

**REPORT OF  
MARKET CONDUCT EXAMINATION  
OF  
SHENANDOAH LIFE INSURANCE COMPANY  
Roanoke, Virginia**

**AS OF  
July 6, 2006**

**COMMONWEALTH OF PENNSYLVANIA**



**INSURANCE DEPARTMENT  
MARKET CONDUCT DIVISION**

**Issued: August 14, 2006**

# SHENANDOAH LIFE INSURANCE COMPANY

## TABLE OF CONTENTS

<b>Order</b>	
<b>I.</b>	<b>Introduction 3</b>
<b>II.</b>	<b>Scope of Examination 6</b>
<b>III.</b>	<b>Company History and Licensing 7</b>
<b>IV.</b>	<b>Advertising 8</b>
<b>V.</b>	<b>Forms 9</b>
<b>VI.</b>	<b>Producer Licensing 10</b>
<b>VII.</b>	<b>Consumer Complaints 12</b>
<b>VIII.</b>	<b>Underwriting 13</b>
	<b>A. Underwriting Guidelines 14</b>
	<b>B. Group Policies Issued 14</b>
	<b>C. Group Certificates Issued 15</b>
	<b>D. Group Policies Terminated 15</b>
	<b>E. Group Conversions 15</b>
	<b>F. Individual Annuity Contracts Issued 16</b>
	<b>G. Individual Term Life Policies Issued 16</b>
	<b>H. Individual Universal Life Policies Issued 18</b>
	<b>I. Individual Whole Life Policies Issued 19</b>
	<b>J. Individual Term, Universal Life and Whole Life Policies Declined 20</b>
	<b>K. Individual Annuity, Term, Universal and Whole Life Policies Not-Taken 21</b>
	<b>L. Individual Annuity Contracts Issued As Replacements 21</b>
	<b>M. Individual Term Life Policies Issued As Replacements 22</b>
	<b>N. Individual Whole Life Policies Issued As Replacements 24</b>
	<b>O. Individual Term Life Conversions 25</b>
	<b>P. Individual Policies Terminated 25</b>
<b>IX.</b>	<b>Internal Audit and Compliance Procedures 26</b>

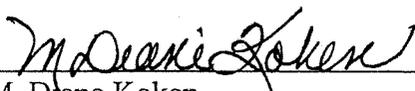
<b>X.</b>	<b>Claims</b>	<b>27</b>
	<b>A. Group Dental Claims</b>	<b>28</b>
	<b>B. Group Disability Claims</b>	<b>28</b>
	<b>C. Group Life Claims</b>	<b>29</b>
	<b>D. Group Denied Claims</b>	<b>29</b>
	<b>E. Individual Life Claims</b>	<b>30</b>
	<b>F. Individual Disability Claims</b>	<b>31</b>
<b>XI.</b>	<b>Recommendations</b>	<b>32</b>
<b>XII.</b>	<b>Company Response</b>	<b>33</b>

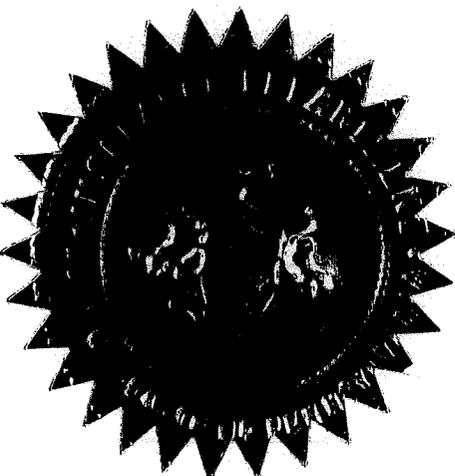
BEFORE THE INSURANCE COMMISSIONER  
OF THE  
COMMONWEALTH OF PENNSYLVANIA

IN RE: The Act of April 9, 1929, P.L. 177, No. 175, known as The  
Administrative Code of 1929

AND NOW, this 29 day of April, 2002, Randolph L.

Rohrbaugh, Deputy Insurance Commissioner, is hereby designated as the  
Commissioner's duly authorized representative for purposes of entering in and executing  
Consent Orders. This delegation 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:  
: :  
SHENANDOAH LIFE : Section 671-A of the Insurance  
INSURANCE COMPANY : Department Act, as amended by  
2301 Brambleton Avenue, S.W. : Act 147 of 2002 (40 P.S. § 310.71)  
Roanoke, VA 24015 : :  
: Sections 354, 406-A, 408-A(e)(1)(ii),  
: and 410-D(a)(2) of the Insurance  
: Company Law, Act of May  
: 17, 1921, P.L. 682, No. 284 (40 P.S.  
: §§ 477b, 625-6, 625-8 and 510)  
: :  
: Title 31, Pennsylvania Code, Sections  
: 51.5, 81.5(b), 81.6(a)(1),  
: 81.6(a)(2)(ii), 81.6(c), 83.3,  
: 83.3(a)(1)(2)(3)(4)(5)(6)(7), 83.4a,  
: 83.4b, 146.3, 146.5, 146.6 and 146.7  
: :  
Respondent. : Docket No. MC06-08-006

CONSENT ORDER

AND NOW, this *14<sup>th</sup>* day of *AUGUST*, 2006, this Order is hereby  
issued by the Deputy Insurance Commissioner of the Commonwealth of  
Pennsylvania pursuant to the statutes cited above and in disposition of the matter  
captioned above.

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

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

#### FINDINGS OF FACT

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

- (a) Respondent is Shenandoah Life Insurance Company, and maintains its address at 2301 Brambleton Avenue, South West, Roanoke, Virginia 24015.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2004, to June 30, 2005.
- (c) On July 6, 2006, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on July 31, 2006.
- (e) The Examination Report notes violations of the following:
- (i) Section 671-A of the Insurance Department Act, No. 285 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;
  - (ii) Section 354 of the Insurance Company Law (40 P.S. § 477b), which prohibits issuing, selling, or disposing of any policy, contract or certificate until the forms have been submitted to, and formally approved by, the Insurance Commissioner;
  - (iii) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. §625-6), which prohibits any alteration of any written application for a life insurance policy or annuity to be made by any person other than the applicant without the applicant's written consent;
  - (iv) 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;

- (v) Section 410-D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510c), which requires individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth 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 45 days of its delivery;
  
- (vi) Title 31, Pennsylvania Code, Section 51.5, which states 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, 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 81.5(b), which states that the insurer shall require as part of a completed application for life insurance or annuity, a statement signed by the applicant as to whether the proposed insurance or annuity will replace an existing life insurance or annuity;

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

(ix) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which requires 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 or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within five 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;

- (x) Title 31, Pennsylvania Code, Section 81.6(c), which requires the replacing insurer to maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities;
- (xi) 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;
- (xii) Title 31, Pennsylvania Code, Section 83.3(a)(1)(2)(3)(4)(5)(6)(7), which requires a disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered;
- (xiii) Title 31, Pennsylvania Code, Section 83.4a, which states the agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant;

- (xiv) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;
  
- (xv) Title 31, Pennsylvania Code, Section 146.3, which states the claim files of the insurer shall be subject to examination by the Commissioner or by appointed designees. The files shall contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed;
  
- (xvi) 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;
  
- (xvii) 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

- (xviii) Title 31, Pennsylvania Code, Section 146.7, which requires within 15 working days after receipt by the insurer of properly executed proof of loss, the first party claimant shall be advised of the acceptance or denial of the claim by the insurer.

#### CONCLUSIONS OF LAW

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

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Section 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):
- (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) an order to cease and desist; and
- (iv) any other conditions as the Commissioner deems appropriate.

(c) Respondent's violation of Section 354 of The Insurance Company Law is punishable by the following, under Section 354 of The Insurance Company Law (40 P.S. § 477b):

- (i) suspension or revocation of the license(s) of Respondent;
- (ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;
- (iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.

(d) Respondent's violations of Sections 406-A, 408-A and 410-D of the Insurance Company Law, No. 284 (40 P.S. §§625-6, 625-8 and 510) 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.

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 81.5 and 81.6 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, Sections 83.3 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 146.3, 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

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

- (h) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:
- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
  - (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

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

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
  
- (c) Respondent shall comply with all recommendations contained in the attached Report.
  
- (d) Respondent shall pay Ten Thousand Dollars (\$10,000.00) 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.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in

any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

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

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

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

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

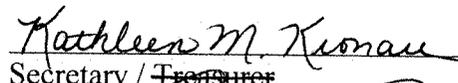
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy

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

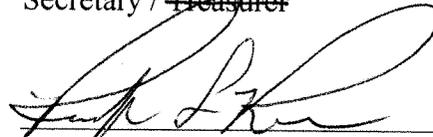
BY: SHENANDOAH LIFE INSURANCE  
COMPANY, Respondent



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



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



\_\_\_\_\_  
RANDOLPH L. ROHRBAUGH  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania

## I. INTRODUCTION

The Market Conduct Examination was conducted on Shenandoah Life Insurance Company, hereafter referred to as "Company," at the Company's office located in Roanoke, Virginia, November 14, 2005, through January 27, 2006. 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.

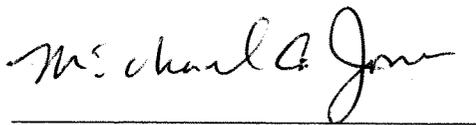
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials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

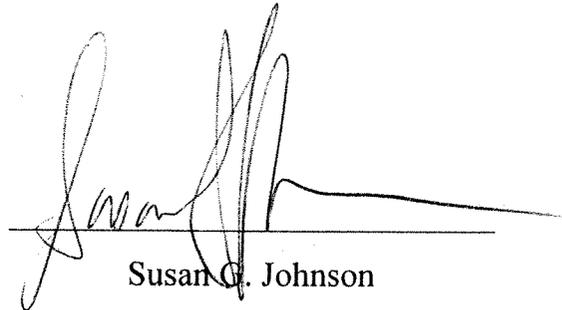
The undersigned participated in the Examination and in the preparation of this Report.



Daniel Stemcosky, AIE, FLMI  
Market Conduct Division Chief



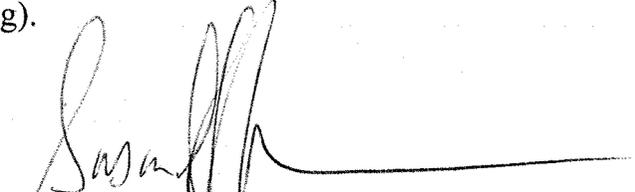
Michael A. Jones  
Market Conduct Examiner



Susan G. Johnson  
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).

  
\_\_\_\_\_  
Susan G. Johnson

Sworn to and Subscribed Before me

This 3<sup>rd</sup> Day of July, 2006

Debra Lee Roadcap

Notary Public  
COMMONWEALTH OF PENNSYLVANIA  
NOTARIAL SEAL  
DEBRA LEE ROADCAP, Notary Public  
Wayne Township, Dauphin County  
My Commission Expires Sept. 28, 2008

## 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, 2004, through June 30, 2005, 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, 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**

Shenandoah Life was incorporated as a stock life company on December 23, 1914, and began business on February 1, 1916. Shenandoah Life became a mutual company on November 29, 1955, by acquiring all shares of the outstanding stock. Pursuant to its charter, Shenandoah Life is managed by a board of directors elected by qualified policyholders at the annual meeting.

In 1982, Shenandoah Life formed Old Dominion Life Insurance Company, a wholly-owned stock life insurance subsidiary, for the purpose of marketing universal life products. Old Dominion Life has remained inactive.

In 1988, Shenandoah Life formed Shenandoah Investment Sales, Inc., which was established as a broker-dealer for the sale of mutual funds, variable life and variable annuities. Shenandoah Investment Sales is wholly-owned by Shenandoah Life and remains inactive as well.

Shenandoah Life's operations are conducted in 31 states and the District of Columbia. The Company sells individual life and annuity products, and group life, disability and dental products. These products are distributed through independent marketing organizations, marketing partners, brokers, and personal producing general agents.

As of their December, 2004, annual statement for Pennsylvania, Shenandoah Life Insurance Company reported direct premium for ordinary life insurance and annuities in the amount of \$22,757,488; and direct premium for accident and health in the amount of \$958,947.

#### **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 a list of 132 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Guides, Worksheets, Booklets, Brochures, Promotional Sales Incentive Officers, and Ad Slicks. All 132 pieces of advertising was requested, received and reviewed. The advertising materials and the Company’s web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89. The following violation was noted:

##### **1 Violation – Title 31, Pennsylvania Code, Section 51.5**

Each 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 Department.

## 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:

### **2 Violations – Insurance Company Law, Section 354 (40 P.S. §477b)**

It shall be unlawful for any insurance company, association, or exchange, including domestic mutual fire insurance companies, doing business in this Commonwealth, to issue, sell, or dispose of any policy, contract, or certificate, covering life, health, accident, personal liability, fire, marine, title, and all forms of casualty insurance or contracts pertaining to pure endowments or annuities, or any other contracts of insurance, or use applications, riders, or endorsements, in connection therewith, until the forms of the same have been submitted to and formally approved by the Insurance Commissioner. Evidence of Department approval could not be established for the noted forms.

## **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 agents from doing business on behalf 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 (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all agent terminations to the Department.

The Company provided a list of 750 producers. A random sample of 200 producers was compared to departmental records of agents to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam. The following violations were noted:

### **4 Violations – Insurance Department Act, No. 147, Section 671-A (40 P.S. §310.71)**

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the insurance consumer prior to representing or acting on their behalf that:
  - (1) Delineates the services to be provided; and

- (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer’s holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer’s license is suspended, revoked or otherwise terminated.
- (e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.
- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The following 4 agents or agencies were listed as producers on 4 applications reviewed in the underwriting sections of the exam. Department records did not identify these producers as being appointed by the Company at the time of application.

Agent Last Name/Agency	Section
Valella-Marvin, Lori	1
McQuiston, Bruce	1
Walker Chevrolet Inc.	1
Gallina, Ann	5

## VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of their consumer complaint logs for 2001, 2002, 2003, and 2004. The Company identified 9 written consumer complaints and provided complaints logs for 2001, 2002, 2003 and 2004. All 9 consumer 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. The following is a synopsis of the 9 complaints reviewed.

Number - 9	Complaint Reason	Percentage – 100%
5	Refund	56%
1	Misrepresentation	11%
1	Not Taken	11%
1	Signed Delivery Receipt	11%
1	Dividends	11%

No violations were noted.

## VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 16 general segments.

- A. Underwriting Guidelines
- B. Group Policies Issued
- C. Group Certificates Issued
- D. Group Policies Terminated
- E. Group Conversions
- F. Individual Annuity Contracts Issued
- G. Individual Term Life Policies Issued
- H. Individual Universal Life Policies Issued
- I. Individual Whole Life Policies Issued
- J. Individual Term, Universal & Whole Life Policies Declined
- K. Individual Annuity, Term, Universal & Whole Life Policies  
Not-Taken
- L. Individual Annuity Contracts Issued as Replacements
- M. Individual Term Life Policies Issued as Replacements
- N. Individual Whole Life Policies Issued as Replacements
- O. Individual Term Life Conversions
- P. Individual Policies Terminated

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

### **A. Underwriting Guidelines**

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

The following manuals and guides were provided and reviewed:

1. Group Underwriting Manual
2. Individual Life Underwriting Guidelines

### **B. Group Policies Issued**

The Company was requested to provide a list of all group policies issued during the experience period. The company identified a universe of 36 group policies issued. A random sample of 10 policy files was requested, received and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. No violations were noted.

### **C. Group Certificates Issued**

The Company was requested to provide a list of all Pennsylvania residents holding a certificate of coverage issued during the experience period. The Company provided a list of 1,299 group certificate holders. A random sample of 50 certificates issued was requested. Of the 50 certificates requested, two were duplicates. The remaining 48 certificates issued were received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k). No violations were noted.

### **D. Group Policies Terminated**

The Company was requested to provide a list of all group policies terminated during the experience period. The Company identified a universe of 19 group policies terminated. All 19 group policies terminated files were requested, received and reviewed. The 19 policy files were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

### **E. Group Conversions**

The Company was requested to provide a list of all certificate holders converting group insurance during the experience period. The Company identified a universe of 1 certificate holder converting their group life coverage upon termination to an optional group life insurance plan. The file was requested, received and reviewed

to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

#### **F. Individual Annuity Contracts Issued**

The Company identified a universe of 286 individual annuity contracts issued during the experience period. A random sample of 50 annuity contracts was requested, received and reviewed. The contract files were reviewed to determine compliance with issuance, and replacement statutes and regulations. No violations were noted.

#### **G. Individual Term Life Policies Issued**

The Company identified a universe of 123 individual term life policies issued during the experience period. A random sample of 50 term life policies was requested, received and reviewed. During the review, it was determined that 12 of the files contained replacements. Any violations found in these files will be addressed in Section 11B, Individual Term Life Policies Issued as Replacements. The remaining 38 files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted:

#### **4 Violations - Title 31, Pennsylvania Code, Section 81.5(b)**

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered on the application in the 4 files noted.

**1 Violation - Title 31, Pennsylvania Code, Section 81.6(a)(1)**

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

**5 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement**

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. (Appendix A of the Regulation). The required disclosure statement was missing in the 5 files noted.

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

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

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 5 files did not contain a copy of the required agent's certification of disclosure.

## **H. Individual Universal Life Policies Issued**

The Company identified a universe of 95 individual universal life policies issued during the experience period. A random sampling of 35 universal life policy files was 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 83.3 Disclosure Statement**

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The required disclosure statement was missing in the file noted.

### **24 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b**

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

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 24 files did not contain a copy of the required agent's certification of disclosure.

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

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 4 files noted contained revised illustrations but the illustrations were not labeled as being a “Revised Illustration”.

**I. Individual Whole Life Policies Issued**

The Company identified a universe of 396 individual whole life policies issued during the experience period. A random sampling of 50 whole life policy files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

**1 Violation— Insurance Company Law, Section 406-A (40 P.S. §625-6)**

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant’s written consent. The application was altered without the applicant’s consent in the file noted.

**1 Violation - Title 31, Pennsylvania Code, Section 81.6(a)(1)**

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

**4 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 (1) 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 not documented in 3 files and the replacement letter was sent after 5 business days in the remaining file.

**J. Individual Term, Universal and Whole Life Policies Declined**

The Company was requested to provide a list of all policies declined during the experience period. The Company identified 25 individual policies declined. Of the 25 files reported, 4 were term policies, 5 universal life policies and 16 whole

life policies. All 25 files were requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice and the proper return of any unearned premium. No violations were noted.

#### **K. Individual Annuity, Term, Universal and Whole Life Policies Not-Taken**

The Company was requested to provide a list of all policies not-taken during the experience period. The Company identified 28 individual policies not-taken. Of the 28 policies identified, 6 were annuities, 5 were term, 3 were universal life and 14 were whole life policies. All 28 files were requested, received and reviewed. A not-taken policy by definition is a contract that is issued and the insured requests cancellation. The files were reviewed to ensure compliance with the free-look provisions of the contract. No violations were noted.

#### **L. Individual Annuity Contracts Issued as Replacements**

The Company identified a universe of 130 individual annuity contracts issued as replacements during the experience period. A random sample of 25 replacement files was requested, received and reviewed. The annuity files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

## **M. Individual Term Life Policies Issued as Replacements**

The Company identified a universe of 22 individual term life policies issued as replacements during the experience period. All 22 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 3 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 not documented in the 2 files noted.

### **2 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)**

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The application did not have the agent's question completed in the 2 files noted.

**1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)**

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The file noted did not contain a copy of the required notice of replacement.

**2 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement**

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. The required disclosure statement was missing in the 2 files noted.

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

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

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 2 files did not contain a copy of the required agent's certification of disclosure.

**1 Violation – 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 policy issued did not contain the required 45 day "free look" statement in the file noted.

#### **N. Individual Whole Life Policies Issued as Replacements**

The Company identified a universe of 139 whole life policies issued as replacements during the experience period. A random sample of 25 replacement files was requested, received and reviewed. The 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 81.6(c)**

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The file noted did not contain a copy of the required notice of replacement.

##### **1 Violation - Title 31, Pennsylvania Code, Section 83.3(a)(1)(2)(3)(4)(5)(6)(7)**

A disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered. The required disclosure statement was incomplete in the file noted.

### **O. Individual Term Life Conversions**

The Company identified a universe of 1 individual term life conversion policy issued during the experience period. The policy file was requested, received and reviewed to determine compliance to issuance and underwriting statutes and regulations. No violations were noted.

### **P. Individual Policies Terminated**

The Company was requested to provide a list of all policies terminated during the experience period. The Company identified a universe of 327 individual policies terminated. A random sample of 25 files was requested, of which 12 were annuity policies terminated, 4 were term policies terminated, 4 were universal life policies terminated and 5 were whole life policies terminated. The 25 policies were reviewed to ensure compliance with contract provisions, termination laws and regulations, and proper return of any unearned premium. No violations were noted.

## **IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES**

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

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

No violations were noted.

## X. CLAIMS

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

1. Group Life Claims Processor (New Hires)
2. Group Disability Claims Processor (New Hires)
3. Group Claims Processing Procedures
4. Claims Settlement Practices
5. Death Claims Interest Calculation
6. New Claims and Mail Workflow
7. Reviewing the Claim Form

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 6 areas:

- A. Group Dental Claims
- B. Group Disability Claims
- C. Group Life Claims
- D. Group Denied Claims
- E. Individual Life Claims
- F. Individual Disability Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

#### **A. Group Dental Claims**

The Company was requested to provide a list of all claims received during the experience period. The Company identified 6,403 group dental claims. A random sample of 50 claim files was requested, received and reviewed. The insured submitted claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and the provider-submitted claim files were reviewed for compliance with Quality Health Care Accountability and Protection Act, No. 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. No violations were noted.

#### **B. Group Disability Claims**

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 638 group disability claims. A random sample of 50 claim files was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

### **C. Group Life Claims**

The Company was requested to provide a list of all claims received during the experience period. The Company identified 4 group life claims. All 4 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 violation was noted:

#### **1 Violation – Title 31, Pennsylvania Code, Section 146.3**

The claim file of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The file 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. Proof of notification was not evident in the file noted.

### **D. Group Denied Claims**

The Company was requested to provide a list of all claims received during the experience period and were subsequently denied. The Company identified 1 group denied claim. The claim file was requested, received and reviewed. The claim file was reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

## **E. Individual Life Claims**

The Company was requested to provide a list of all claims received during the experience period. The Company identified 84 individual life claims. All 84 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:

### **1 Violation - Title 31, Pennsylvania Code, Section 146.5**

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

### **6 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 6 claim files noted.

## **F. Individual Disability Claims**

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 1 individual disability claims. The claim 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. The Company failed to provide a timely status letter for the claim file noted.

### **1 Violation - Title 31, Pennsylvania Code, Section 146.7**

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

## **XI. RECOMMENDATIONS**

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

1. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
2. The Company must review and revise Licensing procedures to ensure compliance with Section 671-A of the Insurance Department Act of 1921 (40 P.S. §310.71).
3. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
4. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
5. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. §477b).
6. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).
7. 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).
8. 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.
9. The Company must implement procedures to ensure advertising certification requirements of Title 31, Pennsylvania Code, Chapter 51.

## **XII. COMPANY RESPONSE**



Kathleen Mr. Kronau  
Vice President, General Counsel & Secretary

Office: 800-848-5433, Ext. 4226  
Fax: 540-857-5916  
Email: [kathleen.kronau@shenlife.com](mailto:kathleen.kronau@shenlife.com)

July 27, 2006

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

Re: Examination Warrant Number: 05-M25-061

Dear Mr. Stemcosky:

The Report of Examination of Shenandoah Life Insurance Company covering the period July 1, 2004 through June 30, 2005 has been received and reviewed.

As a mutual company, Shenandoah Life is committed to strict compliance with applicable laws and regulations in the conduct of our business. We strive to assure the appropriate processes and procedures are in place, and that our employees are properly trained and follow those processes and procedures. In this way, we ensure that our policyholders are treated equitably, and that the Company is operated in the proper manner.

During the course of the Examination, Shenandoah Life had the opportunity to review and investigate each noted violation and generally agreed with the examiners' findings. Eight of the nine Recommendations in the Report focus on the need to review and revise current internal procedures to ensure compliance with certain laws and regulations, which will be done by management in the applicable work areas. As indicated in our responses during the Examination, most of the violations were the result of employees failing to follow established procedures.

We are continually enhancing our training programs for existing and new employees to assure awareness and importance of following established practices and procedures. Further, since the Examination, management has developed a comprehensive Quality Assurance Program that will include Individual and Group Operations. The objectives are as follows: (1) improve and sustain the quality of work produced; (2) decrease costs and improve customer satisfaction as a result of improved quality; and (3) ingrain a focus on quality into the culture by involving employees at all levels and providing opportunities to continuously improve performance. The Quality Assurance staff will work closely with the various operational managers/supervisors, Internal Audit and external auditors.



Mr. Stemcosky  
Page 2  
July 27, 2006

Finally, a procedure was put in place during the Examination to assure that the advertising certification is filed annually.

We will use this Examination and review process as an opportunity to improve our established procedures and controls as indicated above.

Sincerely yours,

*Kathleen M. Kronau*

Kathleen M. Kronau  
Vice President & General Counsel