REPORT OF MARKET CONDUCT EXAMINATION OF

CENTRAL STATES HEALTH AND LIFE COMPANY OF OMAHA

Omaha, Nebraska

AS OF July 30, 2007

COMMONWEALTH OF PENNSYLVANIA



INSURANCE DEPARTMENT MARKET CONDUCT DIVISION

Issued: August 8, 2007

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Central States Health and Life Company of Omaha

Docket No. MC07-08-002

Market Conduct Examination as of the close of business on August 8, 2007

ORDER

A market conduct examination of Central States Health and Life Company of Omaha was conducted in accordance with Article IX of the Insurance Department Act, 40 P.S. § 323.1, et seq., for the period January 1, 2006 through December 31, 2006. The Market Conduct Examination Report disclosed no exceptions to the targeted scope of the company credit insurance operations and practices.

It is hereby ordered as follows:

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

3. Respondent shall comply with all recommendations contained in the attached

Report.

4. Respondent shall file an affidavit stating under oath that it will provide each of

its directors, at the next scheduled directors meeting, a copy of the adopted Report and

related Orders. Such affidavit shall be submitted within thirty (30) days of the date of

this Order.

The Department, pursuant to Section 905(e)(1) of the Insurance Department Act

(40 P.S. § 323.5), will continue to hold the content of the Examination Report as

private and confidential information for a period of thirty (30) days from the date of

this Order.

BY: Insurance Department of the Commonwealth

(Au6 8,2007)

of Pennsylvania

Randolph L. Rohrbaugh

Deputy Insurance Commissioner

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I. INTRODUCTION

The Market Conduct Examination was conducted on Central States Health & Life Company of Omaha; hereafter referred to as "Company," at the Company's office located in Omaha, Nebraska, March 5, 2007, through March 16, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

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

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

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

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

Daniel Stemcosky, AIE, FLMI

Market Conduct Division Chief

Gary L. Boose

Market Conduct Examiner

Michael T. Vogel

Market Conduct Examiner

Verification

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

Sworn to and Subscribed Before me

This 12 Day of Jelley , 2007

Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL THERESA M. SENECA, Notary Public City of Harrisburg, Dauphin County My Commission Expires Aug. 15, 2010

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, 2006, through December 31, 2006, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

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

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

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various subcategories by line of insurance or Company administration. These specific subcategories, 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

Central States Health & Life Company of Omaha was originally incorporated in 1932, in the state of Nebraska as Central States Health and Accident Association, a mutual assessment company. The Company's present name was adopted in 1957. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on July 23, 1968. The Company is authorized to do business in 48 states, the District of Columbia and Guam. The Company is not licensed to do business in the state of New York.

The Company offers a variety of life and disability credit insurance coverage disability. The Company also has closed blocks of Medicare Supplement, ordinary and group life, specified disease and long term care coverage. The Company has an affiliation with Central States Indemnity Company of Omaha ("CSI"), whereby the Company's monthly outstanding balance group credit life insurance is offered to bank customers holding bank credit cards. This business is marketed and administered by CSI. The Company only began offering its single premium group credit life and disability insurance in the Commonwealth of Pennsylvania in the fall of 2006.

As of their 2006 annual statement for Pennsylvania, the Company reported direct premium for credit, ordinary and group life insurance in the amount of \$2,152,849; and direct premium for accident and health insurance in the amount of \$7,365,052.

IV. ADVERTISING

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

The Company was requested to provide a copy of their advertising Certificate of Compliance. The law utilized for compliance was Title 31, Pennsylvania Code, Chapter 51.5. No violations were noted.

V. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice, Title 31, Pennsylvania Code, Chapter 73. The applicable sections are as follows: 73.114 insurability requirements, 73.115 benefits exclusions, 73.116 age requirements, 73.130 election of coverage and disclosure requirements, 73.133 group examination and audits and 73.136(a) approval of forms and rates. No violations were noted.

VI. PRODUCER LICENSING

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

The Company provided a list of 120 active and terminated producers. The entire list was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the 63 producers identified on applications reviewed in the policy issued sections of the exam. No violations were noted.

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2002, 2003, 2004, and 2005. The Company reported that no complaints were received during the experience period. The Company provided complaint logs as requested.

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

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 6 general segments.

- A. Underwriting Guidelines
- B. Group Credit Single Premium Life and A&H Policies Issued
- C. Group Credit Monthly Outstanding Balance Life Policies Issued
- D. Group Credit Monthly Outstanding Balance Life Policies Active
- E. Group Credit Single Premium Certificates Issued
- F. Group Credit Monthly Outstanding Balance Life Certificates Issued

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

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines and manuals utilized during the experience period. The guidelines and manuals received were reviewed to ensure that underwriting guidelines were in place and being followed in a uniform and consistent manner and that no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following guidelines were reviewed:

- 1. Credit Card Credit Insurance Administration
- 2. Underwriting Guidelines: Non-Credit Insurance
- 3. Home Equity Credit Insurance

B. Group Credit Single Premium Life and Accident & Health Policies Issued

The Company was requested to provide all group policies issued during the experience period. The Company identified a universe of 33 group credit single premium life and group credit single premium accident and health policies issued during the experience period. All 33 policies were requested and received. The policy files were reviewed to ensure compliance with Title 31, Pennsylvania Code, Chapter 73. No violations were noted.

C. Group Credit Monthly Outstanding Balance Life Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The Company identified a universe of 1 group credit monthly outstanding balance life policy issued. The group was selected for the Company to provide copies of the group's required annual examination as well as copies of the Company's group master contract. The group was initiated during the examination period therefore no audit could be provided. No violations were noted.

D. Group Credit Monthly Outstanding Balance Life Policies Active

The Company was requested to provide a list of their group policyholders active during the experience period. The Company identified a universe of 9 group credit monthly outstanding balance life policyholders active. The groups were selected for

the Company to provide copies of the group's required annual examinations as well as copies of the Company's group master contracts. The groups were initiated during the examination period therefore no audits could be provided. The group contracts and the audits were to be reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 73.133. Subsections (e), (f), and (g) of Section 73.133 provides for the insurers responsibility in conducting an annual examination of creditors to ensure compliance and the requirements to establish and maintain written records of its creditor examination. No violations were noted.

E. Group Credit Single Premium Certificates Issued

The Company was requested to provide a list of all life certificates issued used during the experience period. The Company identified a universe of 1 group credit single premium life certificate issued. The certificate file was requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, issuance, and rating laws and regulations. No violations were noted.

F. Group Credit Monthly Outstanding Balance Life Certificates Issued

The Company was requested to provide a list of all certificates issued during the experience period. The Company identified a universe of 7,093 group monthly outstanding balance disability certificates issued. A random sample of 50 certificate files was requested, received and reviewed. The certificate files were reviewed to ensure compliance with contract provisions, issuance, and rating laws & regulations. No violations were noted.

IX. CLAIMS

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

1. System Processing Manual

The claim manual and procedures (guidelines) were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The claim file review consisted of 2 areas:

- A. Credit Life Claims
- B. Individual Life Claims

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

A. Credit Life Claims

The Company was requested to provide a list of all the claims received during the experience period. The Company identified 232 credit life claims received. A random sample of 50 credit life claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). No violations were noted.

B. Individual Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 13 individual life claims received. All 13 individual life claims were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). No violations were noted.

X. RECOMMENDATIONS

The Department wishes to commend the Company in the level of compliance displayed in their initial stages of the marketing of Credit Insurance and would only recommend their continued emphasis in maintaining this level of compliance in the future.

XI. COMPANY RESPONSE

Carleen Gerjevic, ALHC, ACS, CIFI, FLMI, AHFI, HCAFA, AIRC Assistant Vice President Special Investigations/Legal Phone: 800-826-6587, ext. 3511

Fax: 402-399-3530 E-mail: cgerjevic@cso.com

August 2, 2007

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

Re: Market Conduct Examination

Examination Warrant Number: 06-M24-038

Dear Mr. Stemcosky,

I have received your Market Conduct Report of Examination and have shared the results with our senior management. We are very pleased with the results.

I trust this now concludes the examination process; however, if there is anything further you need from me, please let me know.

Sincerely,

Carleen Gerjevic

Copy: Rebecca Smart, General Counsel