

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

VETERANS LIFE INSURANCE COMPANY
Springfield, Illinois

**AS OF
March 29, 2005**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: June 2, 2005

VETERANS LIFE INSURANCE COMPANY

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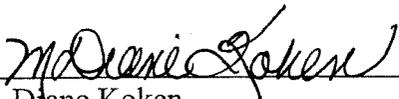
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

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



M. Diane Koken
Insurance Commissioner



BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
VETERANS LIFE INSURANCE	:	Sections 605 and 903(a) of the
COMPANY	:	Insurance Department Act, Act of
20 Moores Road	:	May 17, 1921, P.L. 789, No. 285
Frazer, PA 19355-1114	:	(40 P.S. §§ 235 and 323.3)
	:	
	:	Section 412 of the Insurance Company
	:	Law, Act of May 17, 1921, P.L. 682,
	:	No. 284 (40 P.S. § 512)
	:	
	:	Title 31, Pennsylvania Code, Sections
	:	37.61, 51.29, 51.5, 83.4c, 146.3, 146.5
	:	and 146.6
	:	
	:	Title 18, Pennsylvania Consolidated
	:	Statutes, Section 4117(k)
	:	
Respondent.	:	Docket No. MC05-04-029

CONSENT ORDER

AND NOW, this *2ND* day of *JUNE*, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

3. Without admitting the allegations of fact and conclusions of law contained herein, Respondent specifically denies that it violated any law or regulation of the Commonwealth.

FINDINGS OF FACT

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

- (a) Respondent is Veterans Life Insurance Company, and maintains its address at 20 Moores Road, Frazer, Pennsylvania 19355-1114.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from January 1, 2003 through December 31, 2003.

- (c) On March 29, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on April 28, 2005.
- (e) After consideration of the April 28, 2005 response, the Insurance Department has modified the Examination Report as attached.
- (f) The Examination Report notes violations of the following:
 - (i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;
 - (ii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iii) Section 412 of the Insurance Company Law, No. 284 (40 P.S. § 512), which prohibits a policy of life insurance to be delivered in this Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners and employees, without the signing of a personal application as hereinbefore required;
- (iv) Title 31, Pennsylvania Code, Section 37.61 requires termination activity by an entity shall be reported to the Department on a monthly basis, in a format approved by the Department and filed within 30 days of the end of the month being reported;
- (v) Title 31, Pennsylvania Code, Section 51.29 prohibits an advertisement from directly or by implication falsely representing that a contract or combination of contracts is an introductory, initial or special offer, or that applicants will receive substantial advantages not available at a later date or that the offer is available only to a specified group of individuals;
- (vi) Title 31, Pennsylvania Code, Section 51.5 requires each company which is required to file an Annual Statement, also file 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;

- (vii) Title 31, Pennsylvania Code, Section 83.4c, which requires the appropriate officer of each direct response or mail-order insurer shall certify, in conjunction with the annual statement of the insurer, that all written disclosure statements have been provided in accordance with this subchapter. Failure to certify shall constitute *prima facie* evidence that written disclosure statements have not been provided to prospective purchasers of life insurance;

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

- (ix) 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;

- (x) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and
- (xi) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: “Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

CONCLUSIONS OF LAW

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

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

(b) Respondent's violations of Section 605 of the Insurance Department Act (40 P.S. § 235) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

(i) suspension, revocation or refusal to issue the certificate of qualification or license;

(ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act.

(iii) issue an order to cease and desist.

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

(c) Respondent's violations of Section 412 of the Insurance Company Law, No. 284 (40 P.S. §512) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

(d) Respondent's violations of Title 31, Pennsylvania Code, Section 83.4c are punishable under Title 31, Pennsylvania Code, Section 83.6:

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

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 51.29, 51.5, 146.3, 146.5 and 146.6 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

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

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

(f) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Fifteen Thousand Dollars (\$15,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert, Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

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

8. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate

action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

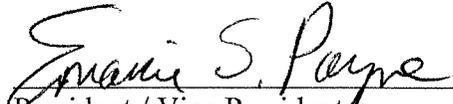
10. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

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

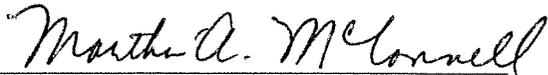
12. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this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

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

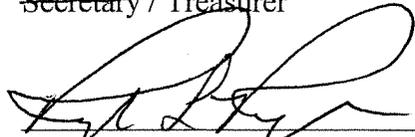
BY: VETERANS LIFE INSURANCE
COMPANY, Respondent



President / Vice President



Secretary / Treasurer



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

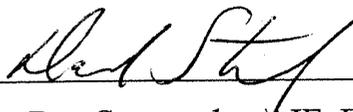
The Market Conduct Examination was conducted on Veterans Life Insurance Company; hereafter referred to as "Company," at the Company's offices located in, Frazer, Pennsylvania, February 17, 2004, through April 30, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

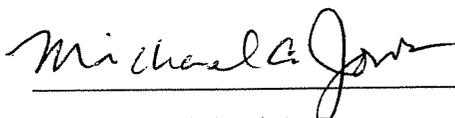
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials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

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

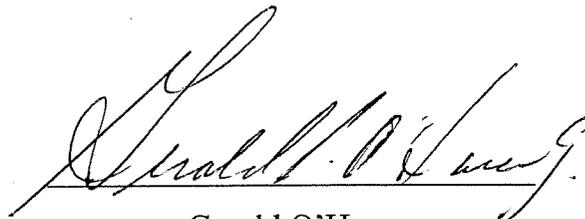
The undersigned participated in this Examination and in the preparation of this Report.



Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief



Michael A. Jones
Market Conduct Examiner



Gerald O'Hara
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).

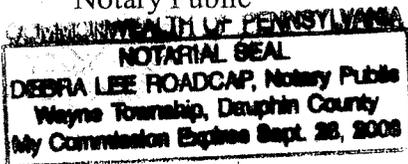
Michael A. [Signature]
[Examiner in Charge]

Sworn to and Subscribed Before me

This *4th* Day of *February*, 2005

Debra Lee Roadcap

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, 2003, through December 31, 2003, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Agent/Broker Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

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

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

III. COMPANY HISTORY AND LICENSING

Veterans Life Insurance Company was originally licensed to transact business on January 22, 1965, as the Rock River Life Insurance Company. The Company changed its name to John Deere Life Insurance Company as of September 18, 1973. John Deere Life was acquired by National Home Life Assurance Company on May 2, 1977, and became a member of the holding company system. The Company's name was changed to National Independence Life Insurance Company on September 1, 1977. The Company's present title of Veterans Life Insurance Company was adopted on January 1, 1981.

Veterans Life Insurance Company is a wholly-owned primary insurance subsidiary of Aegon USA. Aegon USA was formed in 1989 when it decided to consolidate the US holding companies under one financial services holding company. On June 10, 1997, the insurance operations of Provident Corporation, the Company's indirect parent were purchased by Aegon, an international insurance organization headquartered in The Hague, Netherlands.

The Company offers a variety of insurance coverage including: Traditional Whole Life, Term Life and also Accidental Insurances. The Company offers Traditional Group as well as Individual coverage. These products are offered through the use of Direct Response and Traditional Marketing strategies.

As of their 2002 annual statement for Pennsylvania, the Company reported direct premium for ordinary and group life insurance in the amount of \$7,183,305.00 and direct premium for accident and health insurance in the amount of \$711,158.

IV. ADVERTISING

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

The Company provided 89 direct mail sales and marketing pieces utilized in the Commonwealth during the experience period. The advertising materials and the Company’s following web sites: www.veteranslife.com, www.aegon.com and www.aegonins.com were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89.

The following violations were noted.

1 Violation – Title 31, Pennsylvania Code, Section 51.5

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. The required Certificate of Compliance was not filed with the Company’s Annual Statement.

4 Violations - Title 31, Pennsylvania Code, Section 51.29

(a) An advertisement shall not directly or by implication falsely represent that a contract or combination of contracts is an introductory, initial or special offer or that applicants will receive substantial advantages not available at a later date or that the offer is available only to a specified group of individuals. The following 4 direct response enrollment brochures contained an insert (Form # HFL382) that directly represented the offer as a “Special Offer”.

FORM	FM# and INSERT ()	COVERAGE	SERIES	COMMENTS
Enrollment	VLGA-AD-700 (5)	Accidental Death		Special Offer
Enrollment	VLGA-AD-700 (4) with attachment	Accidental Death	VLC-3160-600/R-CCAD-600	Free Gift Offer ALSO Spouse 35% decrease
Enrollment	VLGA-AD-700 (4)	Accidental Death	VLC-3160-600/R-CCAD-600	Gift Offer ALSO Spouse 35% decrease; T.U.
Enrollment	VLGA-AD-700 (4)	Accidental Death	VLC-3160-600/R-CCAD-600	Gift Offer + Spouse 35% decrease; T.U.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). The following violations were noted:

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

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

“Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” The following 12 application/enrollment forms identified in the advertising or the underwriting sections of the exam, did not contain the required fraud statement.

FORM	FM# and INSERT ()	COVERAGE	SERIES
Application	VLGA-OQ-500 (2)	Whole Life	VLC-WL-500
Application	VLGA-OQ-500 (3)	Coverage Increase	VLC-WL-500
Application	VLGA-OQ-500 (2)	Pre-Birthday Offer	VLC-WL-500
Application	VLGA OQ 500 (2)	Whole Life	VLC-SUWL-0102
Application	VLGA OQ 500 (3)	Whole Life	VLC-SUWL-0102
Application	VLGA-OQ-500 (1) Attachment	Whole Life Perm	VLC-SUWL-0102
Enrollment	VLGA AD 700 (0)	Pre-Approval	VLC-3020-1197
Enrollment	VLGA-AD-700 With attachment	Accidental Death	VLC-3020-1197
Activation Form	VLGA-AD-700 With attachment	Benefit Increase	VLC-3020-1197
Enrollment	VLGA-AD-700 (1) With attachment	Accidental Death	VLC-3020-1197
Enrollment	VLGA-AD-700 (1)	Accidental Death	VLC-3020-1197
Enrollment	VLGA-AD-700 (5)	Accidental Death	

VI. AGENT/PRODUCER LICENSING

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

Effective June 4, 2003, Insurance Department Act, No. 147, Licensing of Insurance Producers, replaced Section 601 through Section 663 of the Insurance Department Act and any sections of Title 31, Pennsylvania Code, Chapter 37 which were inconsistent with the new statute. No violations were noted.

The Company provided a list of 70 active agents and 44 producers terminated during the experience period. All 114 producers were compared to Departmental records of producers to verify appointments, terminations and licensing. In addition, agents identified as producers on applications were reviewed for proper licensure and appointment. The following violations were noted:

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

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

The Company failed to certify and submit appointment fees to the Insurance Department for the following agents, or agencies. The following agent listed by code number and name was identified as the producer on 14 applications. Department records did not indicate an active appointment.

Agent Code	Agent Name
NJ006	Florence Jones

2 Violations – Title 31, Pennsylvania Code, Section 37.61 Appointments and Terminations by entity:

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

The following 2 producers were shown as terminated by the Company but not reported as terminated to the Department.

Last Name	First Name
Clinton	Violet
Dyer	Gertrude

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 2000, 2001, 2002, and 2003. The Company identified 23 written consumer complaints received during the experience period. Of the 23 consumer complaints identified, 18 were forwarded from the department and 5 were received directly from the insured. All 23 complaint files were requested, received and reviewed.

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 sixteen general segments.

- A. Underwriting Guidelines
- B. Group Life Certificates Issued
- C. Group Phone Enrollments
- D. Group Whole Life Coverage Declined
- E. Group Life Certificates Declined
- F. Group Term Life Certificates Declined
- G. Group Life Certificates Not-Taken
- H. Individual Life Policies Terminated
- I. Group Level Premium Term Life Policies Declined
- J. Group Life Certificates (Living Benefit Option Rider) Declined
- K. Group Accident and Health Certificates Issued
- L. Group Accidental Death & Dismemberment Certificates Declined
- M. Group Accident and Health Certificates Not-Taken
- N. Individual Health Policies Terminated
- O. Waiver of Premium Coverage Declined
- P. Life Conversion Policies Issued

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

A. Underwriting Guidelines

The Company was requested to provide copies of all underwriting guidelines utilized during the experience period. The Company provided the following underwriting documents for review: Phase 4 Future-First Implementation Overview”, Underwriting Guidelines for simplified and fully underwritten products. The underwriting guidelines were reviewed to ensure the guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place which could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

B. Group Life Certificates Issued

The Company was requested to provide a list of all life certificate holders enrolled during the experience period. The Company provided a list of 4,441 direct response life certificates issued. A random sample of 100 life certificates was requested, received and reviewed. The files were reviewed to ensure compliance with issuance laws and regulations and Pennsylvania Consolidated Statutes, Section 4117(k). The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 83.4c

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

not been provided to prospective purchasers of life insurance. The required Certification was not found in conjunction with the Company's Annual Statement.

C. Group Phone Enrollments

The Company was requested to provide a list of all phone enrollments during the experience period. The Company provided a list of 2,723 phone enrollments. A random sample of 25 phone enrollments (Part 1) was requested, received and reviewed. Of the 25 received, 2 were identified as customer denied enrollments. The remaining 23 enrollments were reviewed to ensure compliance with issuance laws and regulations and Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Notice. A second list (Part 2) was provided that was not previously identified and was found to be files that were canceled and reissued during the system conversion to Future First. A sample of 25 of the second list of files was requested, received and reviewed to ensure compliance with the Pennsylvania Consolidated Statutes, Section 4117(k), Fraud Notice. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 83.4c

The appropriate officer of each direct response or mail-order insurer shall certify, in conjunction with the annual statement of the insurer, that all written disclosure statements have been provided in accordance with this subchapter. Failure to so certify shall constitute prima facie evidence that written disclosure statements have not been provided to prospective purchasers of life insurance. The required Certification was not found in conjunction with the Company's Annual Statement.

D. Group Whole Life Coverage Declined

The Company was requested to identify all group whole life coverage declined during the experience period. The Company identified a universe of 146 direct response whole life coverage declined during the period. A random sample of 25 files was requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practices and the proper return of any unearned premiums. No violations were noted.

The following is a brief synopsis for the 25 enrollment files declined.

Number	Reasons For Declination	Percent
24	Medical Underwriting	96
1	Reported DUI Conviction	4
25	Total	100%

E. Group Life Certificates Declined

The Company was requested to identify all group life certificates declined during the experience period. The Company identified a universe of 650 direct response life certificates declined. A random sample of 100 files was requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practices and the proper return of any unearned premiums. No violations were noted.

F. Group Term Life Certificates Declined

The Company was requested to provide a listing of all Pennsylvania residents who were declined enrollment for group term life coverage during the experience period. The Company identified a universe of 253 direct response term life applicants declined coverage during the exam period. A random sample of 50 files was requested, received and reviewed. Of the 50 group term life applicants declined, 2 applicants were declined coverage for not providing additional information requested by the Company and 48 applicants were declined coverage due to medical underwriting. The files were reviewed to ensure that no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature or specifically prohibited by statute or regulation. No violations were noted.

G. Group Life Certificates Not-Taken

The Company was requested to identify all group life certificates not-taken during the experience period. The Company identified a universe of 2,203 Group Life Certificates not-taken. A random sample of 100 files was selected, received and reviewed. The files were reviewed to ensure compliance with the free look provisions of the contract. No violations were noted.

H. Individual Life Policies Terminated

The Company identified a universe of 10 individual life policies terminated during the experience period. The 10 life policy files were 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. The following table shows a brief synopsis for the 10 life policies terminated. No violations were noted.

Number	Reason For Termination	Percent
7	Policy Terminated Due to Death of Policyholder	70
2	At The Insured Request	20
1	Policyholder Reached Maximum Policy Contract Age	10
10	Total	100%

I. Group Level Premium Term Life Certificates Declined

The Company was requested to identify all group term life certificates declined during the experience period. The Company identified a universe of 42 direct response level premium term life certificates declined. A random sample of the 20 files was requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practices and also the proper return of any unearned premiums. No violations were noted.

The following is a brief synopsis of the 20 declined policies.

Number	Reasons For Declination	Percent
18	Medical Underwriting	90
1	DUI conviction	5
1	Additional information was needed	5
20	Total	100%

J. Group Life Certificates (Living Benefit Option Rider) Declined

The Company identified 138 direct response group life (Living Benefit Option Rider) certificates declined during the experience period. A random sample of 15 files was selected, received, and reviewed. The files were reviewed to ensure that no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature or specifically prohibited by statute or regulation. No violations were noted.

The following table shows a brief synopsis for the 15 (Life Benefit Option Riders) denied.

Number	Reason For Declination	Percent
10	Underwriting Rules	67
3	At The Insured Request	20
2	Previous Company Declination	13
15	Total	100%

K. Group Accident and Health Certificates Issued

The Company was requested to identify all Group Accident and Health Certificates issued during the experience period. The Company identified a universe of 3,890 Group Accident and Health Certificates Issued. A random sample of 100 files was selected. The files were received and reviewed to ensure compliance with issuance laws and regulations. No violations were noted.

L. Group Accidental Death & Dismemberment Certificates Declined

The Company identified 27 applications for accidental death and dismemberment declined coverage during the experience period. A random sample of 10 files was selected, received, and reviewed. Of the 10 files reviewed, 8 files were direct mail enrollments and 2 files were telephone-solicited enrollments. The files were reviewed to ensure that no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature or specifically prohibited by statute or regulation. No violations were noted.

M. Group Accident & Health Certificates Not-Taken

The Company was requested to identify all group direct response accident and health certificates not-taken during the experience period. The Company identified a total of 205 certificates not-taken. A random sampling of 50 certificates was requested, received and reviewed. A not-taken certificate is a contract that was issued by the Company, but the insured decides to decline the contract. The files were reviewed to ensure compliance with contract provisions, proper return of any unearned premium, and to ensure compliance with the free-look provisions of the contract. No violations were noted.

N. Individual Health Policies Terminated

The Company identified a universe of 151 individual health policies terminated during the experience period. A random sample of 25 terminated individual health

policy files was requested, received, and reviewed. No violations were noted. The following is a brief synopsis of the 25 terminated health policies.

Number	Termination Reason	Percent
16	Non-Payment of Premium	64
6	At the Request of the Insured	24
3	Death of the Insured	12
25	Total	100%

O. Waiver of Premium Coverage Declined

The Company was requested to identify all certificates declined coverage during the experience period. The Company identified one file declined waiver of premium coverage (Best Doctors Program) during the experience period. The file was requested, received and reviewed. The file was reviewed to ensure that no underwriting practices or procedures were in place which could possibly be considered discriminatory in nature or specifically prohibited by statute or regulation. No violations were noted.

P. Life Conversion Policies Issued

The Company identified a universe of 133 life conversion policies issued during the experience period. A random sample of 50 life conversion files was requested, received and reviewed. The files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted:

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

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The 2 files noted were missing the application.

20 Violations - Insurance Company Law, Section 412 (40 P.S. §512)

No policy of life insurance shall be delivered in the Commonwealth except upon the application of the person insured. A person liable for the support of a child may take out a policy of insurance on such child; and persons, copartnerships, associations, and corporations may insure the lives and health of officers, directors, principals, partners, and employees, without the signing of a personal application as hereinbefore required. Of the 20 files noted, 17 applications were missing the applicant's signature and 3 files were missing the application.

IX. INTERNAL AUDITS AND COMPLIANCE PROCEDURES

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

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

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The claim procedures were reviewed for any inconsistencies which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of 8 areas:

- A. Life Claims
- B. Accidental Death & Dismemberment Claims
- C. Surgical Health Claims
- D. Hospital In-Patient Plan Claims
- E. Hospital Services Indemnity Claims
- F. Hospital Accident Claims
- G. Intensive Care Unit Claims
- H. Cancer Indemnity Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Life Claims

The Company was requested to provide a list of all life claims received during the experience period. The Company identified a universe of 869 life claims paid, 33 life claims denied and 22 life claims pending. A random sample of 100 paid claim files, and all denied and all pending claim files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

5 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The 5 files noted were missing the date of receipt.

7 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 7 claims noted within 10 working days.

29 Violations - Title 31, Pennsylvania Code, Section 146.6

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

within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 29 claims noted.

B. Accidental Death and Dismemberment Claims

The Company was requested to identify all accidental death and dismemberment claims (ADD) received during the experience period. The Company identified a universe of 14 accidental death and dismemberment claims. All 14 claim files were requested, received and 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. The Company failed to provide timely status letters for the 4 claims noted.

C. Surgical Health Claims

The company was requested to provide a list of all surgical health claims received during the experience period. The Company provided a universe of 41 surgical claims paid and 4 claims denied. All 45 claims were requested, received and reviewed. The files were reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims, and Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

D. Hospital In-Patient Plan Claims

The Company identified 41 hospital in-patient plan (HIP) claims received during the experience period. All 41 hospital in-patient plan claim files were requested, received and reviewed. The files were reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims, and Title 31, Pennsylvania Code, Chapter 146. The following violations were noted.

1 Violation – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The claim file noted was missing the date of notification.

8 Violations - Title 31, Pennsylvania Code, Section 146.6

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

within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 8 claim files noted.

E. Hospital Services Indemnity Claims

The company was requested to provide a list of all hospital services indemnity claims (HSRVS) received during the experience period. The Company provided a list of 18 hospital indemnity claims paid and 34 hospital indemnity claims denied. Of the 18 paid claims and 34 denied claims identified, all were received and reviewed. The files were reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims and Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

F. Hospital Accident Claims

The Company was requested to provide a list of all hospital accident claims (HAP) received during the experience period. A total of 14 hospital claims were reported. All 14 claim files were requested, received and reviewed. The claims were reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims, and Title 31, Pennsylvania Code, Chapter 146. 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. The 2 files noted failed to provide timely status letters.

G. Intensive Care Unit Claims

The Company was requested to identify all intensive care unit claims (ICU) received during the experience period. The Company identified a universe of 58 intensive care unit claims received during the period. All 58 claims were requested, received, and reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims, and Title 31, Pennsylvania Code, Chapter 146. The following violations were noted.

7 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The 7 files noted did not include timely status letters.

H. Cancer Indemnity Claims

The Company was requested to provide a list of all cancer indemnity claims (DRDIS) denied during the experience period. The Company provided a list of 4 cancer indemnity claims denied. All 4 claims were requested, received and reviewed. The files were reviewed to determine compliance to Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims, and Title 31, Pennsylvania Code, Chapter 146. All 4 claims were denied for a non-cancer diagnosis. 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 implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
3. The Company must review and revise Licensing procedures to ensure compliance with Section 605 of the Insurance Department Act of 1921 (40 P.S. §235) and Title 31, Pennsylvania Code, Section 37.61(b)(4) Appointment and Termination by Entity.
4. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
5. The Company must implement procedures to ensure compliance with advertising requirements of Title 31, Pennsylvania Code, Chapter 51.
6. The Company must review and revise internal control procedures to ensure compliance with certification of disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
7. The Company must review internal control procedures to ensure compliance with application requirements of Section 412 of the Insurance Company Law of 1921 (40 P.S. §512).

XII. COMPANY RESPONSE



Veterans Life

INSURANCE COMPANY

Valley Forge, Pennsylvania 19493

A private enterprise not affiliated with any governmental agency

VIA OVERNIGHT MAIL

April 27, 2005

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

RE: Examination Warrant Number: 03-M11-034

Dear Dan:

Enclosed is our response to the Report of Examination of Veterans Life Insurance Company covering the period January 1, 2003 through December 31, 2003.

If you have questions or wish to discuss our response further, please do not hesitate to contact me.

Sincerely,

Emarie Payne
Deputy General Counsel
410-209-5490

Enclosures

Honoring your past. Securing your future.

VLP010

VETERANS LIFE INSURANCE COMPANY

20 MOORES ROAD

FRAZER, PA 19355

NAIC # 81027

EXAMINATION WARRANT NUMBER

03-M11-034

**COMPANY RESPONSE TO REPORT OF EXAMINATION OF
VETERANS LIFE INSURANCE COMPANY**

Examination Experience Period: January 1, 2003 through December 31, 2003

I. INTRODUCTION

On page 3 of the exam, the last paragraph, the Report of Examination of Veterans Life Insurance Company (hereinafter "Report"), the Company respectfully requests that the following modified language be inserted replacing the current language:

"Following completion of the examination, Company officials received the Department's Initial Summary report referencing specific policy numbers with citations to each section of the law alleged to have been violated. The Company was given the opportunity to respond to these alleged violations."

Company officials were not provided with status reports throughout the course of the examination.

IV. ADVERTISING

The Company has acknowledged that it failed to file the required Certificate of Compliance. This obligation was fulfilled by letter dated May 18, 2004 by mailing a Certificate of Compliance to the Commonwealth of Pennsylvania. The Company respectfully requests that the Report be amended to reflect that the Company has implemented internal controls to ensure compliance with certification of disclosure requirements.

On page 9, the Department references an insert with Form # HCL382. The Company would like to note that the form # in question is HFL382. Further, the Company respectfully requests that the Report be amended to reflect that the Company has implemented procedures to ensure compliance with the advertising requirements. The insert in question has been revised.

V. FORMS

The Company respectfully requests that the Report be amended to reflect that the Company has implemented procedures to ensure compliance with the fraud statement notice requirement.

VI. AGENT/PRODUCER LICENSING

The Company respectfully requests that the Report be amended to reflect that the Company has reinforced its procedures to ensure compliance with Appointments and Terminations by Entity.

VIII. UNDERWRITING

B. Group Life Certificates Issued

As noted under **IV. Advertising** above, the Company fulfilled its obligation by letter dated May 18, 2004 by mailing a Certificate of Compliance to the Commonwealth of Pennsylvania. The Company has implemented internal controls to ensure compliance with certification of disclosure requirements.

C. Group Phone Enrollments

Page 17 notes the identical violation as noted in B. Group Life Certificates Issued (page 16) and similar to IV. Advertising (page 8). The Company fulfilled its obligation by letter dated May 18, 2004 by mailing a Certificate of Compliance to the Commonwealth of Pennsylvania. The Company has implemented internal controls to ensure compliance with certification of disclosure requirements.

M. Group Accident and Health Certificates Not Taken

The Company respectfully requests that the following be added to page 25 of the captioned section of the Department's report:

"No violations were noted."

P. Life Conversion Policies Issued

The Company respectfully requests that the Report be amended to reflect that in compliance with the Department's findings, the Company has implemented procedures requiring completion of a conversion application in the state of Pennsylvania.

X. CLAIMS

In accordance with the Department's findings under sections A. Life Claims, B. Accidental Death and Dismemberment Claims, D. Hospital In-Patient Plan Claims, F. Hospital Accident Claims, and G. Intensive Care Unit Claims, the Company has implemented procedures to ensure compliance with Unfair Claims Settlement Practices.