upon the vague term "a known indication or symptom of AIDS." The Company's question is also consistent with 31 Pa. Code § 90c(g)(6) insofar as it asks a specific question about test results, not a "vague" question about having taken a test, with no reference to the results thereof. Again, the Company notes that the Department approved the form containing the question that the Department now asserts is a violation for use in the Commonwealth prior to this Examination.

**1 Violation - 31 Pa. Code § 90f.4(b)(9). Exclusions and Restrictions.**

The Company maintains its dispute with this asserted violation because its form does not, as the Department states in the Final Exam Report, contain an exclusion for "Drug addiction," and the cited regulation does not prohibit the language of the exclusion used in the Company's form. Additionally, the Company again notes the Pennsylvania Department of Insurance approved this form for use prior to this Examination.

**1 Violation - 40 P. S. § 323.3(a). Authority, scope, and scheduling of examinations.**

The Company does not dispute it did not provide evidence of Department approval for its Aviation Provisions rider.

**1 Concern –**

The Company does not dispute this Concern, but notes that the Department agrees that there is no statutory or regulatory requirement for the forms in question to explain to policyholders that coverage will cease if premium is not paid according to the policy terms.

**1 Concern –**

The Company does not dispute this Concern, but notes (as explained to the Examiners) that benefits under the Limited Life Expectancy Rider are paid only once, and thus do not require multiple physical examinations of the insured.

### **Section F. Life Nonforfeitures**

#### **1 Concern –**

The Company acknowledges the Department's concern, but notes that the policies issued to its insureds clearly set forth the nonforfeiture options available, and that the Company is therefore fully compliant with the 40 P.S. § 510.1(a).

### **Section G. Life Policies Lapsed**

The Department noted no violations for this component of the Examination.

### **Section H. Life Case Surrenders**

The Department noted no violations for this component of the Examination.

### **Section I. Life Policies Converted**

#### **4 Violations – 40 P.S. § 477b. Approval of policies, contracts, etc.; prohibiting the use thereof unless approved; judicial review; penalty.**

The Company does not dispute that the four (4) application forms at issue were not previously approved for use in the Commonwealth.

### **Section K. Life Replacements without Illustration**

#### **1 Violation - 31 Pa. Code § 83.55c. Certification of surrender comparison index disclosure delivery by insurers delivering policies by mail.**

The Company believes this asserted violation is duplicative of the asserted violation stated under **V. Policyholder Services, Section A. New Life Policies Issued,** above. The bases for these asserted violations is exactly the same: the Company did not submit a certification to the Commonwealth with its 2021 Annual Statement confirming that it had provided the requisite surrender comparison index disclosures to policyowners. As stated above, the Company agrees that it did not file such a certification with its 2021 Annual Statement, but did file this certification with its 2022 Annual Statement and will do so going forward. In any event, the Company notes that the Certification in question relates to the policies contemplated within this section because they were issued, not because they were replacements. The Company could only have filed one Certification, and it therefore maintains that it should not be cited twice for the same issue.

#### **77 Violations - 40 P.S. § 625-9. Replacements with the same insurer or insurer group.**

As a preliminary matter with respect to these asserted violations pertaining to replacements, the Company again confirms for the Department the manner in which it reviewed its documentation in order to address and respond. The Company accurately and completely responded to the requests in the Examination and produced all responsive materials in support thereof after careful and thorough review of its documents,

its procedures, and the requirements of the applicable statutes. The Company states that, for the applications at issue in this portion of the Examination, the Company did not know, nor did it have reason to know, whether any applicant submitted an application with the intent to replace existing coverage. In fact, as discussed below, all applicants affirmatively stated, in writing, that their applications were not intended to replace existing coverage. As such, the Company had no reason to regard any of these new policies as “replacements,” and was fully compliant with 40 P.S. § 625-1 and 31 Pa. Code. § 81.2. Moreover, because the applicants represented that the new policies were not replacements, and because the Company had no reason to question the applicants’ representations, the Company had no obligation under 40 P.S. § 625-9 to send a Notice Regarding Replacement to these applicants. The Company therefore maintains its dispute pertaining to these 77 asserted violations.

The Company also notes that, in order to cooperate to the fullest extent with the Examination, it voluntarily reported the over-inclusive list of applications that, through the Company’s backward-looking self-oversight process, “might” have been for replacement coverage. The Company then provided extensive documentation and explanation supporting how the response was intentionally over-inclusive in the spirit of full disclosure and transparency, and also provided documentation proving that many of the applications – after full and conclusive examination of all relevant circumstances, which could only be accomplished months after the applications were submitted – were, in fact, not replacements. The Company explained how, based upon the information available when the applications were taken, the only proper and supported conclusion to draw was that these applications were not for replacement coverage. The Company also explained how, only by virtue of a self-review process that could only be performed, in some instances, more than a year after the applications were submitted, it was able to classify the applications at issue as “possible” replacements. Finally, the Company produced detailed information, documents, and explanation demonstrating why, even from that list of “possible” replacements, the facts adduced through the Company’s oversight review process confirmed that 35 of these 77 policies were not, in fact, replacements.

Despite the exhaustive explanation and documentation provided by the Company, the Department maintains these violations based upon nothing more than speculation and conjecture, with no factual support for the conclusion that the applicants submitted these applications with the intent of replacing existing coverage. Nor is there any evidence supporting the Department’s contention that the Company’s producers knew at the time of applications that these new policies were intended to replace other coverages.

40 P.S. § 625-9 requires that a Notice Regarding Replacement of Life Insurance be sent to an applicant “[w]hen there is a solicitation for the replacement of an existing life insurance policy.” The statute directs that the form of the Notice be consistent with the template form found in 31 Pa. Code Chapter 81, which itself is based on the applicant having affirmatively indicated on the application an intent to replace coverage. The Company produced copies of all 77 applications at issue and, for each and every one, the applicant answered “No” to Question 11, “Is any insurance applied for intended to replace or change any insurance or annuities in this or any other company?”

Because all documentation of the application processes in question demonstrates that, at the time each application was taken, it was not in the context of a solicitation for the replacement of an existing policy, the Company maintains its dispute with respect to these violations.

**68 Violations - 40 P.S. § 1171.5(a)(12). Unfair methods of competition and unfair or deceptive acts or practices defined.**

The Company maintains its dispute with respect to these asserted violations because they are factually incorrect. The basis for these asserted violations is that the Company's producers "falsely stated in the applications that they were not aware of an existing life insurance policy and, therefore, the transactions were not replacements in 68 files." In fact, the applications in question contain no such statements by the Company's producers. The "Agent's Statement" portion of each application, to which the producer attests and signs, states only that "I certify that I have asked all questions and truly and accurately recorded the information supplied by the Applicant. To the best of my knowledge and belief, the insurance applied for is not intended to replace any insurance now in effect." Contrary to the Final Exam Report, the applications at issue do not require producers to state whether they are "aware of an existing life insurance policy," and nowhere in the application did the Company's producers make any statement of the kind as alleged in the Final Exam Report.

The Company also notes that these 68 alleged violations are all based on the faulty premise that a new policy written for an existing policyholder must, by definition, be a replacement. Clearly, this is not necessarily the case, as the Company allows existing policyholders to purchase additional coverage.

**48 Violations - 40 P.S. § 1171.5(a)(1)(vi). Unfair methods of competition and unfair or deceptive acts or practices defined.**

The Company maintains its dispute with respect to these asserted violations because they fail to acknowledge evidence provided by the Company that proves the factual impossibility of 42 of the 48 allegations. The asserted violations allege that the Company's producers "induced...the lapse of existing life insurance coverage by failing to contact the policyholders as instructed by the Company in 48 files." However, during the course of the Examination, the Company produced date-specific documentation showing that, for 21 of these 48 files, the instruction by the Company for producers to contact policyholders actually came *after* the applications for new policies were taken. As such, the Department's allegations that the producers disregarded Company direction to contact policyholders, and instead induced lapse of coverage, is factually inaccurate and demonstrably, temporally impossible. Moreover, for yet another 21 of these files, the Company made no such direction at all to its producers to contact the policyholders at issue. Thus, for 42 of the 48 files noted, the allegations are factually inaccurate, as the "instruction to contact policyholders" either came after the application for new coverage was taken, or not at all.

For the remaining six (6) files, the Company notes that its instructions to producers to contact policyholders to attempt to avoid lapse came between 85 and 313 days before an application for new coverage was submitted. It is therefore unreasonable to assume that an agent would have visited a policyholder only to induce a subsequent lapse in existing coverage between three and ten months *later*.

## **VI. CLAIMS PROCEDURES**

### **Section A. Claims Procedures Manuals:**

The Department noted no violations for this component of the Examination.

### **Section B. Claims Training Manuals:**

The Department noted no violations for this component of the Examination.

### **Section C. Claims Universes**

#### **3 Violations – 31 Pa. Code § 146.5(d). Failure to acknowledge pertinent communications.**

The Company does not contest these three (3) asserted violations and notes inadvertent human error accounts for the violations.

#### **18 Violations - 31 Pa. Code § 146.7(c)(1). Standards for prompt, fair and equitable settlements applicable to insurers.**

The Company does not contest these 18 violations. However, the Company notes that it self-identified an issue during the Examination period which impacted ten (10) of these policies. The Company believes those ten (10) violations could more appropriately have been classified as Concerns, as citing the Company with violations for self-reported conduct discourages self-reporting and is inconsistent with the notions of transparency and efficiency that underline the Examination Law. The remaining eight (8) violations cited were the result of inadvertent human error.

#### **31 Violations - 31 Pa. Code § 146.6. Standards for prompt investigation of claims.**

The Company notes that the Department has not addressed the Company's explanations and responsive documentation with respect to 6 of the 31 asserted violations, and the Company therefore maintains its dispute of those 6 violations.

During the Examination, the Company advised the Department that in six (6) of the claims at issue, the Company had sent correspondence to the beneficiary that satisfied the requirements of 31 Pa. Code § 146.6 in providing the beneficiary with a reasonable explanation as to why the investigation of the claim could not be completed within the first 30 days following notification of the claim. The Company's letters were directed to the beneficiary, were timely sent, and expressly stated "To evaluate this claim, please submit the following items:...." which clearly satisfies the requirement of the regulation. The Company does not understand the basis of the Department's criticism or why it continues to maintain these violations. Therefore, the Company maintains its opposition to these six (6) asserted violations.

With respect to ten of the remaining 25 asserted violations, the Company believes the requirements of 31 Pa. Code § 146.6 did not apply to the facts particular to those claims, as the Company had received satisfactory Proofs of Loss prior to the 30-day deadline in Section 146.6, and thus was no longer governed by Section 146.6 but instead was obliged to comply with 31 Pa. Code § 146.7(c) after that time. The Company notes the factual circumstances for those ten claims were unique and that reasonable minds could differ on application of the regulations in those instances. As such, the Company believes these ten asserted violations would be better classified as Concerns.

Finally, the Company does not contest the remaining 15 of these 31 asserted violations. However, as the Company explained during this Examination, eight (8) of those 15 claims were impacted by a claims-handling issue that the Company voluntarily self-reported during the course of the Examination. Again, the



Company believes these eight (8) violations could more appropriately have been classified as Concerns, as citing the Company with violations for self-reported conduct discourages self-reporting and is inconsistent with the notions of transparency and efficiency that underline the Examination Law.

**2 Violations – 40 Pa.C.S.A § 3703(a). Death master file comparison.**

The Company does not dispute the facts set forth in these two (2) asserted violations. During the Examination, the Company discovered and disclosed to the Department a technical issue that occurred with respect to its data relative to a comparison to the DMF. This technical issue resulted in the data file that was sent to the Company’s Third-Party Vendor (TPV) not being updated with new policies. However, the Company continued to semi-annually send the existing data file (believing that it was being updated) to its TPV to perform matches against the Social Security Death Master File. The Company has since provided the Department with additional valid matches and has paid claims benefits associated with said policies. The Company also notes that it self-identified this issue during the Examination and therefore believes that these two (2) violations could more appropriately have been classified as Concerns.

**1 Violation - 31 Pa. Code § 146.5(a). Failure to acknowledge pertinent communications.**

The Company does not contest this asserted violation.

**2 Violations – 31 Pa. Code § 146.5(d). Failure to acknowledge pertinent communications.**

The Company does not contest these two (2) asserted violations.

**DATA INTEGRITY**

**General Violation – 40 P.S. § 323.3(a) – Authority, scope, and scheduling of examinations.**

The Company explained during the Examination the reason its initial data file submitted for Life Replacements without Illustration was inaccurate was due to a technical error in its compiling and presenting the requested data in a spreadsheet. The Company promptly addressed the error and submitted a corrected spreadsheet of responsive data. As such, the Company maintains its dispute that it violated 40 P.S. § 323.3(a), insofar as it maintained and had available all books, records, etc., responsive to the request, and, but for a minor technical error, was able to produce these materials to the Examiners.