

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**COLONIAL LIFE & ACCIDENT INSURANCE
COMPANY**

Columbia, South Carolina

**AS OF
April 5, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: May 17, 2004

COLONIAL LIFE & ACCIDENT INSURANCE COMPANY

TABLE OF CONTENTS

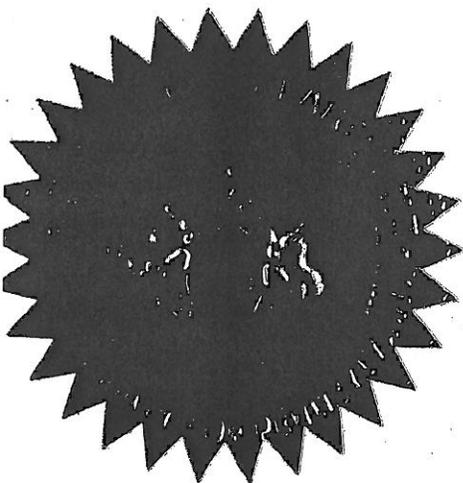
ORDER	
I. Introduction	3
II. Scope of Examination	5
III. Company History and Licensing	6
IV. Advertising	7
V. Forms	8
VI. Licensing	10
VII. Consumer Complaints	12
VIII. Underwriting	13
A. Underwriting Guidelines	14
B. Group Policies Issued, Declined, or Terminated	15
C. Certificates Enrolled, Declined, or Terminated	16
D. Conversions	17
E. Individual Policies Issued	18
1. Health	
2. Life	
3. Accident	
4. Disability	
F. Individual Policies Declined	24
1. Health	
2. Life	
3. Accident	
4. Disability	
G. Individual Policies Terminated	27
1. Health	
2. Life	
3. Accident	
4. Disability	
H. Individual Policies Not-Taken	30
1. Health	
2. Life	
3. Accident	
4. Disability	
I. Individual Policies Issued as Replacements	31
IX. Internal Audit and Compliance	33
X. Claims	34
A. Group Accident/Health and Disability	35
B. Group Life	36
C. Individual Accident and Health	37

	D. Individual Life	38
XI.	Recommendations	39
XII.	Company Response	40

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
COLONIAL LIFE & ACCIDENT : Sections 605, 606 and 903(a) of the
INSURANCE COMPANY : Insurance Department Act, Act of
1200 Colonial Life Boulevard : May 17, 1921, P.L. 789, No. 285
Columbia, SC 29210 : (40 P.S. §§ 235, 236 and 323.3)
: :
: Sections 404-A, 408-A(a)(1),
: 408-A(e)(2)(i), 408-A(e)(2)(ii), 408-
: A(e)(2)(iii), 409-A and 410-D(a)(2) of
: the Insurance Company Law, Act of
: May 17, 1921, P.L. 682, No. 284 (40
: P.S. §§ 625-4, 625-8, 625-9 and 510c)
: :
: Title 31, Pennsylvania Code, Sections
: 81.6(a)(1), 83.3, 83.4a, 83.4b, 83.55c,
: 146.5 and 146.6
: :
: Title 18, Pennsylvania Consolidated
: Statutes, Section 4117(k)
: :
Respondent. : Docket No. MC04-04-020

CONSENT ORDER

AND NOW, this 17th day of *May*, 2004, this Order is hereby
issued by the Deputy Insurance Commissioner of the Commonwealth of
Pennsylvania pursuant to the statutes cited above and in disposition of the matter
captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is Colonial Life & Accident Insurance Company, and maintains its address at 1200 Colonial Life Boulevard, Columbia, South Carolina 29210.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2002 through December 31, 2002.
- (c) On April 5, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on May 4, 2004.

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

- (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;
- (ii) Section 606 of the Insurance Department Act, No. 285 (40 P.S. § 236), which requires all entities to report to the Department all appointments and terminations of appointments in the format and time frame required by the Department's regulations;
- (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

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

(v) Section 408-A(a)(1) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within 60 days of the effective date of this section. For life insurance policy forms approved by

the department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing;

- (vi) Section 408-A(e)(2)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), states the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form, the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery;

- (vii) Section 408-A(e)(2)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), states the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. Where a computer screen illustration is used, the producer shall certify in writing on a form provided by the insurer that a computer screen illustration was displayed. Such form shall require the producer to provide, as applicable, the generic name of the policy and any riders illustrated, the guaranteed and non-guaranteed interest rates illustrated, the number of policy

years illustrated, the initial death benefit, the premium amount illustrated and the assumed number of years of premiums. On the same form, the applicant shall further acknowledge that an illustration matching that which was displayed on the computer screen will be provided no later than the time the application is provided to the insurer. A copy of this signed form shall be provided to the applicant at the time it is signed;

(viii) Section 408-A(e)(2)(iii) of the Insurance Company Law, No. 284 (40 P.S. § 625-9), states if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed and the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer;

(ix) Section 409-A of the Insurance Company Law, No. 284 (40 P.S. § 625-9), requires that when there is solicitation for the replacement of an existing 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 Title 31, Pennsylvania Code, Chapter 81;

- (x) Section 410D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510c), which requires individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth unless they shall have prominently printed on the first page of such policy or attached thereto, a notice stating that the policyholder shall be permitted to return the policy within at least 45 days of its delivery (“free look provision”);

- (xi) Title 31, Pennsylvania Code, Section 81.6(a)(1), which requires an insurer that uses an agent or broker in a life insurance or annuity sale shall require with or as part of a completed application for life insurance or annuity, a statement signed by the agent or broker regarding whether the broker knows replacement is or may be involved in the transaction;

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

- (xiii) Title 31, Pennsylvania Code, Section 83.4a and 83.4b, which requires (a) the agent to submit to the insurer with or as part of the application for life insurance a statement, signed by him, certifying that the written disclosure

statement was given no later than the time that the application was signed by the applicant, and (b) the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years.

The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;

(xiv) Title 31, Pennsylvania Code, Section 83.55c, which, if it is the practice of the insurer to mail the policy directly to the applicant, requires the appropriate officer of the company 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;

(xv) 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;

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

- (xvii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

CONCLUSIONS OF LAW

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

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

(b) Violations of Sections 605 and 606 of the Insurance Department Act (40 P.S. §§ 235, 236 and 253) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

(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) issue an order to cease and desist.

(iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Sections 404-A, 408-A(a)(1), 408-A(e)(2)(i), 408-A(e)(2)(ii), 408-A(e)(2)(iii), 409-A and 410-D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-8, 625-9, and 510c) 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 Title 31, Pennsylvania Code, Section 81.6(a)(1), are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3, 83.4a, 83.4b and 83.55c, are punishable under Title 31, Pennsylvania Code, Section 83.6:

(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 40 P.S. §§ 472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

(f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 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.
- (g) 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 Deputy Insurance Commissioner orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Fifty Thousand Dollars (\$50,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1311 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

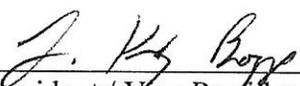
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

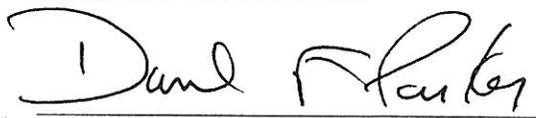
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

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

BY: THE COLONIAL LIFE & ACCIDENT
INSURANCE COMPANY, Respondent


~~Senior President~~ Vice President


~~Secretary / Treasurer~~ Senior Vice President


RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on Colonial Life & Accident Insurance Company, hereafter referred to as "Company," at the Company's offices located in Columbia, South Carolina, July 21, 2003, through August 22, 2003.

Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in 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.

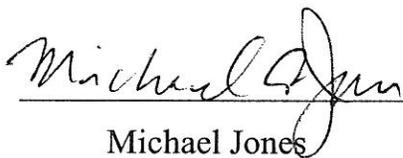
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials 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.



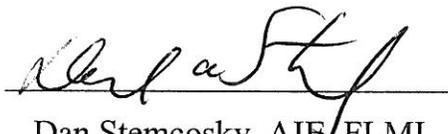
Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief



Michael Jones
Market Conduct Examiner



Deborah Lee
Market Conduct Examiner



Dan Stemcosky, AIE, FLMI
Market Conduct Examiner

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. § 323.3 and § 323.4) of the Insurance Department Act and covered the experience period of January 1, 2002, through December 31, 2002, 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, 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

Colonial Life & Accident Insurance Company, hereinafter referred to as “Company”, was incorporated in the State of South Carolina on April 18, 1939. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on August 2, 1950. The Company is authorized to do business in Puerto Rico and all States except New York.

Colonial Companies, Inc., the parent company of Colonial Life & Accident Insurance Company, merged with Unum Corporation in 1993. On June 30, 1999, Unum Corporation and Provident Companies, Inc, merged to form UnumProvident Corporation.

Colonial Life & Accident Insurance Company is a stock company. Primary products offered include Life, Accident, and Health products.

As of their 2002 annual statement for Pennsylvania, the Company reported direct premium for ordinary life insurance and annuities in the amount of \$3,898,617; and direct premium for accident and health in the amount of \$13,307,091.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

A total of eighty-eight pieces of advertising material were provided, including Print ads, Product Brochures, Product Outlines of Coverage, Product Inserts, Product Rate Cards, and the Colonial Life website. All advertising was reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapters 51 and 89, and Act 205 (40 P.S. §1171.4) Unfair Insurance Practices Act. No violations were noted.

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:

235 Violations – Title 18 PA. C.S., Section 4117(k)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice:

“Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

The following application forms identified in the underwriting sections of the exam did not contain or have attached the required fraud statement.

Application #	Number of Files
VGTL PART	3
B-VLTD PART	2
B-VLTD-MD-PA	1
VSTD-APP-1	2
VLTD (group enroll)	49
VSTD (group enroll)	18

Application #	Number of Files
VGTL (group enroll)	13
Life GAP App(97)PA	74
Life APP 92 PA	4
Life-Term-PA	69

VI. LICENSING

The Company was requested to provide a list of all agents/brokers active and terminated during the experience period. Section 606 (40 P.S. §236) of the Insurance Department Act requires all entities to report all appointments and terminations to the Insurance Department. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 623 (40P.S. §253) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. A random sampling of the Company's list of agents and those agents identified in the underwriting files during the examination were compared to Insurance Department licensing records to verify compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act.

The Company provided a list of 947 active agents and 142 agents terminated during the experience period. A sample of 150 agents was compared to Insurance Department's records of agents and brokers to verify appointments, terminations and licensing. In addition, agents identified as producers on applications were reviewed for proper licensure and appointment. The following violations were noted:

1 Violation – Insurance Department Act, Section 606 (40 P.S. §236)

All entities shall report to the Insurance Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations. The Company failed to report all agent appointments and terminations to the Insurance Department.

3 Violations – Insurance Department Act, Section 605(c)(d), (40 P.S. §235)

- (a) No agent shall do business on behalf of any entity without a written appointment from that entity.
- (b) All appointments shall be obtained by procedures established by the Insurance Department's regulations.
- (c) Insurance entities authorized to do business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
- (d) Each appointment fee, both new and renewal, shall be paid in full by the entity appointing the agent.

The Company failed to certify and submit appointment fees to the Insurance Department for the following 3 agents listed as active by the Company.

AGENT'S NAME
MESIROW INS SVS
WILLIAM J EGAN III & ASSOC
SUSAN PAINTER

The company failed to certify and submit appointment fees to the Insurance Department for the following agent listed on 2 applications reviewed in the underwriting sections of the exam.

AGENT'S NAME
SUSAN PAINTER

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 1998, 1999, 2000, and 2001. The Company identified 14 written consumer complaints received during the experience period and provided complaints logs for 1998, 1999, 2000, and 2001. 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 14 complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No 205 (40 P.S. § 1171.5). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices.

Of the 14 consumer complaints listed as received by the Company, all were responded to within 15 business days. The following table is a synopsis of the 14 complaints.

Number – 14	Complaint Reason	Percentage – 100%
7	Delay in Claim Payment/Service	50%
7	Premium or Administrative Problem	50%

No violations were noted.

VIII. UNDERWRITING

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

- A. Underwriting Guidelines
- B. Group Policies Issued, Declined, or Terminated
- C. Certificate Enrolled, Declined, or Terminated
- D. Conversions
- E. Individual Policies Issued
- F. Individual Policies Declined
- G. Individual Policies Terminated
- H. Individual Policies Not-Taken
- I. Policies Issued as Replacements

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

A. Underwriting Guidelines

The Company was requested to provide copies of all established written underwriting guidelines in use during the experience period. Underwriting guidelines were reviewed to ensure guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature, or specifically prohibited by statute or regulation. The following 3 manuals and guides were provided and reviewed:

1. Underwriting Guidelines & Procedures
2. Voluntary Group Product Manual
3. Training Manual, Rating Guides and Product Reference Pamphlets.

1 Violation – Insurance Company Law, Section 409A (40 P.S. §625-9)

Replacements With the Same Insurer or Insurer Group. When there is solicitation for the replacement of an existing 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 Title 31, Pennsylvania Code, Chapter 81 (relating to replacement of life insurance and annuities). The Underwriting Guidelines and Procedures Manual, Section VIII, State Regulations, addresses the various state requirements of providing replacement forms for internal and external replacement. Pennsylvania is listed as a state not requiring a replacement form for an Internal Replacement. This statement is not in compliance.

B. Group Policies Issued, Declined, or Terminated

The Company was requested to provide a list of all group life, accident, and health policies issued during the experience period. The Company reported that 13 group policies were issued, 2 were declined and 2 were terminated. The 13 group policy files issued were requested for review. Three of the files were groups located outside of Pennsylvania and therefore not included in the review. The 2 group policies declined and 2 group policies terminated were also reviewed. The files were reviewed to ensure compliance with Title 18 PA. C.S., Section 4117(k). The following violations were noted:

2 Violations - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(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 and ascertain whether the company or person has complied with the laws of this Commonwealth.

Two Group Policy files did not include the application for policy.

Violations regarding fraud statement requirements are addressed in Section V. Forms.

C. Certificates Enrolled, Declined, or Terminated

The Company was asked to provide a list of all certificate holders enrolled and a list of all group certificates declined during the experience period. The Company provided a list of 1,237 certificate holders enrolled and 36 certificates declined during the experience period. The files were reviewed to ensure compliance with Title 18 PA. C.S., Section 4117(k) and to ensure the declinations were not the result of any discriminatory underwriting practice and any remittance of unearned premium was properly refunded. Violations regarding fraud statement requirements are addressed in Section V. Forms.

D. Conversions

The Company was requested to identify all conversion policies issued during the experience period. The company identified 4 conversion policies issued during the experience period. All 4 policy files were requested, received and reviewed. Policy files were reviewed to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

E. Individual Policies Issued

1. Health Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 20,060 policies issued. Of the 20,060 policies issued, 1,909 were identified as health policies. A random sampling of 100 health policy files was requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No violations were noted.

2. Life Policies Issued

Of the 20,060 policies issued, 4,065 were identified as life policies. A random sampling of 200 life issued files was requested, received and reviewed. The 200 life policy files consisted of 78 universal life contracts, 69 term insurance contracts and 53 whole life contracts. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following violations were noted:

7 Violations - Title 31, Pennsylvania Code, Section 81.6 (a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement on replacement was not completed in 7 applications used.

200 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The required written disclosure was not provided in the 200 files reviewed.

200 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance.

The 200 files reviewed did not contain a copy of the required agent's certification of disclosure.

131 Violations – Title 31, Pennsylvania Code, Section 83.55c

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. Delivery of the policies was made by mail with no evidence of a certification of surrender comparisons index disclosure in 131 files.

200 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. A certificate of mailing is adequate proof of delivery. Verification of policy delivery could not be established in the 200 files reviewed.

50 Violations – Insurance Company Law, Section 408A (a)(1) (40 P.S. §625-8)

Each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within sixty (60) days of the effective date of this section. For life insurance policy forms approved by the department but not being actively marketed on the effective date of this section, the identification shall be made on

or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing. Fifty of the life files reviewed were marketed before the effective date of the illustration statute (July 1, 1997). The required notification of illustration usage was not provided to the Department.

77 Violations – Insurance Company Law, Section 408A (e)(2)(i)(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. The producer did not certify an illustration was not used in the sale of the life insurance policy in 77 files.

3 Violations – Insurance Company Law, Section 408A (e)(2)(ii)(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. Where a computer screen illustration is used, the producer shall certify in writing on a form provided by the insurer that a computer screen illustration was displayed. Such form shall require the producer to provide, as applicable, the generic name of the policy and any riders illustrated, the guaranteed and non-guaranteed interest rates illustrated, the number of policy years illustrated, the initial death benefit, the premium amount illustrated and the assumed number of years of premiums. On

the same form, the applicant shall further acknowledge that an illustration matching that which was displayed on the computer screen will be provided no later than the time the application is provided to the insurer. A copy of this signed form shall be provided to the applicant at the time it is signed. The acknowledgement by the applicant or the certification by the producer was not evidenced in 3 of the files.

78 Violations – Insurance Company Law, Section 408-A(e)(2)(iii) (40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer. There was no signed certification and acknowledgement of the delivery of an illustration in 78 files.

Violations regarding fraud statement requirements are addressed in Section V. Forms.

3. Accident Only Policies Issued

Of the 20,060 policies issued, 5,603 were identified as accident only policies. A random sampling of 150 accident only policy files was requested, received and reviewed.

No violations were noted.

4. Disability Policies Issued

Of the 20,060 policies issued, 8,483 were identified as disability income policies. A random sampling of 150 disability income policy files was requested, received, and reviewed. No violations were noted.

F. Individual Policies Declined

1. Health Policies Declined

The Company was requested to identify all individual applications declined coverage during the period for any Commonwealth resident. The Company identified a total of 634 applications declined during the period. Of the 634 applications declined, 35 were applications for health insurance. All 35 health insurance applications were requested and received for review. Application files were reviewed for compliance with Title 18 PA. C.S., Section 4117(k), the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171), and to ensure no practices of a discriminatory nature were used.

No violations were noted.

The following is a synopsis of the reasons for declination.

Number	Reason Declined	Percent
7	Duplicate Coverage	20%
6	Medical Underwriting-Ht/Wt Requirement Not Met	17%
6	Medical Underwriting-Various Medical History	17%
5	Incomplete Info at Underwriting-requested not received	15%
3	Applicant Requested	9%
3	Incomplete Application	9%
3	No Application Received	9%
1	Employer Group No Longer Active	2%
1	Declined in Error/ Re-issued	2%

2. Life Policies Declined

Of the 634 applications declined, 248 were applications for life insurance. A sampling of 50 life insurance applications was requested, received, and reviewed. No violations were noted.

3. Accident Policies Declined

Of the 634 applications declined, 57 were for accident policies. All 57 declined accident policy files were requested, received, and reviewed.

No violations were noted.

The following is a synopsis of the reasons for declination.

Number	Reason for Declination	Percent
25	Duplicate Coverage	44%
19	Insufficient Information	33%
10	Applicant Requested Cancellation	18%
2	Agent Not Licensed	3%
1	Medical Underwriting Guidelines	2%

4. Disability Policies Declined

Of the 634 applications declined, 294 were for disability coverage. A random sample of 50 declined files was requested, received and reviewed. No violations were noted.

The following is a synopsis of the reasons for declination.

Number	Reason for Declination	Percent
25	Insufficient Information	50%
11	Medical Underwriting Guidelines	22%
9	Applicant Requested Cancellation	18%

3	Plan Requested not Available	6%
2	Duplicate Coverage	4%

G. Individual Policies Terminated

1. Health Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience. The Company identified a universe of 16,359 policies terminated during the experience period. Of the 16,359 policies terminated 3,378 were health insurance policies. A random sample of 100 terminated health files was requested, received, and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium.

No violations were noted.

The following table is a synopsis of the 100 files reviewed.

#	Termination Reason	Percent
5	Declined	5%
26	Cancelled by Payor, Bookkeeper	26%
65	Lapse	65%
4	Policy Upgraded	4%

2. Life Policies Terminated

Of the 16,359 terminated policies 2,688 were life insurance policies. A random sample of 100 files was requested, received, and reviewed. The life insurance policies consisted of 66 universal life contracts, 33 term life contracts, and 1 whole life contract. No violations were noted.

The following table is a synopsis of files reviewed.

#	Termination Reason	Percent
45	Cancelled by Payor, Bookkeeper	45%

31	Lapse	30%
12	Declined	12%
11	Insured Request	12%
1	Death	1%

3. Accident Policies Terminated

Of the 16,359 terminated policies 3,513 were accident policies. A random sample of 100 accident files was requested, received, and reviewed. No violations were noted.

The following table is a synopsis of the 100 files reviewed.

#	Termination Reason	Percent
1	Death	1%
2	Declined	2%
14	Cancelled by Payor, Bookkeeper	14%
83	Lapse	83%

4. Disability Policies Terminated

Of the 16,359 terminated policies 6,780 were disability policies. A random sample of 100 disability files was requested, received, and reviewed. No violations were noted.

The following table is a synopsis of the 100 files reviewed.

#	Termination Reason	Percent
17	Death	17%
8	Declined	8%
2	Cancelled by Payor, Bookkeeper	2%

71	Lapse	71%
2	Policy Upgrade	2%

H. Individual Policies Not-Taken

1. Health Policies Not-Taken

The Company was requested to identify all individual policies not-taken during the period for any Commonwealth resident. The Company identified a total of 1,053 policies not-taken during the period. Of the 1,053 policies not-taken, 75 were policies for health insurance. A sampling of 25 health insurance policies not taken was requested and received for review. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free look provisions of the contract. No violations were noted.

2. Life Policies Not-Taken

Of the 1,053 policies not-taken, 226 were policies for life insurance. A sampling of 50 life policies not-taken was requested and received for review. No violations were noted.

3. Accident Policies Not-Taken

Of the 1,053 policies not-taken, 321 were accident policies. A sampling of 50 accident policies not-taken was requested and received for review. No violations were noted.

4. Disability Policies Not-Taken

Of the 1,053 policies not-taken, 431 were disability policies. A sampling of 50 disability not-taken files was requested and received for reviewed. No violations were noted.

I. Policies Issued as Replacements

The Company was requested to provide a list of policies issued as replacements during the experience period. The Company provided a list of 34 replacement policies. All 34 policies were requested, received and reviewed. Of the 34 policies issued as replacements, 13 were internal replacements and 21 were external replacements. The policy files were reviewed to determine compliance to issuance, and replacement statutes and regulations. The following violations were noted:

6 Violations - Title 31, Pennsylvania Code, Section 81.6 (a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement on replacement was not completed or answered "No" in 6 applications involving replacement.

34 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. A certificate of mailing is adequate proof of delivery. Verification of policy delivery could not be established in 34 files reviewed.

12 Violations – Insurance Company Law, Section 409A (40 P.S. §625-9)

Replacements With the Same Insurer or Insurer Group. When there is solicitation for the replacement of an existing 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 Title 31, Pennsylvania Code, Chapter 81 (relating to replacement of life insurance and annuities). The required notice of replacement was not provided in 12 files reviewed.

10 Violations – Insurance Company Law, Section 410D(a)(2) (40 P.S. §510c)

Individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such policy or attached thereto a notice stating in substance that the policyholder shall be permitted to return the policy within at least forty-five (45) days of its delivery. The required 45 day "free look" notice was not in 10 policies reviewed.

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

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

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files.

The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives, and any correspondence or instructions used for processing claims during the experience period. The Company provided the following 7 manuals: Short Term Disability Procedures, Universal Life Death Claims Procedure, Accident and Disability Products, Special Risk Products, Supplemental Insurance, Claims Legislative References, and Long-Term Disability Claims Reference. These reference materials and claim procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature.

No violations were noted.

The Claim file review consisted of 4 areas:

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

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171) and Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

A. Group Accident/Health and Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company provided a list of 7,446 claims received. Of the 7,446 claims received, 142 were identified as group A&H/Disability Claims. A sample of 75 claims files was requested, received, and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge a claim within 10 working days for 1 claim.

2 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for 2 claims.

B. Group Life Claims

Of the 7,446 claims received, 3 were identified as group life claims. All 3 group life claims were requested, received, and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violation was noted:

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide a timely status letter for 1 claim.

C. Individual Accident and Health Claims

Of the 7,446 claims received, 7,216 were Individual Accident and Health. A random sample of 150 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:

3 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period. 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 3 claims 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 timely status letters for 1 claim.

D. Individual Life Claims

Of the 7,446 claims received, 85 were identified as individual life claims. All 85 individual life claims were requested, received, and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

3 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge 3 claims within 10 working days.

18 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for 18 claims.

XI. RECOMMENDATIONS

The following recommendations 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 Licensing procedures to ensure compliance with Insurance Department Act, Sections 605, Section 606 and Section 623 (40 P.S. §§235, 236 and 253).
2. The Company must review internal control procedures to ensure compliance with claims settlement practice requirements of Title 31, Pennsylvania Code, Chapter 146.
3. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
4. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
5. The Company must implement internal control procedures to ensure compliance with policy delivery receipt requirements of Insurance Company Law, Section 404-A (40 P.S. §625-4).
6. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Insurance Company Law, Section 408-A (40 P.S. §625-8).
7. The Company must ensure all applications and claim forms contain the fraud notice required by Title 18, Pa. C.S., Section 4117(k).

XII. COMPANY RESPONSE



May 3, 2004

Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement
ATTN: Mr. Chester A. Derk Jr., AIE, HIA
Market Conduct Division Chief
1321 Strawberry Square
Harrisburg, PA 17120

RE: Examination Warrant Number 02-M12-299

Dear Mr. Derk:

Colonial Life & Accident Insurance Company has enclosed the Company's response to the Market Conduct Division of the Pennsylvania Insurance Department's Report of Examination covering the period January 1, 2002 through December 31, 2002. The Company appreciates the opportunity to respond to the Report of Examination.

The Company takes its responsibilities to its customers very seriously and understands the benefits of meaningful review of Company processes in market conduct examinations. With this understanding, the Company provided its full cooperation to the examiners both while they were on site and when they returned to Pennsylvania.

As a result of this examination, the Company has undertaken remedial action in areas identified in the Report of Examination as problem areas. The remedial actions that have been completed and those that are in the implementation process are listed in the attached response. In addition, the Compliance Department has met with each area of the Company affected by the Report of Examination to discuss the findings and to discuss appropriate remedies.

The Company would like to thank the Department and the examiners for the courtesy shown to Company personnel and for the guidance provided both during and after the examination.

Sincerely,

Wendy Smith
Wendy Smith

Director of Compliance
Colonial Life & Accident Insurance Company

Enclosure

RECEIVED
INSURANCE DEPT.

MAY 04 2004

BUREAU OF ENFORCEMENT

XII. Company Response

Colonial Life & Accident Insurance Company, hereafter referred to as "Company," is providing the following information regarding changes that have been implemented or are in the implementation process to bring the Company into compliance with Pennsylvania laws and regulations.

1. The Company has reviewed its licensing procedures to ensure compliance with Insurance Department Act, Section 605, Section 606 and Section 623 (40 P.S. 235, 236 and 237). A systems problem appears to have caused some of the violations cited by the Department. The Company has corrected the system and has also revised and enhanced procedures for auditing state appointment renewals.
2. The Company has reviewed internal control procedures to ensure compliance with claims settlement practice requirements of Title 31, Pennsylvania Code, Chapter 146. The Company has provided additional training to all Claims personnel on Pennsylvania's requirements regarding timing of claims payments and communication with claimants. In addition, the Company has revised its dating system to ensure compliance with Pennsylvania's mandated timeframes. The State Variations Document on the Claims system has also been updated to reflect these requirements.
3. The Company has reviewed internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83. The Company has determined that Disclosure Statements previously used by the Company were discontinued during the implementation of the illustration process under the assumption that they were no longer necessary. As a result of the market conduct examination, the Company is in the process of implementing the disclosures, the producers' certification of delivery of the disclosure, and procedures for retention according to Pennsylvania code.
4. The Company has reviewed internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 81. The Company has implemented an internal replacement procedure using form "Notice Regarding Replacement of Life Insurance and Annuities." In addition, the Company has reinforced Company policy with Underwriting personnel and with producers regarding the requirements for completion of the producer's replacement statement on applications. The Underwriting Guidelines and Procedures Manual, Section VIII, State Regulations, has been updated to include internal replacement procedures for Pennsylvania. To comply with the forty-five day free look requirement for internal replacement policies, the Company has filed with the Commonwealth of Pennsylvania Insurance Department a policy amendment to change the free-look period on Pennsylvania life policies to forty-five days. Upon approval, the amendment will be implemented.

5. The Company has implemented internal control procedures to ensure compliance with policy delivery receipt and proof of policy delivery requirements of Insurance Company Law, Section 404-A (40 P.S. S625-4).

6. The Company has reviewed internal control procedures to ensure compliance with illustration certification and delivery requirements of Insurance Company Law, Section 408-A (40 P.S. S625-4). The Company's Illustration Certification Form has been revised and is in the implementation process. As part of that process, Underwriting personnel and producers will receive additional training regarding accurate completion of the Illustration Certification Form. In addition, on application form Life GAP App (97)-PA, the wording in the producer's acknowledgment section of the application has been changed from "acknowledge" to "certify" and from "given" to "used." Form Life GAP App (97)-PA is pending approval at the Commonwealth of Pennsylvania Insurance Department and will be implemented upon approval.

7. The Company did not interpret Title 18, PA C.S., Section 4117(k) to require enrollment forms to include the fraud statement. However, as a result of this market conduct examination, the Company is aware that the Department interprets Title 18, PA C.S., Section 4117(k) to include individual enrollment forms and any employer level forms used in the process of procuring group coverage for employees. Based on the Department's interpretation, the Company has added the Pennsylvania fraud statement to all applications and forms where required. The applications and forms have been filed with the Commonwealth of Pennsylvania Insurance Department and will be implemented upon approval.

8. Group products represent a small portion of the Company's business, and group processing is primarily manual. To comply with Insurance Department Act, Section 903 (40 P.S. § 323.3), regarding retention and maintenance of files, the Company has changed its process for retaining information on the group portfolio to ensure that files are kept intact and the standard is met.