

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**GUARANTEE RESERVE LIFE INSURANCE
COMPANY**

Indianapolis, Indiana

**AS OF
September 17, 2004**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: November 3, 2004

GUARANTEE RESERVE LIFE INSURANCE COMPANY

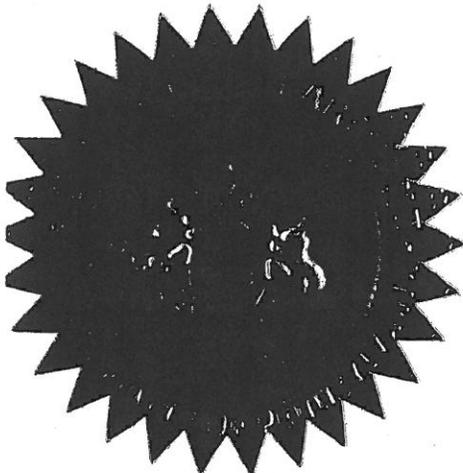
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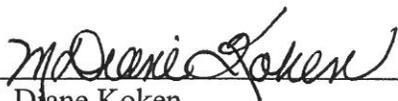
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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





M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:
: :
GUARANTEE RESERVE LIFE : Sections 605, 606 and 903(a) of
INSURANCE COMPANY : the Insurance Department Act, Act of
530 River Oaks West : May 17, 1921, P.L. 789, No. 285
Calumet City, IL 60409 : (40 P.S. §§ 235, 236 and 323.3)
: :
: Title 31, Pennsylvania Code, Sections
: 37.61, 81.7, 83.3, 83.4a, b and c, 83.55a
: and b, 146.3, 146.5, 146.6 and 146.7
: :
: Title 18, Pennsylvania Consolidated
: Statutes, Section 4117(k)
: :
Respondent. : Docket No. MC04-10-028

CONSENT ORDER

AND NOW, this 3RD day of NOVEMBER, 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

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

- (a) Respondent is Guarantee Reserve Life Insurance Company, and maintains its address at 530 River Oaks West, Calumet City, Illinois 60409.
- (b) Respondent was purchased by Reassure America Life Insurance Company effective June 30, 2003, and subsequently merged into Reassure America Life Insurance Company effective December 31, 2003.
- (c) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2002 through June 30, 2003.
- (d) On September 17, 2004, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(e) A response to the Examination Report was provided by Respondent on October 15, 2004.

(f) 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) Title 31, Pennsylvania Code, Section 37.61, which requires termination activity by an entity shall be reported to the Department on a monthly basis, in a format approved by the Department and filed within 30 days of the end of the month being reported;

- (v) Title 31, Pennsylvania Code, Section 81.7, which requires in the solicitation of a direct response sale, if the insurer did not propose the replacement and a replacement is involved, the insurer shall: (1) Send to the applicant with the policy a Notice Regarding Replacement of Life Insurance and Annuities in the form as described in Appendix A or Appendix B (relating to notice regarding replacement of life insurance and annuities) or other substantially similar form filed and accepted prior to use by the Commissioner. In such instances, the insurer may delete the last sentence and the references to signatures from Appendix A without having to re-file the form and obtain acceptance prior to use by the Commissioner;

- (vi) 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;

- (vii) Title 31, Pennsylvania Code, Section 83.4(a), which requires 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;

- (viii) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;
- (ix) Title 31, Pennsylvania Code, Section 83.4c, which requires the appropriate officer of each direct response or mail-order insurer shall certify, in conjunction with the annual statement of the insurer, that all written disclosure statements have been provided in accordance with this subchapter. Failure to do so shall constitute prima facie evidence that written disclosure statements have been provided to prospective purchasers of life insurance;
- (x) Title 31, Pennsylvania Code, Sections 83.55a and 83.55b, which requires
 - (a) the agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant, and
 - (b) the insurer shall maintain the agent's certification of surrender

comparison index disclosure delivery in its appropriate files for at least three years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;

- (xi) Title 31, Pennsylvania Code, Section 146.3, which states the claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;
- (xii) 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;
- (xiii) Title 31, Pennsylvania Code, Section 146.6, which 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;

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

(xv) 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

5. 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 and 236) are punishable as detailed in the Report of Examination 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 Title 31, Pennsylvania Code, Section 81.7 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);

(d) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3, 83.4a, b and c, and 83.55a and b 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.

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

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

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

(f) 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

6. 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, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

7. 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.

8. 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.

9. 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.

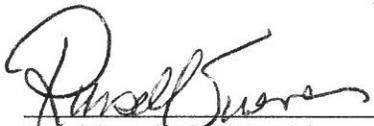
10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

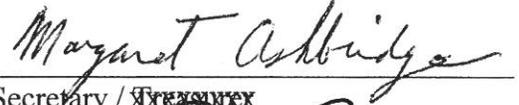
11. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

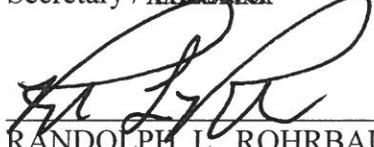
12. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

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

BY: GUARANTEE RESERVE LIFE
INSURANCE COMPANY, Respondent


~~President~~ Vice President

Assistant Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

The Market Conduct Examination was conducted on Guarantee Reserve Life Insurance Company, hereafter referred to as "Company," at the Company's offices located in Wethersfield, Connecticut, December 8, 2003, through January 16, 2004. 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.

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2002, through June 30, 2003, 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, Agent/Broker Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

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

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

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.



Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief



Deborah L. Lee
Market Conduct Examiner



Michael Jones
Market Conduct Examiner

III. COMPANY HISTORY AND LICENSING

Guarantee Reserve Life Insurance Company (“the company”) was licensed as an Indiana mutual assessment company on October 13, 1933. It was licensed to issue life, along with accident and health contracts on the assessment plan.

The Company was organized as a stock company on June 19, 1945. On October 1, 1945, the Company initiated writing business under the name of “Guarantee Reserve Life Insurance Company of Hammond” and altered its Articles of Incorporation and became authorized to write life insurance on March 24, 1948.

Effective March 31, 1949, the Company increased its capital and entered into a reinsurance agreement. The corporate name was changed to the Company’s current name, “Guarantee Reserve Life Insurance Company,” in 1963.

The Company has acquired the business of the following companies, either by merger or reinsurance:

- 1) Guarantee Reserve Life Insurance Company, Hammond, Indiana
- 2) Arcadia National Life Insurance Company, Chicago, Illinois
- 3) Progressive Life Insurance Company, Indianapolis, Indiana
- 4) National Protective Insurance Company, Kansas City, Missouri
- 5) Safety Drivers Insurance Company, Kansas City, Missouri
- 6) Life Insurance Company of America, Wilmington, Delaware
- 7) Old Liberty Insurance Company, Tulsa, Oklahoma
- 8) Commerce Insurance Company, Chicago, Illinois
- 9) Stockmen’s Reserve Life Insurance Company, Bismarck, North Dakota
- 10) National Protective life Insurance Company, Hammond, Indiana

On December 26, 1984, those holding 72.7% of the common shares transferred their shares to GR Holding Company, a Delaware corporation.

The Company was sold on March 21, 1997. The Company was a stock life insurance company and licensed to do business in every state, and the District of Columbia, with the exception of New York. The Company offered various whole life, term life and accident products.

On June 30, 2003 Guarantee Reserve Life Insurance Company was sold to Reassure America Life Insurance Company ("Reassure America"), a subsidiary of Swiss Re Life & Health America Inc. Subsequent to the acquisition, the Company was merged into Reassure America effective December 31, 2003. After acquiring the Company, Reassure America sold all marketing operations to another insurance company, which was to continue to market the Company's products until December 31, 2003, at which point this insurer would begin to write these products on its own paper. New business sold by this insurer is also administered by it. To facilitate the marketing transition, Reassure America has agreed to continue to make paper available to this insurer through March 2004 to allow for additional time to gain the necessary regulatory approvals. With the exception of this marketing arrangement, all of the Company's life business is being administered as a closed block by a third party administrator, with which Reassure America has a long-standing relationship. A small, closed block of health insurance will continue to be administered in Calumet City by Reassure America until such time as this business is either reinsured to another company or there are no longer any policies in force.

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.

The Company provided 13 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Print Ads, Product Brochures, and Cash Value Disclosures. The advertising materials and the Company’s web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. No violations were noted.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, 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:

4 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 ace, which is a crime and subjects such person to criminal and civil penalties.”

The following application forms did not contain the required fraud statement.

Form Number	Description
PA 80-3A	Upgrade of Whole Life Coverage App
AG 746-3	Application for Reinstatement
G-9326	Application for Group Accident
G-9327	Enrollment Form

VI. AGENT LICENSING

The Company was requested to provide a list of all agents active and terminated during the experience period. Section 606 (40 P.S. §236) of the Insurance Department Act requires all entities to report all appointments and terminations to the Insurance Department. Section 605 (40 P.S. §235) of the Insurance Department Act prohibits agents from doing business on behalf of any entity without a written appointment from that entity. Section 623 (40 P.S. §253) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. 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 299 active agents, and 61 terminated agents. The active and terminated agents were compared to departmental records of agents to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam. 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 to the Insurance Department.

11 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 agent listed on 11 applications reviewed in the underwriting sections of the exam.

Agent Name
Gregory Prezgar

10 Violations – Title 31, Pennsylvania Code, Section 37.61

Appointments and terminations by entity:

- (b) An entity may terminate an agent’s appointment.
- (4) Termination activity by an entity shall be reported to the Department on a monthly basis. The report shall be in a format approved by the Department. The report shall be filed within 30 days of the end of the month being reported.

The following agents were listed as terminated by the Company but not reported as terminated to the Department. Department records indicate active status.

Last Name	First Name
TROTTA	J

CURTIS	K
VAHID	M
WAKEFIELD	T
MCINTYRE	S
DENCKLAU	S
CUNNINGHAM	D
CLARK	R
TILLMAN	D
GRAVES	M

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 1999, 2000, 2001, and 2002. The Company identified 9 written consumer complaints and provided complaints logs for 1999, 2000, 2001 and 2002. Of the 9 consumer complaints identified, 7 were forwarded from the Department. All 9 consumer complaint files were requested, received and reviewed.

The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. The following is a synopsis of the 9 complaints reviewed.

Number – 9	Complaint Reason	Percentage – 100%
3	Claim Handling	34
2	Do Not Call List	22
1	Question Policy Lapse	11
1	Agent Handling	11
1	Did Not Apply	11
1	Issue Delay	11

No violations were noted.

VIII. UNDERWRITING

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

- A. Underwriting Guidelines
- B. Group Certificates Issued
- C. Life Policies Issued
- D. Life Policies Issued as Replacements
- E. Life Policies Declined
- F. Life Policies Terminated
- G. Life Policies Not-Taken

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

A. Underwriting Guidelines

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

The following manuals and guides were provided and reviewed:

1. Direct Marketing Underwriting Guidelines
Guideline and application descriptions with requirements, approval and decline references.
2. Agency Underwriting Guidelines
Underwriting guides with specific Pennsylvania Underwriting Guidelines containing references to Rate Manuals and Issue Limits for all policies.
3. Guarantee Rerserve (MMIG) Telemarketing Process
Processing guidelines for this block of business.

B. Group Certificates Issued

The Company was requested to provide a list of all certificate holders enrolled during the experience period. The Company provided a list of 39,951 certificate holders for 2 group accounts. A random sample of 150 certificate holders files was requested, received and reviewed for 1 group account and the universe of 7 certificates for the second group account was requested, received and reviewed. Of the 157 files reviewed, 1 file did not contain the individual enrollment form. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k). The following violations were noted:

1 Violation - 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, 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 provide the individual enrollment form for the 1 file noted.

C. Life Policies Issued

The Company identified a universe of 4,194 life policies issued during the experience period. A random sample of 200 life policy files was requested. Of the 200 files requested and received, 145 were the result of agent solicitations and 55 were the result of direct response or mail-order marketing. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. 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, 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 2 files noted were missing the application.

7 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 7 files noted did not contain a disclosure form.

115 Violations - Title 31, Pennsylvania Code, Section 83.3(a)

A disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered. The disclosure statements included in the 115 files noted were missing one or both of 2 elements, Accumulative Cash Values and Loan Interest.

145 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 145 files noted did not contain a copy of the required agent's certification of disclosure.

55 Violations – Title 31, Pennsylvania Code, Section 83.4c

The appropriate officer of each direct response or mail-order insurer shall certify, in conjunction with the annual statement of the insurer, that all written disclosure statements have been provided in accordance with this subchapter. Failure to so

certify shall constitute prima facie evidence that written disclosure statements have not been provided to prospective purchasers of life insurance. The 55 files noted indicated direct response or mail order insurance issuance with no evidence of certification of surrender comparisons index disclosures.

122 Violations—Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

a) The agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant.

b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance.

The agent's certification of the surrender comparison index disclosure delivery was not evident in the 122 files noted.

D. Life Policies Issued as Replacements

The Company identified a universe of 102 life policies issued as replacements during the experience period. A random sample of 50 life replacement files was requested, received and reviewed. The replacement policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

27 Violations - Title 31, Pennsylvania Code, Section 81.7

Duties of insurers with respect to direct response sales.

(a) If in the solicitation of a direct response sale, the insurer did not propose the replacement and a replacement is involved, the insurer shall: (1) Send to the applicant with the policy a Notice Regarding Replacement of Life Insurance and Annuities in the form as described in Appendix A or Appendix B (relating to notice regarding replacement of life insurance and annuities) or other substantially similar form filed and accepted prior to use by the Commissioner. In such instances, the insurer may delete the last sentence and the references to signatures from Appendix A without having to re-file the form and obtain acceptance prior to use by the Commissioner.

The 27 files noted did not contain a copy of the required notice of replacement.

E. Life Policies Declined

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 585 individual life policies declined. A random sample of 125 files was requested for review. Of the 125 files requested, 123 were received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. The following violations were noted:

122 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, 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 122 files noted either did not contain pertinent documentation or the file was not provided.

The following is a synopsis of the 122 files missing information or not provided.

Number – 122	Missing Information	Percentage – 100%
109	Decline Letter	89
11	Decline ltr/prem return info	9
2	Entire File	2

F. Life Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 2,681 whole life insurance policies terminated. A random sample of 150 files was requested for review. Of the 150 files requested, 142 were received and reviewed. The policies were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. The following violations were noted:

74 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, 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 74

files noted either did not contain pertinent documentation or the file was not provided.

The following is a synopsis of the 74 files missing information or not provided.

Number – 74	Missing Information	Percentage – 100%
66	Term reason/documentation	89
7	Entire File	9
1	Payment Information	2

G. Life Policies Not-Taken

The Company was requested to provide a list of all policies not-taken during the experience period. The Company identified 809 individual life policies not-taken. A random sample of 150 files was requested for review. Of the 150 files requested, 137 were received and reviewed. 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. The following violations were noted:

135 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, 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 135

files noted either did not contain pertinent documentation or the file was not provided.

The following is a synopsis of the 135 files missing information or not provided.

Number – 135	Missing Information	Percentage – 100%
122	Term reason/documentation	90
13	Entire File	10

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

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

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

No violations were noted.

X. CLAIMS

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

1. Interest Payable on Life and A&H Claims – state specific
2. Claims Requirements – state specific
3. Claims Department Memorandum Section – with corresponding directive
4. Legal Memorandum Section – state specific
5. Memoranda to Claim Adjusters – with updated regulations and procedures

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

The Claim file review consisted of 3 areas:

- A. Group Life Claims
- B. Accident and Health Claims
- C. 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). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Group Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 41 group life claims. All 41 life claim files were requested for review. Of the 41 files requested, 40 were 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 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The date of claim notice could not be verified in the 3 files 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 in the file noted.

7 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and

every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide status letters within 30 days in the 7 files noted.

1 Violation - Title 31, Pennsylvania Code, Section 146.7

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

B. Accident and Health Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 30 accident and health claims. All 30 files were requested for review. Of the 30 files requested, 28 were received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The date of claim notice could not be verified in the 2 files 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 in the file 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 status within 30 days in the file noted.

C. Individual Life Claims

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 542 individual life claims. A sample of 200 life claim files was requested for review. Of the 200 files requested, 196 were received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

49 Violations - Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. Of the 49 files noted, the date of claim notice could not be verified in the 45 files noted and 4 files were not provided.

43 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 a claim within the 10 working days in the 43 files noted.

13 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide status letters within 30 days in the 13 files noted.

1 Violation - Title 31, Pennsylvania Code, Section 146.7

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

XI. RECOMMENDATIONS

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

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pa. C. S., §4117(k).
2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
3. The Company must review and revise Licensing procedures to ensure compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act of 1921 (40 P.S. §§235, 236 and 253).
4. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
5. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
6. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

XII. COMPANY RESPONSE

Swiss Re



VIA OVERNIGHT DELIVERY

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October 15, 2004

Examination Warrant Number 03-M21-018 for Guarantee Reserve Life Insurance Company

Dear Mr. Stemcosky

We are pleased to have the opportunity to provide the Department with our response to the Examination Report for Guarantee Reserve Life Insurance Company ("Guarantee Reserve"). Before responding to the Examination Report, we wanted to let you know that we very much appreciated the time and effort expended in examining Guarantee Reserve, and especially the professionalism and courtesy of the examiners involved.

The Department's examination of Guarantee Reserve was for the period of July 1, 2002 through June 30, 2003. This was a particularly challenging time for the company because it was transferring Guarantee Reserve's administrative operations from Calumet City, Illinois to Wethersfield, Connecticut. Further, this major administration change also included some significant systems processing alterations. The transfer was triggered by the purchase of Guarantee Reserve by Reassure America Life Insurance Company ("Reassure America"), effective June 30, 2003 and the subsequent merger of Guarantee Reserve into Reassure America, effective December 31, 2003. (As you know from the Form D filing, the Guarantee Reserve block of business is a closed block of business and is no longer marketed.) We take our compliance responsibilities very seriously at Swiss Re and we understand the Department's concern with these violations. However, we request that the Department consider the foregoing, at least in part, as mitigating factors to the violations cited in the Examination Report.

In connection with the recommendations outlined in the Examination Report, we have the following comments:

1. All applications and claim forms currently in use for Reassure America (including the former Guarantee Reserve closed block of business) contain a fraud statement notice in accordance with Title 18, Pa. C.S., §4117(k).



2. Procedures are in place to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
3. Current Licensing procedures for agent appointments and terminations of agent appointments have been reviewed to ensure compliance with Section 605, Section 606 and Section 623 of the Insurance Department Act of 1921 (40 P.S. §§235, 236, and 253), though we do not expect to appoint any new agents as we are no longer writing new business.
4. Procedures are in place to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs are maintained in such manner and for such period of time in accordance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.2).
5. Replacement procedure requirements applicable to a closed block of business have been reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 81.
6. The disclosure requirements of Title 31, Pennsylvania Code, Chapter 83 are no longer applicable to Guarantee Reserve's closed block of business.

Should you have any questions regarding this letter, please do not hesitate to contact me.

Best Regards

REASSURE AMERICA LIFE INSURANCE COMPANY

By: Margaret Ashbridge
Margaret Ashbridge