



**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

**MARKET CONDUCT
EXAMINATION REPORT**

OF

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

As of: September 11, 2014
Issued: November 4, 2014

**BUREAU OF MARKET ACTIONS
LIFE AND HEALTH DIVISION**

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).



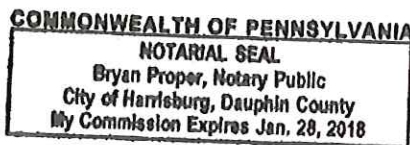
Frank W. Kyazze, CIE, MCM, FLMI, ALHC
Examiner-In-Charge

Sworn to and Subscribed Before me

This *9th* Day of *September*, 2014



Notary Public



NATIONAL WESTERN LIFE INSURANCE COMPANY
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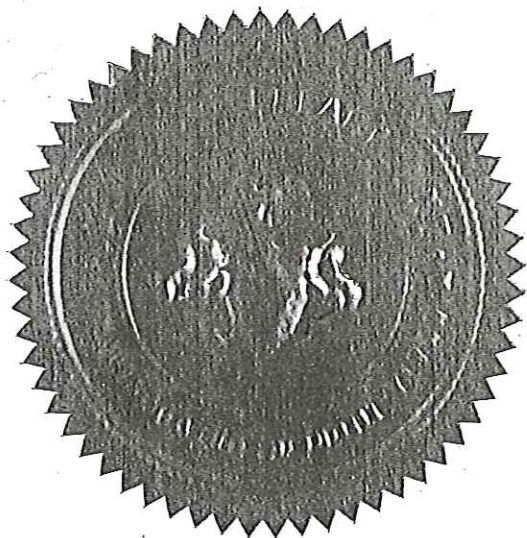
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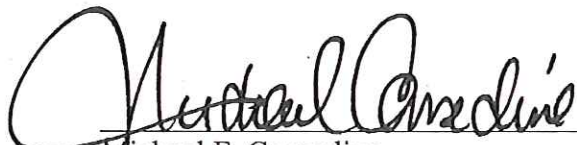
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BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 10 day of March, 2014, 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 Arthur F. McNulty, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.




Michael F. Consedine
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
	:	
NATIONAL WESTERN LIFE	:	40 P.S. §323.4(b)
INSURANCE COMPANY	:	
850 East Anderson Lane	:	40 P.S. §310.71
Austin, Texas 78752	:	
	:	40 P.S. §§477b, 625-4 and 625-6
	:	
	:	40 P.S. §1171.5(a)(10)(ii)(iii) and (v)
	:	
	:	31 Pa. Code §§81.5(b)
	:	81.6(a)(2)(i)(ii), 83.3(a)(4)(5)(6)(7)
	:	83.55, 83.55(a), 83.55(b), 146.5
	:	146.6 and 146.7
	:	
	:	
Respondent.	:	Docket No. MC14-09-008

CONSENT ORDER

AND NOW, this 4 day of November, 2014, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

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

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

FINDINGS OF FACT

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

- (a) Respondent is National Western Life Insurance Company, and maintains its address at 850 East Anderson Lane, Austin, Texas 78752.
- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the experience from January 1, 2011 to December 31, 2011.
- (c) On September 11, 2014, the Insurance Department issued a Market Conduct Examination Report to Respondent.
- (d) A response to the Examination Report was provided by Respondent on October 10, 2014.

- (e) The Examination Report notes violations of the following:
- (i) 40 P.S. §323.4(b), which requires every company or person from whom information is sought, its officers, directors and agents must provide to the examiners appointed under subsection (a) timely, convenient and free access at all reasonable hours at its offices to 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 being examined. The officers, directors, employees and agents of the company or person must facilitate such examination and aid in such examination so far as it is in their power to do so;

 - (ii) 40 P.S. §310.71, which states:
 - (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.

 - (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.

 - (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer. The Company failed to

provide evidence of licensing and or appointment and file a notice of appointment and submit appointment fees to the Insurance Department for the certain producers and agency.

- (iii) 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;

- (iv) 40 P.S. §625-4, which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand-delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

- (v) 40 P.S. §625-6, which prohibits alterations 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;
- (vi) 40 P.S. §1171.5(a)(10)(ii), which prohibits failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies;
- (vii) 40 P.S. §1171.5(a)(10)(iii), which prohibits failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies;
- (viii) 40 P.S. §1171.5(a)(10)(v), which requires an insurer to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed and communicated to the insurer or its representative.
- (ix) 31 Pa. Code §81.5(b), which requires the insurer, as part of a completed application for life insurance or annuity, to complete a statement signed by the applicant regarding whether the proposed insurance or annuity will replace existing life insurance or annuity;

(x) 31 Pa. Code §81.6(a)(2)(i)(ii), which states:

(a) An insurer that uses an agent or broker in a life insurance or annuity sale

shall: (2) If replacement is involved:

(i) Require from the agent or broker with the application for life insurance or annuity a list of all the applicant's existing life insurance or annuity to be replaced, and a copy of the replacement notice provided the applicant under §81.4(b)(1). The existing life insurance or annuity shall be identified by name of insurer, insured and contract number. If a number has not been assigned by the existing insurer, alternative identification, such as an application or receipt number, shall be listed.

(ii) 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 a ledger statement containing comparable policy data on the proposed life insurance. A surrender comparison index need not be included. In the case of an annuity, a ledger statement containing comparable data shall be provided. 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.

(xi) 31 Pa. Code §83.3(a)(4)(5)(6)&(7), which requires a disclosure statement to 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;

(xii) 31 Pa. Code §83.55, which states: (a) The Surrender Comparison Index

Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible; and (b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use;

(xiii) 31 Pa. Code §83.55a, which requires the producer to submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant;

(xiv) 31 Pa. Code §83.55b, which states the insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the files of

the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;

- (xv) 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;
- (xvi) 31 Pa. Code §146.6, which states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;
- (xvii) 31 Pa. Code §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

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

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

- (b) Respondent's violations of 40 P.S. §310.71 are punishable by the following, under (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 violations of 40 P.S. §§477(b), 625-4, 625-6 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 40 P.S. §1171.5(a)(10)(ii)(iii)and(v) are punishable by the following, under Section 9 of the Unfair Insurance Practices Act (40 P.S. §1171.9):
- (i) cease and desist from engaging in the prohibited activity;
 - (ii) suspension or revocation of the license(s) of Respondent.
- (e) In addition to any penalties imposed by the Commissioner for Respondent's violations of 40 P.S. §§1171.1 – 1171.5, the Commissioner may, under (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).
- (f) Respondent's violations of 31 Pa. Code §§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.

- (g) Respondent's violations of 31 Pa. Code Chapter 81 are punishable under 31 Pa. Code §§81.5(b) and 81.6(a)(2)(i) and (ii), which states that 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 40 P.S. §§1171.1 to 1171.15;

ORDER

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

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

- (c) Respondent shall comply with all recommendations contained in the attached Report.
- (d) Respondent shall pay Eighty Thousand (\$80,000.00) Dollars 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 Pennsylvania Insurance Department. Payment should be directed to April Phelps, Bureau of Market Actions, 1311 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than fourteen (14) days after the date of this Order.

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

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

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 Insurance Department. Only the Insurance Commissioner or a duly authorized delegate is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law

contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: NATIONAL WESTERN LIFE
INSURANCE COMPANY, Respondent



President / Vice President



Secretary / Treasurer



COMMONWEALTH OF PENNSYLVANIA

Arthur F. McNulty

Deputy Insurance Commissioner

I. INTRODUCTION

The Market Conduct Examination was conducted on National Western Life Insurance Company; hereafter referred to as "Company," at the Company's office located in Austin, Texas from November 19, 2013, through December 20, 2013. Subsequent review and follow-up was conducted off-site.

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 the 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 process and review the written summaries provided on the violations noted.

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

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

Deborah Lee

Pennsylvania Insurance Department

Market Conduct Division Chief

Daniel Stemcosky, MCM, AIE, FLMI, AIRC

INS Regulatory Insurance Services, Inc.

Market Conduct Examiner–Supervisor

Frank W. Kyazze, CIE, MCM, FLMI, ALHC

INS Regulatory Insurance Services, Inc.

Market Conduct Examiner–In–Charge

August Hall

Pennsylvania Insurance Department

Market Conduct Examiner

Gary L. Boose, LUTC, MCM

Pennsylvania Insurance Department

Market Conduct Examiner

Kevin Ralston

INS Regulatory Insurance Services, Inc.

IT Examiner

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, 2011 through December 31, 2011, unless otherwise noted. The purpose of the examination was to ensure compliance with Pennsylvania Insurance Statutes and Regulations.

The examination focused on the market conduct activities in areas such as: Company Operations and Management, Advertising Certificate of Compliance, Forms, Producer Licensing, Appointments and Terminations, Producer Commissions, Consumer Complaints, Underwriting Practices and Procedures, Claims Handling Practices and Procedures, and the 2011 & 2012 Market Conduct Annual Statement (MCAS) Reporting Practices and Procedures.

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

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

III. COMPANY HISTORY AND LICENSING

National Western Life Insurance Company is a life insurance company, chartered in the State of Colorado in 1956, and doing business in forty-nine states, the District of Columbia, and four U.S. territories or possessions. It is also licensed in Haiti, and although not otherwise licensed, the Company accepts applications from and issues policies to residents of various Central and South American, Caribbean, and Pacific Rim countries. National Western operates within segments organized along product types and geographic marketing areas. These operating segments include domestic life insurance, international life insurance, and annuities.

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

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

As of the Company's December 31, 2011, annual statement for Pennsylvania, National Western Life Insurance Company reported direct premiums for ordinary life insurance in the amount of \$1,020,169, direct premiums for ordinary annuity considerations in the amount of \$12,523,264, direct premiums for ordinary deposit-type contract funds in the amount of \$1,669,279, and group annuity considerations in the amount of \$34,404,273.

IV. COMPANY OPERATIONS AND MANAGEMENT

The Company was requested to provide information documenting its management and operational procedures in areas for which they conduct business in the Commonwealth of Pennsylvania.

The following company operational procedures and areas were reviewed:

- General Procedures and Company History
- Audit Program & Procedures
- Controls of Computer Information
- Antifraud Initiatives
- Records Retention Requirements
- Certificate of Authority
- Privacy of Consumer Information
- Procedures to Protect the Privacy of Information
- Internal Audit & Compliance Procedures

The areas were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. No violations were noted.

V. ADVERTISING CERTIFICATE OF COMPLIANCE

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

VI. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice. 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 departmental form filing and approval could not be established for the noted forms.

Forms #	Form Description	Report Section
SP 7241 Rev 12.10	Request For Change In Policy	Underwriting – B
01-9048-98	Enrollment Application For Life Insurance-Short Form	Underwriting – N

80 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 using forms other than as applied for and approved by the Department was noted in the noted files.

Form #	Form Description	Frequency	Report Section
01-9046PA-10	Application For Annuity	35	Underwriting - K
01-9046PA-98	Application For Annuity	43	Underwriting - L
01-9048PA-98	Application For Annuity	2	Underwriting - N

VII. PRODUCER LICENSING, APPOINTMENTS AND TERMINATIONS

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

The Company identified a universe of 697 active producers, 181 terminated producers, 2,870 first year commission payments and 202 commission chargebacks during the experience period. A random sample, of 50 active producers, 25 terminated producers, 50 producers receiving first year commissions, and 25 commission chargebacks, was requested, received and reviewed. The sample was compared to departmental records of producers to verify licensing, appointments and terminations. In addition, producer licensing and appointments were also reviewed in the various underwriting sections to verify licensing, appointments and terminations. The following violations were noted:

6 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.
- (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.

- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the noted 1 Agency. The Company listed the Agency as active; however, Department records did not indicate their appointment during the experience period.

Agency Name
First Annuity

The noted 1 individual was listed as the producer on 5 applications reviewed in the policy issued sections of the exam. However, Department records did not identify the individual as being appointed by the Company on the dates the applications were signed.

Last Name	First Name	Frequency
Havice	James	5

VIII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and to provide copies of consumer complaint logs/registers for calendar years 2011, 2012 and 2013. The Company identified a universe of 9 consumer complaints received during the experience period. Of the 9 complaints identified 2 were forwarded from the Department. All 9 complaint files were requested, received, and reviewed. The Company also provided complaint registers as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint register.

The complaint files and the 3 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. No violations were noted.

IX. UNDERWRITING

The Underwriting review consisted of 15 general segments.

A.	Underwriting Guidelines
B.	Individual Universal Life Insurance Policies Issued
C.	Individual Term Life Insurance Policies Issued
D.	Individual Annuity Contracts Issued
E.	Individual Fixed Annuity Contracts Surrendered (Full)
F.	Individual Fixed Annuity Contracts Surrendered (Partial)
G.	Individual Universal Life Insurance Policies Surrendered (Full)
H.	Individual Traditional Whole Life Insurance Policies Surrendered (Partial)
I.	Individual Universal Life Insurance Policies Issued as Replacements
J.	Individual Fixed Annuity Contracts Issued as Replacements
K.	Group Fixed Annuity Certificates Issued as Replacements
L.	Group Annuity Certificates Issued
M.	Annuity Contract Loans
N.	Universal Life Insurance Policy Loans
O.	Whole Life Insurance Policy Loans

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

A. Underwriting Guidelines

The Company was requested to provide copies of all underwriting guidelines and manuals utilized during the experience period. The documents provided were reviewed to ensure that underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that

could be considered discriminatory in nature, or specifically prohibited by the Commonwealth of Pennsylvania's Statute and Regulations. No violations were noted.

The following underwriting manuals, guidelines and procedural documentations were provided and reviewed:

- New Business Processing Procedures
- How to obtain information from a check/deposit slip in order to code a bank withdraw
- Agency Bulletins
- Agent Procedure Manual – NWL (Rules and Regulations)
- Underwriting New Business
- New Business Narrative – Annuities and Life
- How to use Life Cycle with Applications
- Inputting New Business – Annuity
- Agency Bulletin – Submitting Premium With Life Insurance Applications
- Loan Document Guidelines
- Replacement – Company Tracking
- New Business Replacement Law (All States)
- Single Premium Immediate Annuity Disclosure (SPIA)
- TSA Loans – Processing Procedures
- Underwriting Directive

B. Individual Universal Life Insurance Policies Issued

The Company was requested to provide a list of all individual universal life insurance policies issued during the experience period. The Company identified a universe of 5

individual universal life insurance policies issued during the experience period. All 5 policy files were requested, received and reviewed. Upon review, it was determined that the Company provided 4 single premium interest sensitive whole life insurance policies and 1 universal life insurance policy. It was also determined that 3 of the policies were duplicated in section E.8 (Universal Life Policies Issued as Replacements). The 3 duplicate policy files were addressed in Section E.8. The remaining 2 policy files were reviewed to determine compliance with issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 83.3 (a)(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 disclosure statements included in the noted files were incomplete.

2 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. Evidence of the required cost surrender comparison index disclosure could not be established in the noted files.

2 Violations – Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

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

b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. Evidence of the required agent's certification of the surrender comparison index disclosure delivery could not be established in the noted files.

C. Individual Term Life Insurance Policies Issued

The Company was requested to provide a list of all individual policies issued during the experience period. The Company identified a universe of 1 term life insurance policy issued during the experience period. The 1 policy file was requested, received and reviewed. The file was reviewed to determine compliance to issuance, underwriting, statutes and regulations. The following violation was noted:

1 Violation – Title 31, Pennsylvania Code, Section 83.3 (a)(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 disclosure statement included in the noted file was incomplete.

D. Individual Fixed Annuity Contracts Issued

The Company was requested to provide a list of all individual annuity contracts issued during the experience period. The Company identified a universe of 185 fixed annuity contracts issued during the experience period. A random sample of 20 annuity contract

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 81.5(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 on the application form was not answered in the noted file.

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

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

E. Individual Fixed Annuity Contracts Surrendered – Full

The Company was requested to provide a list of all surrenders (and terminations) that became effective during the experience period. The Company provided a universe of 825 annuity contracts surrendered and terminated during the experience period. A random sample of 30 contract files was requested, received and reviewed. Of the 30 files

reviewed, 9 were death claims, 16 were surrenders in full, 1 was not-taken and 4 were maturities. The 16 surrender files were reviewed to ensure compliance with contract provisions, and the Commonwealth of Pennsylvania's Statutes and Regulations. No violations were noted.

F. Individual Fixed Annuity Contracts Surrendered – Partial

The Company was requested to provide a list of all surrenders (and terminations) during the experience period.. The Company provided a universe of 4,716 annuity contracts surrendered partially during the experience period. A random sample of 40 contract files was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, and Pennsylvania laws and regulations. No violations were noted.

G. Individual Universal Life Insurance Policies Surrendered – Full

The Company was requested to provide a list of all surrenders (and terminations) that became effective during the experience period. The Company provided a universe of 81 individual universal life insurance policies surrendered in full and terminated during the experience period. A random sample of 30 policy files was requested, received and reviewed. Of the 30 files, 7 were determined to be death claims, 13 were lapses and 11 were surrenders. The 11 policy surrender files were reviewed to ensure compliance with contract provisions, and the Commonwealth of Pennsylvania's Statutes and Regulations. No violations were noted.

H. Individual Traditional Whole Life Insurance Policies Surrendered - Partial

The Company was requested to provide a list of all surrenders (and terminations) that became effective during the experience period. The Company provided a universe of 47 individual traditional whole life policies surrendered in full (and terminated) during the experience period. A random sample of 15 policy files was requested, received and reviewed. Of the 15 files, 6 were determined to be death claims, 4 were lapses and 5 were surrenders. The 5 surrender files were reviewed to ensure compliance with contract provisions, and the Commonwealth of Pennsylvania's Statutes and Regulations. No violations were noted.

I. Individual Universal Life Insurance Policies Issued As Replacements

The Company was requested to provide a list of all individual universal life policies issued as replacements during the experience period. The Company identified a universe of 3 individual universal life insurance policies issued as replacements during the experience period. All 3 policy files were requested, received and reviewed. Upon review, it was determined that the Company provided 3 single premium interest sensitive whole life policies. It was also determined that of the 3 policies 1 was a duplicate. The remaining 2 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 83.3 (a)(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 disclosure statement included in the noted files was incomplete.

2 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. Evidence of the required cost surrender comparison index disclosure could not be established in the noted files.

2 Violations – Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

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

b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. Evidence of the agent's certification of the surrender comparison index disclosure could not be established in the noted files.

J. Individual Fixed Annuity Contracts Issued As Replacements

The Company was requested to provide a list of all annuity contracts issued during the experience period. The Company identified a universe of 65 fixed annuity contracts issued as replacements. A random sample of 15 annuity contract files was requested,

received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted:

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

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Evidence of annuity contract delivery could not be established in 2 files, and the contract delivery receipt was not dated in 1 file.

K. Group Fixed Annuity Certificates Issued As Replacements

The Company was requested to provide a list of all certificates issued to Pennsylvania consumers as part of a group contract during the experience period. The Company provided a universe of 169 group fixed annuity certificates issued as replacements. A random sample of 35 group annuity certificate files was requested, received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted:

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

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

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

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

L. Group Annuity Certificates Issued

The Company was requested to provide a list of all certificates issued to Pennsylvania consumers as part of a group policy/contract during the experience period. The Company identified a universe of 450 group fixed annuity certificates issued during the experience period. A random sample of 45 certificate 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(a) (2)(i)(ii)

(a) An insurer that uses an agent or broker in a life insurance or annuity sale shall:

(1) 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.

(2) If replacement is involved:

(i) Require from the agent or broker with the application for life insurance or annuity a list of all the applicant's existing life insurance or annuity to be replaced, and a copy of the replacement notice provided the applicant under § 81.4(b)(1) (relating to duties of agents and brokers). The existing life insurance or annuity shall be identified by name of insurer, insured and contract number. If a number has not been assigned by the existing insurer, alternative identification, such as an application or receipt number, shall be listed.

(ii) 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 a ledger statement containing comparable policy data on the proposed life insurance. A surrender comparison index need not be included. In the case of an annuity, a ledger statement containing comparable data shall be provided. 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. Evidence of the required replacement letter to the replaced company could not be established in the noted file.

2 Violations – Insurance Company Law, Section 406-A (40 P.S § 625-6):

Any person other than the applicant without the applicant's written consent shall make no alteration of any written application for a life insurance policy or annuity. The applications in the noted files contained alterations without the applicant's consent/initials.

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

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

M. Annuity Contract Loans

The Company was requested to provide a list of all annuity contract loan requests during the experience period. The Company identified a universe of 12 individual annuity contract loan requests during the experience period. All 12 annuity contract loan files

were requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania policy provisions, statutes and regulations. No violations were noted.

N. Universal Life Insurance Policy Loans

The Company was requested to provide a list of all policy loan requests during the experience. The Company identified a universe of 66 universal life policy loan requests during the experience period. A random sample of 20 policy loan files was requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. No violations were noted.

O. Whole Life Insurance Policy Loans

The Company was requested to provide a list of all policy loan requests during the experience period. The Company identified a universe of 6 whole life policy loan requests during the experience period. All 6 whole life policy loan files were requested, received and reviewed. The files were reviewed to ensure compliance with the Commonwealth of Pennsylvania policy provisions, statutes and regulations. No violations were noted.

X. CLAIMS & CLAIMS MANUALS

The Claim review consisted of 7 general segments.

A.	Claims Manuals
B.	Traditional Whole Life Insurance Claims Paid
C.	Traditional Whole Life Insurance Claims Pended
D.	Universal Life Insurance Claims Paid
E.	Universal Life Insurance Claims Pended
F.	Fixed Annuity Claims Paid
G.	Fixed Annuity Claims Pended

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171) and Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

A. Claims Manuals

The Company was requested to provide copies of all claims procedures and training manuals along with the claim audit report for the experience period. The Company provided the following claims procedures and manuals:

1. Payment of Interest on Life Insurance Death Claims
2. Non-Qualified Annuity Procedure Manual Index
3. Suicide Exclusion Provision
4. Benefit and Claim Payment Processing
5. Death Claim User Training
6. Total Disability Premium Payment Rider – Claim Instructions
7. Life Insurance Claims Procedure Manual Index
8. International Claim Association Statement of Principles
9. Authorization: Privacy and Confidentiality

10. Procedures For Establishing a Pending Life Claim
11. Processing Procedures For Payment of Life Claims, Children Term Riders, and other insured riders
12. Unfair Claim Settlement Practices and Regulations
13. Payment Timelines by State
14. Claim Follow-Up Procedures
15. Contestable Claim Procedures
16. Estate Named As The Beneficiary
17. Taxability of 403-B Life Claims
18. Reinsurance
19. Company Procedures For Insurance Department Communications
20. Waiver of Premium Claims
21. Death Claims (Red Flags)
22. Life Cycle Death Claim Information
23. Qualified Annuity Claims Procedure Manual Index
24. NW Binder For Claims
25. Interoffice Memos

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

B. Traditional Whole Life Insurance Claims Paid

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 27 traditional whole life insurance claims received and paid. All 27 claim files were requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and

Insurance Company Law, Section 411B, Payment of Benefits (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. Evidence of the claim acknowledgement within 10 working days could not be established in the noted file.

11 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. Evidence of timely status letters could not be established in the noted files.

1 Violation – Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer. Evidence of the notice of claim acceptance or denial within 15 working days could not be established in the noted file.

12 Violations – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies.
- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The noted violations were committed or performed with such frequency as to indicate a business practice.

C. Traditional Whole Life Insurance Claims Pended

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 3 traditional whole life insurance claims received and pended. All 3 claim files were requested for review. Of the 3 files received, 1 was determined to be outside of the experience period. The remaining 2 files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b). 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. Evidence of timely status letters could not be established in the noted file.

1 Violation – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

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

The noted violation was committed or performed with such frequency as to indicate a business practice.

D. Universal Life Insurance Claims Paid

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 24 universal life insurance claims received and paid. All 24 claim files were requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Benefits (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. Evidence of the claim acknowledgement within 10 working days could not be established in the noted file.

16 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. Evidence of timely status letters could not be established in the noted files.

17 Violations – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies.
- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The noted violations were committed or performed with such frequency as to indicate a business practice.

E. Universal Life Insurance Claims Pended

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 5 universal life insurance claims received and pended. All 5 pended claim files were requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law. 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. Evidence of timely status letters could not be established in the noted files.

2 Violations – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

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

The noted violations were committed or performed with such frequency as to indicate a business practice.

F. Fixed Annuity Claims Paid

The Company was requested to provide a list of all claims received during the experience period. The Company identified a universe of 454 fixed annuity claims received and paid. A random sample of 25 claim files was requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.5

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. Evidence of the claim acknowledgement within 10 working days could not be established in the noted file.

15 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. Evidence of timely status letters could not be established in the noted files.

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. Evidence of the notice of claim acceptance or denial within 15 working days could not be established in the noted files.

16 Violations – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies.
- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.
- (v) Failing to affirm or deny coverage of claims within a reasonable time after proof of loss statements have been completed and communicated to the company or its representative.

The noted violations were committed or performed with such frequency as to indicate a business practice.

G. Fixed Annuity Claims Pended

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 58 individual fixed annuity claims received and pended during the experience period. A random sample of 15 pended claim files was requested, received and reviewed. The files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.5

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. Evidence of the claim acknowledgement within 10 working days could not be established in the noted file..

5 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. Evidence of timely status letters could not be established in the noted files.

5 Violations – Insurance Department Act 205, Section 5 (40 P.S. §1171.5)

(a) “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of insurance means:

(10) Any of the following acts if committed or performed with such frequency as to indicate a business practice shall constitute unfair claim settlement or compromise practices:

- (ii) Failing to acknowledge and act promptly upon written or oral communications with respect to claims arising under insurance policies.
- (iii) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under insurance policies.

The noted violations were committed or performed with such frequency as to indicate a business practice.

XI. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

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

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.
- (4) The laws require that each insurer shall make available for the Department's inspection upon request its internal audit and compliance procedures which are instituted as required by this section. No violations were noted.

XII. MCAS REPORTING

In Pennsylvania, insurers are required annually to submit a Market Conduct Annual Statement (MCAS) to the National Association of Insurance Commissioners (NAIC). The MCAS data is submitted in compliance with Pennsylvania Insurance Department Act, Section 903(a) [40 P.S. §323.3] which states in part, "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, in its discretion, may require in order that its authorized representatives may readily verify the financial condition of the company or person and ascertain whether the company or person has complied with the laws of this Commonwealth." The MCAS data is submitted, protected and analyzed under the referenced Pennsylvania examination law as a means to validate the continued solvency of an insurer.

The Market Conduct Data Integrity Examination was conducted pursuant to the authority granted by Section 903 and 904 (40 P.S. §323.3 and §323.4) of the Insurance Department Act and covered the Market Conduct Annual Statement (MCAS) reporting for 2011 and 2012. The review included the evaluation of the Company's activities surrounding the accuracy and completeness of the mandatory filing of data for the MCAS report, which is used by regulators to collect claims, and underwriting data.

The Examination team requested the Company's 2011 and 2012 MCAS Life and MCAS Annuity Submissions in conjunction with the Company's procedures and source data used in compiling those submissions. In addition, the Company was requested to provide procedures for data extraction and the report generation process to support the creation of the MCAS report.

The review of the MCAS information was twofold; first to determine if the Company had Information Technology (IT) and data integrity controls in place along with policies and procedures, to ensure the validity of the MCAS data submission; and second, to determine if the 2011 and 2012 MCAS data reported was accurate and complete.

The following represents the sections requested for review during the course of the examination:

SECTION TITLES

- A. 2011 MCAS Life Report
- B. 2012 MCAS Life Report
- C. 2011 MCAS Annuity Report
- D. 2012 MCAS Annuity Report
- E. MCAS Policies and Procedures; Data Extraction and Report Generation

Legal Reference: Pennsylvania Insurance Department Act, Section 904 (b) (40 P.S. §323.4(b))

(b) Every company or person from whom information is sought, its officers, directors and agents must provide to the examiners appointed under subsection (a) timely, convenient and free access at all reasonable hours at its offices to 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 being examined. The officers, directors, employees and agents of the company or person must facilitate such examination and aid in such examination so far as it is in their power to do so. The refusal of any company, by its officers, directors, employees or agents, to submit to examination or to comply with any reasonable written request of the examiners shall be grounds for suspension or refusal of, or nonrenewal of any license or authority held by the company to engage in an insurance or other business subject to the department's jurisdiction. Any such

proceedings for suspension, revocation or refusal of any license or authority shall be conducted pursuant to 2 Pa.C.S. (relating to administrative law and procedure).

MCAS Reference: The Market Conduct Annual Statement General Filing Information – Company Attestation

All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company.

Summary of MCAS Findings:

- | | |
|--------------------------------------------------------------------|--------------|
| A. 2011 Life | 0 Violation |
| B. 2012 Life | 0 Violations |
| C. 2011 Annuity | 1 Violation |
| D. 2012 Annuity | 4 Violations |
| E. Policies and Procedures - Data Extraction and Report Generation | 1 Violation |

A. 2011 MCAS Life Report

The examination team reviewed the Company's 2011 MCAS Life Submission and the supporting source documents corresponding to the MCAS data call in order to determine completeness and accuracy of the information attested to by the Company in the MCAS submission. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the interrogatories that

every Pennsylvania insurer was required to complete for the 2011 MCAS Life Report. No violations were noted.

LINE	LIFE INTERROGATORIES – PENNSYLVANIA
01	Individual Life Cash Value – Does the company have data to report for this product type?
02	Individual Life Non-Cash Value – Does the company have data to report for this product type?
03	Is there a reason that the reported Individual Life Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
04	If yes, explain:
05	Is there a reason that the reported Individual Life Non-Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
06	If yes, explain:
07	Additional state specific Individual Life Cash Value comments (optional):
08	Additional state specific Individual Life Non-Cash Value comments (optional):
09	Number of replacement policies issued during the period.
10	Number of internal replacements issued during the period.
11	Number of external replacements issued during the period.
12	Number of policies replaced where age of insured at replacement was < 65.
13	Number of policies replaced where age of insured at replacement was age 65 and over.
14	Number of policies surrendered under 2 years from policy issue.
15	Number of policies surrendered between 2 years and 5 years from policy issue.
16	Number of policies surrendered between 6 years and 10 years from policy issue.
17	Number of policies surrendered during the period.
18	Number of new policies issued during the period where age of insured at issue was < 65.
19	Number of new policies issued during the period where age of insured at issue was age 65 and over.
20	Number of new policies issued during the period.
21	Number of policies in force at the end of the period.
22	Dollar amount of direct written premium during the period.
23	Face amount of insurance issued during the period.
24	Face amount of insurance in force at the end of the period.
25	Number of complaints received directly from consumers.
26	Number of death claims closed with payment, during the period, within 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
27	Number of death claims closed with payment, during the period, beyond 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
28	Number of death claims denied, resisted or compromised during the period.
29	Number of death claims received during the period.

B. 2012 MCAS Life Report

The examination team reviewed the Company's 2012 MCAS Life Submission, the supporting source documents, and the sample files selected/reviewed corresponding to the MCAS data call in order to determine completeness and accuracy of the information

attested to by the Company in the MCAS submission. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the interrogatories that every Pennsylvania insurer was required to complete for the 2012 MCAS Life Report. No violations were noted.

LINE	LIFE INTERROGATORIES – PENNSYLVANIA
01	Individual Life Cash Value – Does the company have data to report for this product type?
02	Individual Life Non-Cash Value – Does the company have data to report for this product type?
03	Is there a reason that the reported Individual Life Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
04	If yes, explain:
05	Is there a reason that the reported Individual Life Non-Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
06	If yes, explain:
07	Additional state specific Individual Life Cash Value comments (optional):
08	Additional state specific Individual Life Non-Cash Value comments (optional):
09	Number of replacement policies issued during the period.
10	Number of internal replacements issued during the period.
11	Number of external replacements issued during the period.
12	Number of policies replaced where age of insured at replacement was < 65.
13	Number of policies replaced where age of insured at replacement was age 65 and over.
14	Number of policies surrendered under 2 years from policy issue.
15	Number of policies surrendered between 2 years and 5 years from policy issue.
16	Number of policies surrendered between 6 years and 10 years from policy issue.
17	Number of policies surrendered during the period.
18	Number of new policies issued during the period where age of insured at issue was < 65.
19	Number of new policies issued during the period where age of insured at issue was age 65 and over.
20	Number of new policies issued during the period.
21	Number of new policies applied for during the period.
22	Number of free looks during the period.
23	Number of policies in force at the end of the period.
24	Dollar amount of direct written premium during the period.
25	Face amount of insurance issued during the period.
26	Face amount of insurance in force at the end of the period.
27	Number of complaints received directly from consumers.
28	Number of death claims closed with payment, during the period, within 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
29	Number of death claims closed with payment, during the period, beyond 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
30	Number of death claims denied, resisted or compromised during the period.
31	Number of death claims received during the period.

C. 2011 MCAS Annuity Report

The examination team reviewed the Company's 2011 MCAS Annuity submission and the supporting source documents corresponding to the MCAS data call in order to determine completeness and accuracy of the information attested to by the Company in the MCAS submission. All companies that submit an MCAS filing must attest to the completeness and accuracy of their submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the interrogatories that every Pennsylvania insurer was required to complete for the 2011 MCAS Annuity Report. One violation was noted.

LINE	ANNUITY INTERROGATORIES – PENNSYLVANIA
01	Individual Fixed Annuities – Does the company have data to report for this product type?
02	Individual Variable Annuities – Does the company have data to report for this product type?
03	Is there a reason that the reported Individual Fixed Annuities information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
04	If yes, explain:
05	Is there a reason that the reported Individual Variable Annuities information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
06	If yes, explain:
07	Additional state specific Individual Fixed Annuities comments (optional):
08	Additional state specific Individual Variable Annuities comments (optional):
09	Number of replacement contracts issued during the period.
10	Number of internal replacement contracts issued during the period.
11	Number of external replacement contracts issued during the period.
12	Number of contracts replaced where age of annuitant at replacement was < 65.
13	Number of contracts replaced where age of annuitant at replacement was 65 to 80.
14	Number of contracts replaced where age of annuitant at replacement was > 80.
15	Number of new immediate contracts issued during the period.
16	Number of new deferred contracts issued during the period where age of annuitant was < 65.
17	Number of new deferred contracts issued during the period where age of annuitant was 65 to 80.
18	Number of new deferred contracts issued during the period where age of annuitant was > 80.
19	Number of new deferred contracts issued during the period.
20	Number of contracts surrendered under 2 years from policy issue.
21	Number of contracts surrendered between 2 years and 5 years from policy issue.
22	Number of contracts surrendered between 6 years and 10 years from policy issue.
23	Number of contracts surrendered during the period.
24	Number of contracts in force at the end of the period.
25	Dollar amount of annuity considerations during the period.
26	Number of complaints received directly from consumers.

NUMBER OF REPLACEMENT CONTRACTS ISSUED
DURING THE PERIOD – LINE #09

MCAS Definition – Replacement Policy – A policy and/or annuity contract application received by your Company that is intended to replace an existing policy and/or annuity contract. This would include both external and internal replacements.

The Company was requested to provide a complete data set for MCAS Annuity Report line #09. The Company identified a universe of 172 replacement contracts issued during the experience period for MCAS annuity report line #9. The MCAS reported data, the data set data and the universe data were compared to ensure that the data provided was accurate and inclusive of all the policies applicable to the MCAS line item. The data was reviewed to ensure compliance with the Commonwealth of Pennsylvania’s Statutes and Regulations. The following violation was noted:

1 Violation – Failure to exercise sufficient due diligence to ensure compliance with: Pennsylvania Insurance Department Act, Section 904 (b) [40 P.S. §323.4(b)]. The Company provided an unverifiable response on line #09 of the 2011 MCAS Annuity Submission regarding the number of replacement contracts issued during the experience period.

D. 2012 MCAS Annuity Report

The examination team reviewed the Company’s 2012 MCAS Annuity Report Submission, the supporting source documents, and the selected/reviewed sample files corresponding to the MCAS data call in order to determine completeness and accuracy of the information attested to by the Company in the MCAS submission. All companies that submit an MCAS filing must attest to the completeness and accuracy of their

submission. The attestation is required once per filing period and applies to all submissions for a specific company code. No submissions will be accepted until an attestation is completed for the company. Below are the interrogatories that every Pennsylvania insurer was required to complete for the 2012 MCAS Annuity Report. Four violations were noted.

LINE	ANNUITY INTERROGATORIES – PENNSYLVANIA
01	Individual Fixed Annuities – Does the company have data to report for this product type?
02	Individual Variable Annuities – Does the company have data to report for this product type?
03	Is there a reason that the reported Individual Fixed Annuities information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
04	If yes, explain:
05	Is there a reason that the reported Individual Variable Annuities information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)?
06	If yes, explain
07	Additional state specific Individual Fixed Annuities comments (optional):
08	Additional state specific Individual Variable Annuities comments (optional):
09	Number of replacement contracts issued during the period.
10	Number of internal replacement contracts issued during the period.
11	Number of external replacement contracts issued during the period.
12	Number of contracts replaced where age of annuitant at replacement was < 65.
13	Number of contracts replaced where age of annuitant at replacement was 65 to 80.
14	Number of contracts replaced where age of annuitant at replacement was > 80.
15	Number of new immediate contracts issued during the period.
16	Number of new deferred contracts issued during the period where age of annuitant was < 65.
17	Number of new deferred contracts issued during the period where age of annuitant was 65 to 80.
18	Number of new deferred contracts issued during the period where age of annuitant was > 80.
19	Number of new deferred contracts issued during the period.
20	Number of contracts surrendered under 2 years from policy issue.
21	Number of contracts surrendered between 2 years and 5 years from policy issue.
22	Number of contracts surrendered between 6 years and 10 years from policy issue.
23	Number of contracts surrendered during the period.
24	Number of contracts applied for during the period.
25	Number of free looks during the period.
26	Number of contracts in force at the end
27	Dollar amount of annuity considerations during the period.
28	Number of complaints received directly from consumers.

NUMBER OF REPLACEMENT CONTRACTS ISSUED
DURING THE PERIOD – LINE #09

MCAS Definition – Replacement Policy – A policy and/or annuity contract application received by your Company that is intended to replace an existing policy and/or annuity contract. This would include both external and internal replacements.

The Company was requested to provide a complete data set for the 2012 MCAS Annuity Report line #09. The Company identified a universe of 48 replacement contracts issued during the period for the MCAS annuity report line #09. The Company was also requested to provide a list of all contracts issued as replacements during the experience period of 2012. The Company identified a universe of 30 individual fixed premium annuity contracts issued as replacements. All 30 contract applications were requested, received and reviewed. The MCAS reported data, the data set data, the universe data and the contract application data were compared to ensure that the data provided was accurate and inclusive of all the policies applicable to the MCAS line item. The data was also reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. The following violation was noted:

1. Violation – Failure to exercise sufficient due diligence to ensure compliance with: Pennsylvania Insurance Department Act, Section 904 (b) [40 P.S. §323.4(b)]. The Company provided an unverifiable response on line #09 of the 2012 MCAS Annuity Submission regarding the number of replacement contracts issued during the experience period.

NUMBER OF EXTERNAL REPLACEMENT CONTRACTS
ISSUED DURING THE PERIOD – LINE #11

The Company was requested to provide a complete data set for the 2012 MCAS Annuity Report line #11. The Company identified a universe of 48 external replacement contracts issued during the period for the MCAS annuity report line #11. The Company was also requested to provide a list of all contracts issued as replacements during the experience period of 2012. The Company identified a universe of 30 individual fixed premium annuity contracts issued as replacements. All 30 contract applications were requested, received and reviewed. The MCAS reported data, the data set data, the universe data and the contract application data were compared to ensure that the data provided was accurate and inclusive of all the policies applicable to the MCAS line item. The data was also reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. The following violation was noted:

1 Violation – Failure to exercise sufficient due diligence to ensure compliance with Pennsylvania Insurance Department Act, Section 904 (b) [40 P.S. §323.4(b)]. The Company provided an unverifiable response on line #11 of the 2012 MCAS Annuity Report submission regarding the number of external replacement contracts issued during the period.

NUMBER OF CONTRACTS REPLACED WHERE AGE OF
ANNUITANT AT REPLACEMENT WAS < 65 – LINE #12

The Company was requested to provide a complete data set for the 2012 MCAS Annuity Report line #12. The Company identified a universe of 21 replacement contracts where the age of the annuitant at replacement was <65 for the 2012 MCAS Annuity Report line #12. The MCAS reported data and the universe data were compared to ensure that the data provided was accurate and inclusive of all the policies applicable to the MCAS line

item. The data was also reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. The following violation was noted:

1 Violation – Failure to exercise sufficient due diligence to ensure compliance with Pennsylvania Insurance Department Act, Section 904 (b) [40 P.S. §323.4(b)]. The Company provided an unverifiable response on line #12 of the 2012 MCAS Annuity Report submission regarding the number of contracts replaced where the age of annuitant at replacement was < 65.

**NUMBER OF CONTRACTS REPLACED WHERE
AGE OF ANNUITANT WAS 65 TO 80 – LINE #13**

The Company was requested to provide a complete data set for the 2012 MCAS Annuity Report line #13. The Company identified a universe of 26 replacement contracts where the age of the annuitant at replacement was 65 to 80 for the 2012 MCAS Annuity Report line #13. The MCAS reported data and the universe data were compared to ensure that the data provided was accurate and inclusive of all the policies applicable to the MCAS line item. The data was also reviewed to ensure compliance with the Commonwealth of Pennsylvania's Statutes and Regulations. The following violation was noted:

1 Violation – Failure to exercise sufficient due diligence to ensure compliance with Pennsylvania Insurance Department Act, Section 904 (b) [40 P.S. §323.4(b)]. The Company provided an unverifiable response on line #13 of the 2012 MCAS Annuity Report submission regarding the number of contracts replaced where the age of annuitant at replacement was 65 to 80.

E. MCAS Policies and Procedures; Data Extraction and Report Generation

The examination team reviewed the Company's 2011 and 2012 MCAS IT and data integrity controls, source documents and its general MCAS policies and procedures to determine if the Company had policies and procedures in place to ensure its compliance with the MCAS reporting requirements.

MCAS Reporting Process:

Each Department, when getting requests for MCAS, has the Information Services Department (IS) run a query against the database for all states and all product lines.

Different Company personnel are selected on the Life and Annuity side to coordinate the overall process of the MCAS reporting. Karen Johnston is responsible for interrogatory line numbers 1–8; lines 9–13 go to the New Business Department; Donna Richardson, Policy Owner Services (POS), is responsible for interrogatory line numbers 14–27; Doris Cruz, VP of Claims, is responsible for interrogatory line numbers 28–31, and Erin Koford, General Accounting, is responsible for uploading the data into the MCAS System.

The different business analysts work with Information Services (IS) to collect data from the information systems. The data is passed from IS to the respective business analysts and then consolidated into a master database for reporting of the individual MCAS line items for Life and Annuity. The data comes back to a different business analyst, who is responsible for reviewing the actual numbers on the spreadsheets as reported and evaluating, and where possible, tying the numbers back to the State pages. The team also checks for changes or oddities and researches any issues identified.

The data is requested mainly through three systems: Visual Intercept (VI); Life Cycle 1.0; and Replacement Tracking System (RTS). RTS is used for every application that has a replacement associated with it.

The following violation was noted:

1 Violation – Pennsylvania Insurance Department Act, Section 904(b) [40 P.S. §323.4(b)] – The Company’s informal policies and procedures (i.e. undocumented) related to the MCAS reporting process during the examination period did not provide the Company the ability to ensure the accuracy of the data reported in the 2011 and 2012 MCAS submissions.

XIII. 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 its procedures to ensure compliance with Section 904 of the Insurance Department Act of 1921 (40 P.S. §323.4).
2. The Company must review and revise its procedures to ensure compliance with the requirements of the Insurance Department Act of 1921 “Unfair Methods of Competition” and “Unfair or Deceptive Acts or Practices” in the business of Insurance Act 205, Section 5 (40 P.S. §1171.5).
3. The Company must review and revise its procedures to ensure compliance with forms filing requirements of Insurance Company Law, Section 354 (40 P.S. §477b).
4. The Company must review and revise its procedures to ensure compliance with the policy delivery receipt requirements of Section 404–A of the Insurance Company Law (40 P.S. §625–4).
5. The Company must review and revise its procedures to ensure compliance with the application alteration requirements of Insurance Company Law, Section 406–A (40 P.S. § 625–6).
6. The Company must review and revise its licensing procedures to ensure compliance with Section 671–A of the Insurance Department Act of 1921 (40 P.S. §310.71).

7. The Company must review and revise its procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
8. The Company must review and revise its procedures to ensure compliance with the disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.
9. The Company must review and revise its procedures to ensure compliance with the unfair claims settlement practices of Title 31, Pennsylvania Code, Chapter 146.

XIV. COMPANY RESPONSE



REY PEREZ
VICE PRESIDENT
CORPORATE COUNSEL

October 8, 2014

Christopher R. Monahan, Director
Bureau of Market Actions
PA Insurance Department
1227 Strawberry Square
Harrisburg, PA 17120
(717) 783-2627

VIA: Federal Express

RE: *National Western Life Insurance Company (NAIC #66850)
Market Conduct Report of Examination. Examination Warrant # 13-M24-014*

Dear Mr. Monahan:

National Western Life Insurance Company ("National Western" or "Company") acknowledges receipt of the above referenced Report covering the initial experience period of January 1, 2011 through December 31, 2011, and the data integrity validation of Market Conduct Annual Statement Reporting for calendar years 2011 and 2012.

Below please find National Western's responses to the Department's Recommendations as listed on page 53 of the Report. National Western believes the following actions help demonstrate the Company's intent to address the violations noted during the examination and to remain in compliance with the applicable Pennsylvania requirements.

National Western's Responses to the Department's Recommendations

Response to Recommendation 1: The Company firmly believes that its procedures and actions as part of this examination were in complete compliance with Section 904 of the Insurance Department Act of 1921 (40 P.S. §323.4). The Company requests that this Recommendation be removed from the Report.

Response to Recommendation 2: The Company is retraining its claims handling personnel regarding the Company's policies and procedures along with the applicable statutory timing to help ensure compliance with 40 P.S. §1171.5.

Response to Recommendation 3: The Company is working with its forms filing personnel to help ensure compliance with 40 P.S. §477b.



REY PEREZ
VICE PRESIDENT
CORPORATE COUNSEL

Response to Recommendation 4: The Company modified its policy delivery receipt procedures since the last market conduct exam to help ensure compliance with the requirements of 40 P.S. §625-4.

Response to Recommendation 5: National Western will retrain employees who process applications to help ensure compliance with 40 P.S. §625-6.

Response to Recommendation 6: The Company's review revealed that the violations were the result of human error. To help correct this deficiency National Western will reinforce the requirements of 40 P.S. §310.71 with its agent appointment department to help ensure compliance.

Response to Recommendation 7: National Western has reviewed its replacement procedures and believes they are in compliance with the requirements of Title 31, Pennsylvania Code, Chapter 81. The Company's review revealed that the violations were the result of human error. To help correct this deficiency National Western will retrain employees who process replacement applications.

Response to Recommendation 8: National Western has reviewed its disclosure procedures and believes they are compliant with the requirements of Title 31, Pennsylvania Code, Chapter 83. The Company's review revealed that these violations were the result of human error. National Western will retrain new business employees so that they do not accept disclosures that are not appropriately completed, signed, and dated.

Response to Recommendation 9: The Company has reviewed its claims handling procedures and believes they comply with the requirements of Title 31, Pennsylvania Code, Chapter 146. The violations noted were the result of employee misapplication of the timing requirements under the statutes, and as such the Company is retraining all claims handling personnel regarding the Company's policies and procedures for the handling of claims in Pennsylvania.

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

Sincerely,



Rey Perez