



**COMMONWEALTH OF PENNSYLVANIA  
INSURANCE DEPARTMENT**

MARKET CONDUCT  
EXAMINATION REPORT

OF

**NATIONAL WESTERN LIFE  
INSURANCE COMPANY**  
AUSTIN, TX

As of: August 24, 2011  
Issued: October 11, 2011

**MARKET ACTIONS BUREAU  
LIFE AND HEALTH DIVISION**

# NATIONAL WESTERN LIFE INSURANCE COMPANY

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BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 27<sup>th</sup> day of April, 2011, 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 Ronald A. Gallagher, 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.



  
Michael F. Consedine  
Insurance Commissioner

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LAW DEPARTMENT

BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE: : VIOLATIONS:  
: :  
NATIONAL WESTERN LIFE : Sections 404-A, 408-A(c)(4)(i), (ii),  
INSURANCE COMPANY : 408-A(e)(1)(i), (ii), 408-A(e)(3)(i),  
850 East Anderson Lane : 408-A(e)(5), and 410D(a)(2) of the  
Austin, TX 52499 : Insurance Company Law, Act of  
: May 17, 1921, P.L. 682, No. 284 (40  
: P.S. §§ 625-4, 625-8 and 510c)  
: :  
: Section 5(a)(10)(iii) of the Unfair  
: Insurance Practices Act, Act of  
: July 22, 1974, P.L. 589, No. 205 (40  
: P.S. §1171.5(a)(10)(iii))  
: :  
: Title 31, Pennsylvania Code, Sections  
: 81.4(b)(1), 81.6(a)(2)(ii), 83.3, 146.5  
: and 146  
: :  
Respondent. : Docket No. MC11-09-009

CONSENT ORDER

AND NOW, this 11<sup>th</sup> day of October, 2011, this Order is hereby  
issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant  
to the statutes cited above and in disposition of the matter captioned above.

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

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

#### FINDINGS OF FACT

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

- (a) Respondent is National Western Life Insurance Company, and maintains its address at 850 East Anderson Lane, Austin, Texas 52499.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2009 to December 31, 2009.
- (c) On August 24, 2011, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on September 15, 2011.
- (e) The Examination Report notes violations of the following:
- (i) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand-delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;
  - (ii) Section 408-A(c)(4)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a statement to be signed and dated by the applicant or the policy owner in the case of an illustration provided at the time of

delivery, reading as follows: “I have received a copy of this illustration and understand that any nonguaranteed elements illustrated are subject to change and could be either higher or lower. The producer has told me they are nonguaranteed.”

(iii) Section 408-A(c)(4)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a statement to be signed and dated by the producer reading as follows: “I certify that this illustration has been presented to the applicant or the policy owner and that I have explained that any nonguaranteed elements illustrated are subject to change. I have made no statements that are inconsistent with the illustration.”

(iv) Section 408-A(e)(1)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires if the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the application;

(v) Section 408-A(e)(1)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states if the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed

or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered;

(vi) Section 408-A(e)(3)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states the producer shall certify in writing on a form provided by the insurer that the policy applied for is other than as illustrated. On the same form the applicant shall acknowledge that the policy applied for is other than as illustrated and shall further acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer as soon as practical after the application is signed by the applicant. The signed certification and acknowledgement that the illustration used in the sale of the life insurance policy did not conform to the policy as applied for at the time of sale in the noted file.

(vii) Section 408-A(e)(5) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a copy of the basic illustration and any revisions signed, with any certification that either no illustration was used or that the

policy was applied for other than as illustrated, shall be retained by the insurer until three years after the policy is no longer in force;

(viii) Section 410D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510c), which states 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;

(ix) Section 1171.5(a)(10)(iii) of Act 205 (40 P.S. § 1171.5(a)(10)(iii), which states any of the following acts, if committed or performed with such frequency as to indicate a business practice, shall constitute unfair claim settlement or compromise practices: (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies;

(x) Title 31, Pennsylvania Code, Section 81.4(b)(1), which states that if replacement is involved, the agent or broker shall present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities;

- (xi) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by Section 83.3, or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner;
- (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 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; and

- (xiv) 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.

#### CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 404-A, 408-A and 410D of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6 and 625-8) 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.

(c) Respondent's violations of Section 5(a)(11) of the Unfair Insurance Practices Act, No. 205 (40 P.S. §§ 1171.5) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. § 1171.9):

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

(d) 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).

- (e) Respondent's violations of Title 31, Pennsylvania Code, Chapter 81, 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);
  
- (f) Respondent's violations of Title 31, Pennsylvania Code, Chapter 83 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.
  
- (g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.5 and 146.6 are punishable under Sections 9, 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9, 1171.10 and 1171.11), as described above.

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall pay Fifty Thousand Dollars (\$50,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (d) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Bureau of Market Actions, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

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

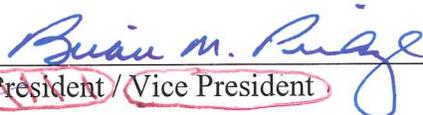
8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

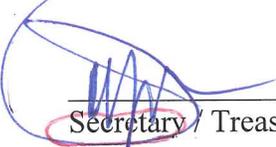
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

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

BY: NATIONAL WESTERN LIFE INSURANCE  
COMPANY, Respondent

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

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

  
\_\_\_\_\_  
COMMONWEALTH OF PENNSYLVANIA  
By: Ronald A. Gallagher, Jr.  
Deputy Insurance Commissioner

## **I. INTRODUCTION**

The Market Conduct Examination was conducted on National Western Life Insurance Company; hereafter referred to as “Company,” at the Company’s office located in Austin, Texas, April 25, 2011, through August 11, 2011. 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.

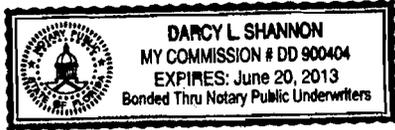
The following examiners participated in the Examination and in the preparation of this Report.

Yonise A. Roberts Paige  
Market Conduct Division Chief

Gary L. Boose, MCM, LUTC  
Market Conduct Examiner

**Verification**

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



  
\_\_\_\_\_  
Gary L. Boose, Examiner in Charge  
LUTC, MCM

Sworn to and Subscribed Before me

This 23<sup>rd</sup> Day of August, 2011

  
\_\_\_\_\_  
Notary Public

## **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, 2009, through December 31, 2009, unless otherwise noted. The purpose of the examination was to ensure compliance with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Producer Licensing, Consumer Complaints, Forms, Underwriting Practices (1035 exchanges, surrenders and replacements) and Procedures, Rating 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**

National Western Life Insurance Company is a life insurance company, chartered in the State of Colorado in 1956 and doing business in forty-nine states; the District of Columbia and four U.S. territories or possessions. It is also licensed in Haiti, and although not otherwise licensed, the Company accepts applications from and issues policies to residents of various Central and South American, Caribbean, and Pacific Rim countries.

National Western operates within segments organized' along product types and geographic marketing areas and these operating segments include domestic life insurance, international life insurance and annuities.

National Western Life Insurance Company is a legal reserve insurance company and must set aside a portion of its assets equal to reserves required by law. Annually, a financial statement is filed with each state's insurance department. Through reviews and in-depth audits, these departments verify that the appropriate reserves are maintained.

National Western Life's domestic operations primarily markets annuities, universal life insurance, and traditional life insurance and term life products through independent national marketing organizations. National Western Life's international operations markets universal life, equity indexed universal life, traditional life insurance, and annuities through independent contractor broker-agents and consultants.

As of the Company's December 31, 2009, annual statement for Pennsylvania, National Western Life Insurance Company reported direct premiums for life insurance considerations in the amount of \$4,423,272.

#### **IV. ADVERTISING**

The Department, in exercising its discretionary authority requested, received and reviewed the Company's Advertising Certificate of Compliance. The certification was reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 51.5. Section 51.5 provides that "A company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth." No violations were noted.

## **V. PRODUCER LICENSING**

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

The Company provided a list of 601 active producers and 130 terminated producers. A random sample of 25 producers each was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the individuals identified as producers on applications reviewed in the policy issued sections of the exam. No violations were noted.

## **VI. FORMS**

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Notice. No violations were noted.

## VII. UNDERWRITING

The Underwriting review consisted of 12 general segments.

A.	Underwriting Guidelines
B.	Annuity Contracts Issued
C.	Traditional Whole Life Policies Issued
D.	Universal Life Policies Issued
E.	Annuity Contracts Issued as Replacements
F.	Traditional Whole Life Policies Issued as Replacements
G.	Universal Life Policies Issued as Replacements
H.	1035 Exchange to Annuity Contracts Issued
I.	Annuity Contracts Surrendered/Terminated
J.	Traditional Whole Life Policies Surrendered/Terminated
K.	Universal Life Policies Surrendered/Terminated
L.	Internal Audits & Compliance

Each segment was reviewed for compliance with underwriting practices and included forms identification and producer 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 all underwriting guidelines and manuals utilized during the experience period. The manuals were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following Annuity Guidelines were reviewed:

1. How to review applications for processing.
2. How to use Life Cycle CWA (Cash with Application).
3. Inputting New Business.
4. Nba Worksheet.
5. Replacement Company Tracking.

The following Life Guidelines were reviewed:

1. Wizard Life PCD (Plan Code Derivation).
2. Plan Code Derivation.
3. Life Cycle (for new person business).
4. Life Cycle (for products for new business).
5. Life Cycle (for riders).
6. Life Cycle (application for data such as cash collected with first application).
7. Life Cycle (payment frequency).
8. Life Cycle (bank draft payments).
9. How to set up what is needed for bank draft deposits.
10. Life Cycle (payment set up for civil servants).
11. Life Cycle (agent information for payment of commissions).

## **B. Annuity Contracts Issued**

The Company was requested to provide a list of all annuity contracts issued during the experience period. The Company identified a universe of 518 annuity contracts issued during the experience period. A random sampling of 50 annuity contracts was requested, received and reviewed. Annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. Of the 50 annuity contracts reviewed, 30 were Protector One Contracts, 10 were Accumulator Five Contracts, 3 were Prevail Seven Contracts, 2 Ultra Future Contracts and 2 were Future Assurance Contracts. The following violations were noted.

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of annuity contract delivery and signature of the producer and the annuitant could not be established in the 8 noted files.

### **C. Term Life Policies Issued**

The Company was requested to provide a list of traditional whole life policies issued during the experience period. The Company identified a universe of 7 traditional whole life policies issued during the experience period. The Company provided the Department with term life policies issued in lieu of the traditional whole life policies as they subsequently reported that there were no traditional whole life policies issued during the experience period. All 7 term life policy files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

**2 Violations – Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company could not be established in the 2 noted files.

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the 2 noted files.

## **D. Universal Life Policies Issued**

The Company was requested to provide a list of all life policies issued during the experience period. The Company identified a universe of 13 life policies issued during the experience period. All 13 policy files were requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

### **1 Violation – Title 31, Pennsylvania Code, Section 81.4(b)(1)**

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form post dated the application date in the noted file.

### **1 Violation – Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company could not be established in the noted file.

### **2 Violations – Insurance Company Law, Section 408-A(c)(4)(i) (40 P.S. §625-8)**

A statement to be signed and dated by the applicant or the policy owner in the case of an illustration provided at time of delivery, reading as follows: “I have received a

copy of this illustration and understand that any nonguaranteed elements illustrated are subject to change and could be either higher or lower. The producer has told me they are nonguaranteed.” The applicant’s acknowledgement of illustration receipt was not dated in the 2 noted files.

**1 Violation – Insurance Company Law, Section 408-A(c)(4)(ii) (40 P.S. §625-8)**

A statement to be signed and dated by the producer reading as follows: “I certify that this illustration has been presented to the applicant or the policy owner and that I have explained that any nonguaranteed elements illustrated are subject to change. I have made no statements that are inconsistent with the illustration.” The signed agent certification of an illustration could not be established in the noted file.

**1 Violation – Insurance Company Law, Section 408-A(e)(1)(i) (40 P.S. §625-8)**

The following applies if a basic illustration is used by a producer in the sale of a life insurance policy. If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. The producer certification and applicant’s acknowledgement of the illustration used post dated the application date in the noted file.

**2 Violations – Insurance Company Law, Section 408-A(e)(1)(ii) (40 P.S. §625-8)**

The following applies if a basic illustration is used by a producer in the sale of a life insurance policy. If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement required by subsection (c)(4) shall be signed and dated by the policy owner

and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. The signed certification and acknowledgement of the delivery of an illustration could not be established in the 2 noted files.

**1 Violation – Insurance Company Law, Section 408-A(e)(3)(i) (40 P.S. §625-8)**

The producer shall certify in writing on a form provided by the insurer that the policy applied for is other than as illustrated. On the same form the applicant shall acknowledge that the policy applied for is other than as illustrated and shall further acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer as soon as practical after the application is signed by the applicant. The signed certification and acknowledgement that the illustration used in the sale of the life insurance policy did not conform to the policy as applied for at the time of sale in the noted file.

**1 Violation – Insurance Company Law, Section 408-A(e)(5) (40 P.S. §625-8)**

A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until three (3) years after the policy is no longer in force. The agent certification and the applicant's acknowledgment of the illustration that was used could not be established in the noted file.

## **E. Annuity Contracts Issued as Replacements**

The Company was requested to provide a list of all annuity contracts issued as replacement during the experience period. The Company identified a universe of 90 annuity contracts issued as replacements during the experience period. A random sampling of 25 annuity contracts were requested, received and reviewed. The annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. Of the 25 annuity contracts reviewed, 11 were Protector One Contracts, 10 were Accumulator Five Contracts, and there were one each of Prevail Seven, Ultra Future, Future Assurance and Global Lookback Contracts issued as replacements. The following violations were noted.

### **2 Violations – Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced Company was untimely in the 2 noted files.

### **1 Violation – 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. If the Appendix A, disclosure statement will be used, a letter to that effect, prior to use, is adequate notification to the Department. However, if a statement different than Appendix A will be used, the statement shall be filed with the Department for review prior to use. If an insurer desires to use an advertisement as its disclosure statement, the portion of the advertisement containing the disclosure statement shall be filed for review prior to use. A disclosure statement shall be a document that shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered. The required disclosure was not dated in the noted file.

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of annuity contract delivery could not be established in the 4 noted files.

## **F. Term Life Policies Issued as Replacements**

The Company was requested to provide a list of traditional whole life policies issued as replacements during the experience period. The Company identified a universe of 4 traditional whole life policies issued as replacements during the experience period. The Company provided the Department with term life policies issued as replacements in lieu of the traditional whole life policies issued as replacements as they subsequently reported that there were no traditional whole life policies issued as replacements during the experience period. All 4 term life replacement files were requested, received and reviewed. The 4 replacement policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the 2 noted files.

## **G. Universal Life Policies Issued as Replacements**

The Company was requested to provide a list of all universal life policies issued as replacements during the experience period. The Company identified a universe of 5 universal life policies issued as replacements during the experience period. All 5 universal life replacement files were requested, received and reviewed. The 5 universal life replacement policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted.

### **3 Violations – Title 31, Pennsylvania Code, Section 81.4(b)(1)**

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form post dated the application date in the 3 noted files.

### **2 Violations – Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was untimely in the 2 noted files.

**1 Violation – 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. If the Appendix A, disclosure statement will be used, a letter to that effect, prior to use, is adequate notification to the Department. However, if a statement different than Appendix A will be used, the statement shall be filed with the Department for review prior to use. If an insurer desires to use an advertisement as its disclosure statement, the portion of the advertisement containing the disclosure statement shall be filed for review prior to use. A disclosure statement shall be a document that shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered. The required disclosure was not dated in the noted file.

**2 Violations – Insurance Company Law, Section 408-A(e)(1)(i) (40 P.S. §625-8)**

The following applies if a basic illustration is used by a producer in the sale of a life insurance policy. If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. The agent certification and applicant's acknowledgement of the illustration used post dated the application date in the 2 noted files.

**2 Violations – Insurance Company Law, Section 408-A(e)(5) (40 P.S. §625-8)**

A copy of the basic illustration and a revised basic illustration, if any, signed as applicable, along with any certification that either no illustration was used or that the policy was applied for other than as illustrated, shall be retained by the insurer until

three (3) years after the policy is no longer in force. A copy of the basic illustration and a revised illustration, if any, could not be established in the 2 noted files.

**2 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" statement could not be established in the 2 noted files.

**H. 1035 Exchange to Annuity Contracts Issued**

The Company was requested to provide a list of all annuity contracts issued as a 1035 exchange during the experience period. The Company identified a universe of 108 annuity contracts issued as a 1035 exchange during the experience period. A random sampling of 25 annuity contracts issued as a 1035 exchange files during the experience period. All 25 files were requested, received and reviewed. The 1035 exchange files were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted.

**1 Violation – Title 31, Pennsylvania Code, Section 81.4(b)(1)**

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form post dated the application date in the noted file.

**1 Violation – Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was untimely in the noted file.

**1 Violation – Insurance Company Law, Section 404-A (40 P.S. §625-4)**

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

## **I. Annuity Contract Surrendered or Terminated**

The Company was requested to provide a list of all annuity contracts surrendered or terminated during the experience period. The Company identified a universe of 269 annuity contracts that were either surrendered or terminated during the experience period. A random sample of 25 files was requested, received, and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. The files terminated due to death 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**

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

(b) Every insurer, upon receipt of an inquiry from the Department respecting a claim shall, within 15 working days of receipt of the inquiry, furnish the Department with an adequate response to the inquiry.

(c) An appropriate reply shall be made within 10 working days on other pertinent communications from a claimant who reasonably suggests that a response is expected.

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

Verification the Company's acknowledged of the claims within 10 working days could not be established in the 3 noted files.

#### **4 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. Verification of a timely status letter could not be established in the 4 noted files.

#### **5 Violations – Act 205, Section 5 (40 P.S. §1171.5)(a)(10)(iii)**

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; in the 5 noted files.

### **J. Traditional Whole Life Policies Surrendered/Terminated**

The Company was requested to provide a list of all policies terminated or surrendered during the experience period. The Company identified a universe of 2 life insurance policies terminated. The policy files were requested, received and reviewed. The policies 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 2 files reviewed.

<b>Files</b>	<b>Termination Reason</b>
<b>2</b>	Lapsed for Insufficient Funds in Policy

**K. Universal Life Policies Surrendered or Terminated**

The Company was requested to provide a list of all universal life policies surrendered or terminated during the experience period. The Company identified a universe of 1 universal life policy terminated during the experience period. The policy file was requested, received and reviewed. The policy was 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 file reviewed.

<b>Files</b>	<b>Termination Reason</b>
<b>1</b>	Lapsed for Insufficient Funds in Policy

## VIII. CLAIMS

The claims review consisted of a review of the Company's claims 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 following list includes but is not limited to all that was reviewed by the Department:

- **Life Claims Procedure Manuals (24 Chapters)**
- **Non-Qualified Annuity Claims Procedure Manual (14 Chapters)**
- **Qualified Annuity Claims Procedure Manual (18 Chapters)**

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 4 areas:

A.	Annuity Contract Claims Paid
B.	Annuity Contract Claims Pended
C.	Life Insurance Claims Paid
D.	Life Insurance Claims Pended

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. Annuity Contract Claims Paid**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 350 Annuity Contract Claims Paid. A random sample of 22 claims was requested, but only 20 files were received and reviewed as files 13 and 14 were duplicates of file 12. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted.

### **4 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. Verification of a timely status letter could not be established in the 4 noted files.

### **4 Violations – Act 205, Section 5 (40 P.S. §1171.5)(a)(10)(iii)**

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; in the 4 noted files.

## **B. Annuity Contract Claims Pended**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 44 Annuity Contract Claims Pended. A random sample of 3 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:

### **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. Verification of a timely status letter could not be established in the noted file.

### **1 Violation – Act 205, Section 5 (40 P.S. §1171.5)(a)(10)(iii)**

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; in the noted file.

### **C. Life Insurance Claims Paid**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 42 individual life claims received during the experience period. A random sample of 19 claims was requested, but only 18 files were received and reviewed as file 9 was a duplicate of file 8. 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:

#### **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. Verification of a timely status letter could not be established in the 2 noted files.

#### **2 Violations – Act 205, Section 5 (40 P.S. §1171.5)(a)(10)(iii)**

“Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means: Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies; in the 2 noted files.

#### **D. Life Insurance Claims Pended**

The Company was requested to provide a list of claims received during the experience period. The Company identified 3 individual life insurance claim files pended as received. One file was selected, received and reviewed. The claim file was reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). No violations were noted.

## IX. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period the experience period of January 1, 2009 through December 31, 2009 and provide copies of consumer complaint logs for 2005, 2006, 2007, and 2008. The Company identified 13 consumer complaints received during the experience period. Of the 13 complaints identified none were forwarded from the Department. All 13 complaint files were requested, received, and reviewed. The company also provided complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. **No violations were noted.**

## **X. INTERNAL AUDIT & COMPLIANCE PROCEDURES**

The Company was requested to provide copies of their internal audit and compliance procedures utilized during the experience period. 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.
- (4) The laws requires that each insurer shall make available for the Department's inspection upon request its internal audit and compliance procedures which are instituted as required by this section. No violations were 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 review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
2. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
3. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).
4. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
5. The Company must review internal control procedures to ensure compliance with Section 410D of the Insurance Company Law of 1921 (40 P.S. §510c) pertaining to the “Free Look” provision requirements for life insurance and endowment insurance.
6. 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.
7. The Company must implement procedures to ensure compliance with the requirements of Insurance Department Act of 1921 “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance – Act 205, Section 5 (40 P.S. §1171.5).

## **XII. COMPANY RESPONSE**



REY PEREZ  
ASSISTANT VICE PRESIDENT  
CORPORATE COUNSEL

September 15, 2011

Yonise Roberts Paige, Chief  
PA Insurance Department  
Market Actions Bureau  
1227 Strawberry Square  
Harrisburg, PA 17120  
(717) 783-2627

VIA: Federal Express and Email ([ypaige@pa.gov](mailto:ypaige@pa.gov))

*RE: National Western Life Insurance Company (NAIC #66850)  
Market Conduct Report of Examination. Examination Warrant # 10-M27-066*

Dear Mrs. Paige:

National Western Life Insurance Company ("National Western" or "Company") acknowledges receipt of the above referenced Report covering the initial experience period of January 1, 2009 through December 31, 2009, as of August 23, 2011. Pursuant to your recent request, the Company is providing its response ahead of the previously established due date.

Below please find National Western's responses to the Department's Recommendations as listed on page 34 of the Report. National Western believes the following actions help demonstrate the Company's intent to resolve the violations noted during the examination and to be in compliance with the Department's requirements.

#### **National Western's Responses to the Department's Recommendations**

*Response to Recommendation 1:* National Western has reviewed its replacement procedures and believes they are in compliance with the requirements of Title 31, Pennsylvania Code, Chapter 81. The Company's review revealed that the violations were the result of human error. To help correct this deficiency National Western will retrain employees who process replacement applications.

*Response to Recommendation 2:* National Western has reviewed its disclosure procedures and believes they are compliant with the requirements of Title 31, Pennsylvania Code, Chapter 83. The Company's review revealed that these violations were the result of human error. National Western will retrain new business employees so that they do not accept disclosures that are not appropriately completed, signed, and dated. The Company will also reemphasize this point with its independent sales force via a compliance bulletin.



REY PEREZ  
ASSISTANT VICE PRESIDENT  
CORPORATE COUNSEL

*Response to Recommendation 3:* The Company has reviewed its illustration certification and delivery procedures and believes they are in compliance with the requirements of 40 P.S. §625-8. The Company's review revealed that these violations were the result of human error. National Western will retrain employees so that they are fully aware of the applicable requirements and procedures.

*Response to Recommendation 4:* National Western has reviewed its policy delivery receipt procedures and believes they are compliant with the requirements of 40 P.S. §625-4. The Company's review revealed that these violations were the result of human error. National Western will retrain its employees so that they are fully aware of the delivery receipt requirements and will also reemphasize this point with its independent sales force via a compliance bulletin.

*Response to Recommendation 5:* The Company has reviewed its free look notices and believes they are compliant with the requirements of 40 P.S. 510c. The Company will reinforce its procedures to help ensure that individual fixed dollar life insurance or endowment insurance policies which are offered as replacements for an existing life insurance policy or annuity contract with the Company contain the applicable free look period.

*Response to Recommendation 6:* The Company has reviewed its claims handling procedures and believes they comply with the requirements of Title 31, Pennsylvania Code, Chapter 146. The violations noted were the result of employee inattentiveness, and as such the Company is retraining its claims handling personnel regarding the Company's policies and procedures for the handling of claims in Pennsylvania.

*Response to Recommendation 7:* The Company does not believe that the violations of Title 31, Pennsylvania Code, Chapter 146 rise to the level of a 40 P.S. §1171.5(10)(iii) violation. National Western has not failed to adopt and implement reasonable standards for the prompt investigation of claims with such frequency as to indicate a general business practice. The great majority of the claims handled over the experience period were in full compliance with Title 31, Chapter 146, thereby demonstrating that the claims handling standards and practices adopted by the Company are reasonable. Based on the small number of Chapter 146 violations and the language in 40 P.S. §1171.5, the Company asks that the Department remove this violation from the Report. As stated above, the Company is retraining its claims handling personnel regarding the Company's policies and procedures for the handling of claims in Pennsylvania.

Thank you for your assistance and please do not hesitate to contact me if you have any questions or need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Rey Perez", is written over a printed name. The signature is stylized with a large loop at the end.

Rey Perez

850 EAST ANDERSON LANE • AUSTIN, TX 78752-1602  
TEL. 512-719-0143 • FAX 512-719-8503 • 800-531-5442  
E-MAIL: rperez@nationalwesternlife.com