

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**UNITED SECURITY ASSURANCE COMPANY
OF PENNSYLVANIA**
Souderton, Pennsylvania

**AS OF
August 21, 2008**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: September 11, 2008

UNITED SECURITY ASSURANCE COMPANY OF PENNSYLVANIA

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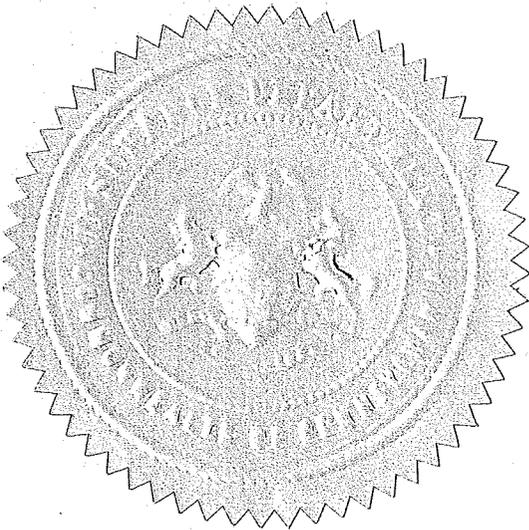
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 22ND day of July, 2008, 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.



Joel S. Ario
Insurance Commissioner



United Security Assurance Company of
Pennsylvania
Market Conduct Examination as of the
close of business on June 20, 2008

Docket No.
MC08-09-012

ORDER

A market conduct examination of United Security Assurance Company of Pennsylvania (referred to herein as "Respondent") was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. §323.1, et seq., for the period July 1, 2006 through June 30, 2007. The Market Conduct Examination Report disclosed exceptions to acceptable company operations and practices. Based on the documentation and information submitted by Respondent, the Department is satisfied that Respondent has taken corrective measures pursuant to the recommendations of the Examination Report.

It is hereby ordered as follows:

1. The attached Examination Report will be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Examination Report and related documents are contained in the attached Examination Report.
2. Respondent shall comply with Pennsylvania statutes and regulations.

3. Respondent shall comply with the recommendation contained in the attached Report.

4. 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.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act (40 P.S. § 323.5), will continue to hold the content of the Examination Report as private and confidential information for a period of thirty (30) days from the date of this Order.

BY: Insurance Department of the Commonwealth
of Pennsylvania

 (Sept 12, 2008)
Ronald A. Gallagher, Jr.
Deputy Insurance Commissioner

I. INTRODUCTION

The Market Conduct Examination was conducted on United Security Assurance Company of Pennsylvania; hereafter referred to as “Company,” at the Company’s office located in Souderton, Pennsylvania, May 13, 2008, through June 20, 2008. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

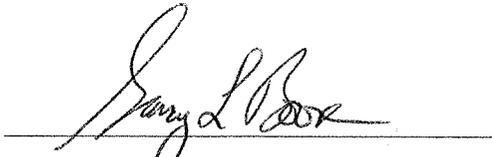
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials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

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

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



Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief



Gary L. Boose, LUTC
Market Conduct Lead Examiner



Lonnie L. Suggs
Market Conduct Examiner



Michael T. Vogel
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).



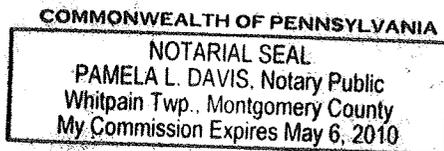
Gary L. Boose, Examiner-in-Charge

Sworn to and Subscribed Before me

This 31st Day of July, 2008



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 July 1, 2006, through June 30, 2007, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

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

United Security Assurance Company of Pennsylvania was incorporated in the Commonwealth of Pennsylvania on October 22, 1982. The Company received its certificate of authority and commenced business on August 5, 1983. The Company is authorized to do business in 13 states.

The Company has not been a party to any merger agreement. However, effective January 31, 1997, United Security Assurance Company of Pennsylvania acquired 100% of the stock of an insurance company subsidiary, Colonial American Life Insurance Company. At the time of acquisition, Colonial American was a Louisiana domiciled life insurance company. On September 30, 1998, Colonial American re-domiciled from Louisiana to Pennsylvania. Both insurance companies share a common home office and staff in Souderton, Pennsylvania. In October of 2007, the parent Holding Company, United Security Assurance, Inc., was acquired by CMS Financial Services Corp. The companies will continue to be domiciled in Pennsylvania with home offices in Souderton, Pennsylvania.

The Company offers whole life insurance and accident and health coverage including long-term care, home health care, hospital indemnity, disability and supplemental policies for home care and medical expenses.

As of their 2006 annual statement for Pennsylvania, the Company reported total direct premium for ordinary life insurance in the amount of \$477, and total direct premium for accident and health insurance in the amount of \$7,217,913.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that “Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department.” The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide a copy of the advertising certificate of compliance for the experience period. The Company provided the required advertising certificate of compliance. No violations were noted.

V. 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.

VI. PRODUCER LICENSING

The Company was requested to provide a list of all producers active and terminated during the experience period. Section 671-A (40 P.S. §310.71) of the Insurance Department Act prohibits 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 466 active and terminated producers. A random sample of 50 producers was requested, received and reviewed. The list was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on producers identified on applications reviewed in the policy issued sections of the exam. No violations were noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2003, 2004, 2005 and 2006. The Company reported 32 consumer complaints received during the experience period. Of the 32 complaints identified, 12 were forwarded from the Department. All 32 complaint files were requested, received and reviewed. The Company 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, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices.

No violations were noted.

VIII. UNDERWRITING

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

- A. Underwriting Guidelines
- B. Long Term Care Policies Issued
- C. Home Health Care Policies Issued
- D. Short Term Home Health Care Policies Issued
- E. Long Term Care Policies Terminated
- F. Home Health Care Policies Terminated
- G. Short Term Home Health Care Policies Terminated

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 guidelines received were reviewed to ensure that 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 guidelines were reviewed:

1. LTC, Home Health Care and Alternative Care Underwriting Guidelines and Rates
2. Short Term Home Health Care Underwriting Guidelines and Rates
3. Drug Listing
4. Telephone Interview Scripts/Worksheet
5. Underwriting Telephone Progress Sheet
6. Policy Rejection Procedures
7. Policy Endorsements Forms and Riders
8. Policy Issue and Set-up Procedure
9. Company memo dated 6/9/2004, RE: Underwriting Guidelines

No violations were noted.

B. Long Term Care Policies Issued

The Company identified a universe of 268 long term care policies issued during the experience period. A random sample of 25 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

C. Home Health Care Policies Issued

The Company identified a universe of 288 home health care policies issued during the experience period. A random sample of 25 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

D. Short Term Home Health Care Policies Issued

The Company identified a universe of 522 short term home health care policies issued during the experience period. A random sample of 25 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

E. Long Term Care Policies Terminated

The Company was requested to identify all long term care policies terminated during the experience period. The Company identified 307 long term care policies terminated. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

F. Home Health Care Policies Terminated

The Company was requested to identify all individual policies terminated during the experience period. The Company identified 216 home health care policies terminated. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

G. Short Term Home Health Care Policies Terminated

The Company was requested to identify all short term home health care policies terminated during the experience period. The Company identified 434 policies terminated. A random sample of 25 terminated files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium.

No violations were noted.

IX. LONG TERM CARE ANNUAL REPORTING

The Company was requested to provide copies of their latest annual Long Term Care Reports as required to be submitted to the Pennsylvania Insurance Department. The Company provided copies of the following reports:

1. Replacement/Lapse Report
2. Claims Denied Report
3. Suitability Report

The Reports were reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 89a.114. 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 a claim procedure manual. The manual included a statement of the Company's claim philosophy.

Additional documentation noted in the manual included the following correspondence:

1. Several new business welcome letters with ID card
2. Reinstatement Application
3. Claim Telephone and Clerical Worksheet
4. Claim Forms
5. Attending Physician Statement
6. Policy Verification and Facility Certifications Forms
7. Claim handling notes and memos addressing eligibility and processing issues
8. Coordination of Benefits
9. Claim Decision and Status Codes
10. Eligibility Guidelines for Dependents
11. Revised 12/18/2000 Drug List
12. Height & Weight Chart for All Policy Forms
13. Miscellaneous forms and Correspondence

The claim manual 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.

Department Concern: The Department is concerned that the claim manuals do not list the notification requirements of Title 31, Pennsylvania Code, Chapter 146.

The claim file review consisted of six (6) areas:

- A. Long Term Care Claims Denied
- B. Home Health Care Claims Denied
- C. Short Term Home Health Care Claims Denied
- D. Long Term Care Claims Paid
- E. Home Health Care Claims Paid
- F. Short Term Home Health Care Claims Paid

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171) and Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. The denied claims were additionally reviewed to ensure the Company claims adjudication process was adhering to the provisions of the policy contract.

A. Long Term Care Claims Denied

The Company was requested to provide a list of all long-term care claims denied during the experience period. The Company identified a universe of 24 denied claims. All 24 claim files were requested, received and reviewed. The claim files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146 and to ensure the Company claims adjudication process was adhering to the provisions of the policy contract. No violations were noted.

B. Home Health Care Claims Denied

The Company was requested to provide a list of all home health care claims denied during the experience period. The Company identified a universe of 12 denied home health care claims. All 12 claim files were requested, received and reviewed. The claim files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146 and to ensure the Company claims adjudication process was adhering to the provisions of the policy contract. No violations were noted.

C. Short Term Home Health Care Claims Denied

The Company was requested to identify all claims received during the experience period. The Company identified 12 short term home health care claims denied during the experience period. All 12 short term home health care claims were requested, received and reviewed. The claim files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146 and to ensure the Company claims adjudication process was adhering to the provisions of the policy contract. No violations were noted.

D. Long Term Care Claims Paid

The Company was requested to identify all claims received during the experience period. The Company identified 666 long term care claims paid. A random sample of 50 claims was requested, received reviewed. The files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.5 Failure to Acknowledge Pertinent Communication

(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 which reasonably suggest 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).

There was no evidence in the 2 files noted that the company acknowledged receipt of the claim during the required 10 days following notification claim or provided the claimant with the necessary claim forms so the claimant could comply with requirements of the insurer to process the claim.

E. Home Health Care Claims Paid

The Company was requested to identify all home health care claims received during the experience period. The Company identified 63 home health care claims paid. A random sample of 25 claims was requested, received reviewed. The files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146. The following violation was 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 first-party claimant shall be advised of the acceptance or denial of the claim by the insurer.

The Company failed to provide notice of acceptance or denial within 15 working days for the claim noted.

F. Short Term Home Health Care Claims Paid

The Company was requested to identify all claims received during the experience period. The Company identified 32 short term care claims paid. A random sample of 10 claims was requested, received reviewed. The files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.7

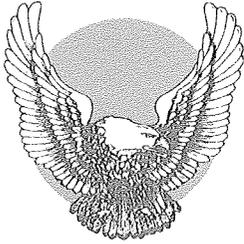
Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide notice of acceptance or denial within 15 working days for the 2 claims noted.

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 requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

XII. COMPANY RESPONSE



United Security Assurance Company of Pennsylvania
Colonial American Life Insurance Company

673 Cherry Lane • P. O. Box 64477 • Souderton, Pennsylvania 18964
215-723-3044 • 1-800-872-3044 • FAX 215-723-8036

September 3, 2008

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

Re: Market Conduct Examination, Warrant Number: 07-M26-040
NAIC # 42129 – United Security Assurance Company of Pennsylvania

Dear Mr. Stemcosky:

United Security Assurance Company of Pennsylvania (“Company”) has reviewed the Report of Examination received August 25, 2008, covering the experience period of July 1, 2006 through June 30, 2007. The Company appreciates the opportunity to provide a response to the Department’s findings and recommendation.

In response to your recommendation at Section XI which states:

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

The Company has reviewed and revised its procedures to ensure compliance with the requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices. We specifically addressed the requirements relating to the 10 working day response time for acknowledgement of a claim and the 15 working day timeframe for acceptance or denial of a claim upon receipt of proof of loss, which were the two areas in which a deficiency was noted. We have reinforced all the requirements of the Unfair Claims Settlement Practices Regulation with our Claim Department personnel. The Company Claims Manual has been updated to list the notification requirements of Title 31,

Daniel A. Stemcosky
September 3, 2008
Page 2

Pennsylvania Code, Chapter 146. The Company's goal remains to acknowledge and/or process all claims within 10 working days of receipt.

We would like to thank you and your staff for the efficiency and professionalism of the exam. We especially appreciated the courtesy, communication and cooperation of the field examiners while they were on-site.

If you require additional information or have any questions, please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in cursive script that reads "Martha Stephens". The signature is written in black ink and has a fluid, connected style.

Martha Stephens
Vice President, Operations

/ms