NUNC PRO TUNC
REPORT OF TARGETED EXAMINATION

OF

MONUMENTAL LIFE INSURANCE COMPANY

NAIC# 66281

AS OF

December 31, 2012

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GERMAINE L. MARKS
Director of Insurance

Honorable Germaine L. Marks
Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Marks:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

MONUMENTAL LIFE INSURANCE COMPANY

NAIC # 66281

The above examination was conducted by Sandra Lewis, CIE, MCM, Examiner-in-Charge; James R. Dargavel, CIE, MCM, Senior Market Conduct Examiner and Data Specialist; Mel Mohs, CIE, Senior Market Conduct Examiner, Jerry D. Paugh, AIE, MCM, Senior Market Conduct Examiner; and John Kilroy, Market Conduct Examiner.

The examination covered the period of January 1, 2012, through December 31, 2012.

As a result of that examination, the following Report of Examination is respectfully submitted.

Sincerely yours,

Helene I. Tomme, CPCU, CIE
Market Examinations Supervisor
Market Oversight Division

AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, Sandra Lewis, CIE, MCM, being first duly sworn state that I am a duly appointed Market Conduct Examiner-in-Charge for the Arizona Department of Insurance, and that under my direction and with my participation and the participation of James R. Dargavel, CIE, MCM, Senior Market Conduct Examiner and Data Specialist, Mel Mohs, CIE, Senior Market Conduct Examiner, Jerry D. Paugh, AIE, MCM, Senior Market Conduct Examiner, and John Kilroy, Market Conduct Examiner, the examination of Monumental Life Insurance Company, hereinafter referred to as the "Company" was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss the findings set forth in this Report. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.

Sandra Lewis

Sandra Lewis, CIE, MCM
Market Conduct Examiner-in-Charge

Subscribed and sworn to before me this 9th day of June, 2014.

Vanessa L Farias

Notary Public

My Commission Expires 4/21/2016

VANESSA L. FARIAS
Notary Public - State of Arizona
MARICOPA COUNTY
My Commission Expires
April 21, 2016

FOREWORD

This targeted market conduct examination of the Monumental Life Insurance Company ("the Company"), was prepared by employees of the Arizona Department of Insurance ("the Department") as well as independent examiners contracting with the Department. A targeted market conduct examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

On June 19, 2001, the Company entered into a Consent Order, Docket No. 01A-162-INS ("the 2001 Consent Order"), at the conclusion of which the Company agreed to implement certain Corrective Action Plans to prevent repeat violations of, among other things, A.R.S. §§ 20-461(A)(2) and (5), 20-2110, and A.A.C. R20-6-801(E)(1) and (G)(1)(a).

The examination consisted of a review of all aspects of the Company's operations in Arizona, including but not limited to: Advertising, Sales and Marketing, Underwriting, Forms, Claims, Appeals and Grievances, Policyholder Services, and Terminations.

Certain unacceptable or non-complying practices may not have been discovered in the course of this examination. Additionally, findings may not be material to all areas that would serve to assist the Director.

Failure to identify or criticize specific Company practices does not constitute acceptance of those practices by the Department.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market conduct examination of the Company covered the period from January 1, 2012, through December 31, 2012, for the lines of business reviewed. The purpose of the examination was to determine the Company's compliance with Arizona's insurance laws and to determine whether the Company's operations and practices are consistent with the public interest. The Examiners completed this examination by applying tests to each examination

standard to determine compliance with the standard. The standards applied during the examination are stated in this Report at page 23.

In accordance with Department procedures, the Examiners completed a Preliminary Finding ("PF") on those policies, claims, complaints, and/or procedures not in apparent compliance with Arizona law. The PF forms were submitted for review and comment to the Company representative designated by Company management as being knowledgeable about the files. For each PF, the Company was requested to agree, disagree, or otherwise justify the Company's noted action.

The Examiners used both examination-by-test and examination-by-sample. Examination-by-test involves the review of all records within the population, while examination-by-sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, the Examiners completed examinations-by-test and examinations-by-sample as to those populations without the need to use computer software.

The Examiners based their file sampling on a review of Appeal, New Business, and Claims data provided by the Company. Samples were randomly or systematically selected by using ACL (formerly "Audit Command Language") software and computer data files provided by the Company's Representative, Diane M. Hoteling, Compliance Coordinator. Samples were tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data resulted in an exception ratio, which determined whether or not a standard was met. If the exception ratio found in the sample was, generally, less than 5%, the standard was considered as "met". A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified.

EXECUTIVE SUMMARY

The Examiners completed this examination by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report beginning at page 23, and the examination findings are reported beginning on page 6.

1. The Company failed Standard No. 3, as follows:
   a. By failing with regard to 22 ads that identify specific policy benefits to include the related policy exclusions, limitations, or reductions, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(7).
   b. By failing with regard to three ads that identify specific policy benefits to include the policy's preexisting condition exclusions, limitations, or reductions, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(9).
   c. By using 8 ads containing language that misrepresents the benefits or advantages available under the coverage, in apparent violation of A.R.S. § 20-443(A).
   d. By using one hypothetical illustration in an ad for cancer coverage likely to mislead or deceive purchasers or prospective purchasers, in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(C)(2).
   e. By using words and statements in one cancer coverage ad that exaggerate the policy benefits, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(3).
   f. By using four testimonials on a website for Christian Science coverage without retaining the required documentation concerning the author, full text and/or age of the testimonial, in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(E).
   g. By using a testimonial in an endorsement letter for group cancer coverage without retaining the required documentation concerning the author, full text, age of the testimonial, or whether the individual was compensated directly or indirectly for the testimonial, in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(E).

2. The Company failed Standard No. 7, as follows:

   a. By using two life insurance policy forms that limit the maximum amount available for policy loans to less than the cash/surrender value of the policy, in apparent violation of A.R.S. § 20-1209.

3. The Company failed Standard No. 12, as follows:

   a. By using a life insurance application form that fails to specify the exact nature of the information sought, in apparent violation of A.R.S. § 20-2106(4).

   b. By using 12 group and one individual term life applications that contain disclosure authorizations for claims of two years, in apparent violation of A.R.S. § 20-2106(8)(b).

   c. By failing to provide a Summary of Rights at the time one Limited Benefits policy and one Life policy application were declined, in apparent violation of A.R.S. § 20-2110(A) and the 2001 Consent Order.

4. The Company failed Standard 13, as follows:

   a. By failing to acknowledge 29 (26%) of 112 Meritain Executive Health Limited Benefits claims within 10 working days of receipt of the claim, in apparent violation of A.R.S. § 20-461(A)(2), A.A.C. R20-6-801(E)(1), and the 2001 Consent Order.

   b. By failing to complete a prompt investigation of three (15%) of 20 Life Denied claims within 30 days after notification of the claims, in apparent violation of A.R.S. § 20-461(A)(3) and A.A.C. R20-6-801(F).

   c. By failing to deny three (15%) of 20 Life Denied claims within 15 working days of receipt of the claims, in apparent violation of A.R.S. § 20-461(A)(5), A.A.C. R20-6-801(G)(1)(a), and the 2001 Consent Order.

5. The Company failed Standard No. 17, by failing with regard to 25 (45%) of NEBCO Limited Benefit Retirement Medical denied claims to provide an appeal notice for a first level appeal that allows two years to file the appeal, in apparent violation of A.R.S. § 20-2533(D).

6. The Company failed Standard No. 19, by misrepresenting the policy's conversion benefit and failing to permit one insured whose coverage was terminated because

of his age, to convert the coverage, all in apparent violation of A.R.S. § 20-443(A).

7. The Company failed Standard 23, as follows:

   a. By including in its Practical Guide to Professional Conduct, a "more than 25% of loan value" requirement when the replaced instrument is pledged as collateral or subjected to borrowing, in apparent violation of A.R.S. § 20-1241.04(B)(1).

8. The Company passed Standards 1, 2, 4, 5, 6, 8, 9, 10, 11, 14, 15, 16, 18, 20, 21, and 22.

EXAMINATION FINDINGS – FAILED STANDARD 3

Based on the Examiners' review of 384 advertising, marketing and sales materials, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
3	All advertising and sales materials are in compliance with applicable statutes and rules.	A.R.S. §§ 20-442, 20-443, 20-444, 20-1110(E), 20-1137, and A.A.C. R20-6-202

Advertising That References Specific Policy Benefits

Policy Exclusions, Limitations And Reductions

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS). During their review of these ads, the Examiners found that 22 ads identified specific policy benefits but failed to disclose related policy exclusions, limitations and reductions contained in the policy, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(7):

1. Thirteen ads for cancer coverage policies and/or wellness care riders. See PF # 044.
2. One ad for a cancer coverage policy. See PF # 059.
3. One web site for cancer coverage. See PF # 067.
4. Five ads for Accidental Death and Dismemberment policies. See PF # 056.
5. One website and one newspaper/magazine ad for Christian Science coverage. See PF# 062

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

Preexisting Conditions Exclusions, Limitations And Reductions

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS). During their review of these ads, the Examiners found that three ads identified specific policy benefits but failed to disclose any preexisting condition exclusions, limitations and reductions contained in the policy, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(9):

1. One web site and one brochure for cancer coverage policies and/or wellness care riders. See PF # 060.
2. One ad for a VFW Ladies Auxiliary cancer coverage policy. See PF # 065.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

Misleading Content

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS). During their review of these ads, the Examiners found that 8 ads contained language that misrepresents the benefits or advantages available under the coverage, in apparent violation of A.R.S. § 20-443(A):

1. Two telemarketing scripts for cancer coverage that stress that the coverage has a $300,000 lifetime maximum benefit without disclosing that individual coverage lifetime limits are only a few thousand dollars. See PF # 038. For instance:
   a. Hospital room benefit of $3,800 for the first 90 days of inpatient stay;
   b. Outpatient drugs and medicines, lifetime maximum $500;
   c. Chemotherapy, X-Ray Therapy, Radium and Cobalt Therapy, of $100 per day with a lifetime maximum $2,000.
2. One ad for cancer coverage that references a newspaper article discussing that cancer drugs can cost as much as $90,000 per patient, along with the promise of $300,000 lifetime maximum benefit, without disclosing that the cancer policy benefits are limited to $100 for chemotherapy per day ($2,000 lifetime maximum) and $500 lifetime maximum for outpatient drugs, thereby distorting the value of the coverage compared to actual costs of treatment. See PF # 068.
3. One Accidental Death and Dismemberment telemarketing script that indicated the coverage was "renewable for life," when in fact the policy may be canceled by the group or by the Company. See PF # 027.
4. Four print ads for group term life insurance coverage that promise renewability to age 120, without disclosing that the policy may be canceled by the group or by the Company. See PF # 039.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS). During their review of these ads, the Examiners found that one American Optometric Association cancer coverage ad contained a misleading hypothetical scenario that is misleading and deceptive to prospective insureds, in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(C)(2). See PF # 072. In the hypothetical situation described, "Susan," an optometrist who previously had cancer while employed by her former practice, maintained her COBRA coverage until she was eligible for benefits under her new practice's group policy. When her cancer recurred, her new practice's carrier denied coverage for her cancer treatment, presumably because of her medical history of cancer. The piece warns that had she had the cancer coverage offered by the Company through the AOA, she would have been able to meet the financial burdens. This scenario is misleading and deceptive because:

1. It misstates the protections afforded by HIPAA for individuals moving from one group coverage to another without a break in coverage of more than 63 consecutive days.
2. It implies that had "Susan" had the coverage before her first occurrence of cancer, the coverage would have been available when her cancer recurred, without disclosing that "Susan" would likely have exhausted most of the benefits of the coverage because of the low lifetime maximums for individual benefits such as chemotherapy and outpatient drugs. The only way she would have benefits for the second occurrence of cancer would be if she bought the coverage before joining her new practice; however, "Susan" would not have been eligible to purchase this coverage because of a prior medical history of cancer. In any case, it is impossible to see, given the policy limits, how this coverage would have benefited "Susan," or anyone else in a similar situation, when her cancer recurred.

The ad, therefore, uses a scare-tactic illustration likely to mislead or deceive purchasers or prospective purchasers.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS). During their review of these ads, the Examiners found that one Members of the Moose cancer coverage ad contained the statement "It pays you up to a total lifetime maximum of $300,000 to help fight cancer and speed your recovery," in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(C)(3). See PF # 071.

The notion that having cancer coverage can "fight cancer and speed recovery" is an exaggeration of the policy benefits.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

Use of Testimonials

The Examiners reviewed 314 ads provided by the Company in response to REQ020 for products administered by Business Unit D (formerly DMS).

During their review of these ads, the Examiners found that a website for Christian Science coverage contained four testimonials concerning claims processing and customer service, but the Company failed to retain the required documentation concerning the full name of the author, the full text of the testimonial and/or the age of the testimonial, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(E). See PF # 061.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

During their review of these ads, the Examiners found one letter from "John Wigle" in endorsement of the Company's cancer plan in which Mr. Wigle cites his own experiences with a family member in promoting the cancer coverage. Similar letters from "John Wigle" were found in endorsing plans offered to several different professional and social groups; it must therefore be inferred that John Wigle is an employee or affiliate of the Company in some capacity as it relates to group cancer coverage. The Company failed to retain the required documentation concerning the full name of the author, the full text of the testimonial, the age of the testimonial, and whether the spokesperson is directly or indirectly compensated for making a testimonial of endorsement, in apparent violation of A.R.S. § 20-444(A) and A.A.C. R20-6-201(E). See PF # 069.

A standard in the areas of procedures, forms and policy forms use was not met if any exception was identified; therefore recommendations are warranted.

EXAMINATION FINDINGS – FAILED STANDARD 7

Based on the Examiners' review of policy forms provided by the Company in response to Attachment A of the Coordinator's Handbook, as well as policy forms reviewed during the review of sample files, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
7	Policy forms, including but not limited to contracts, certificates, applications, riders, and endorsements, comply with pertinent Arizona laws and/or the laws of the state where the policy was issued.	A.R.S. §§ 20-448, 20-1201 through 20-1277, and 20-2601 through 20-2662

Required Policy Provisions

The Examiners reviewed Business Unit A (formerly AFP) life insurance policy forms and applications provided by the Company in response to Attachment A of the Coordinator's Handbook.

The Company did not meet Standard 7, in apparent violation of A.R.S. § 20-1209 by using two life insurance forms that include a provision limiting the maximum amount available for policy loans to 90% of the policy's Net Cash Value (Surrender Value). A.R.S. § 20-1209 requires that insurers offer loans to policyholders that are at least equal to the Cash Surrender Value of the policy. See PF # 006.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

EXAMINATION FINDINGS – FAILED STANDARD 12

Based on the Examiners' review of policy forms provided by the Company in response to Attachment A of the Coordinator's Handbook, as well as policy forms reviewed during the review of sample files, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
12	The Company complies with all notice of insurance information and privacy requirements.	A.R.S. §§ 20-2101, *et seq.*

Disclosure Authorizations

The Examiners reviewed Business Unit A life insurance application forms provided by the Company in response to the Forms/Underwriting section of Attachment A of the Coordinator's Handbook. The Examiners identified one life insurance application that contains a disclosure authorization authorizing the release of "any such information," provided by:

> ... [A]ny licensed physician, medical practitioner, or the Medical Information Bureau ***or other institution that has any records or knowledge of the proposed insured*** to give any such information, including medical information, to the life insurance company.

(Emphasis added). The Company did not meet Standard 12, in apparent violation of A.R.S. § 20-2106(4) by using one life insurance application form that, as written, is overly broad as to the potential sources of information and therefore fails to specify the nature of the information sought. See PF # 025.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

The Examiners reviewed 24 Business Unit D application forms provided by the Company in response to the Forms/Underwriting section of Attachment A of the Coordinator's Handbook.

The Company did not meet Standard 12, in apparent violation of A.R.S. § 20-2106(8)(b) by using 12 group and one individual term life applications that contain disclosure authorizations for claims of two years. A.R.S. § 20-2106(8)(b) requires that disclosure authorizations for claims other than health insurance be limited to the duration of the claim. See PF # 021 and # 043.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

Summary of Rights

The Examiners reviewed 15 Business Unit D Combined (No TPA) limited benefit cancellations files provided by the Company in response to REQ148. One of the files reviewed was actually a declined application file rather than a canceled policy.

The Company did not meet Standard 12, in apparent violation of A.R.S. § 20-2110(A) and the 2001 Consent Order by failing to provide a Summary of Rights at the time the Company declined an application for coverage. See PF # 037.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

The Examiners reviewed nine Business Unit D Selman Life cancellations files provided by the Company in response to REQ178. Two of the files reviewed, were actually declined application files rather than a canceled policy.

The Company did not meet Standard 12, in apparent violation of A.R.S. § 20-2110(A) and the 2001 Consent Order by failing with regard to one file to provide a Summary of Rights at the time the Company declined an application for coverage. See PF # 049.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

EXAMINATION FINDINGS – FAILED STANDARD 13

Based on the Examiners' review of selected sample claim files, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
13	Claims are handled timely and appropriately in accordance with policy provisions and applicable statutes and rules.	A.R.S. §§ 20-461, 20-462, and 20-1215, and A.A.C. R20-6-801

Acknowledgment of First Party Claims

The Examiners reviewed 55 Business Unit D Meritain Executive Health Paid Limited Benefit Claims provided by the Company in response to REQ125.

The Company did not meet Standard 13, in apparent violation of A.R.S. § 20-461(A)(2) and A.A.C. R20-6-801(E)(1) and the 2001 Consent Order by failing to acknowledge within 10 working days 15 (27%) of 55 claim files reviewed. See PF # 040.

The Examiners reviewed 57 Business Unit D Meritain Executive Health Denied Limited Benefit Claims provided by the Company in response to REQ126.

The Company did not meet Standard 13, in apparent violation of A.R.S. § 20-461(A)(2) and A.A.C. R20-6-801(E)(1) and the 2001 Consent Order by failing to acknowledge within 10 working days 14 (25%) of 57 claim files reviewed. See PF # 042.

Summary of Findings – Acknowledgment of First Party Claims

Bus. Unit	Description	Population	Sample Size	Insured Claims Reviewed	Exceptions	Error Ratio	PF #
D	Meritain Executive Health Paid	307	55	55	15	27%	040
D	Meritain Executive Health Denied	57	57	57	14	25%	042
	Totals	**364**	**112**	**112**	**29**	**26%**	

A 26% error ratio does not meet the standard; therefore recommendations are warranted.

Timely and Reasonable Investigation of Claims

The Examiners reviewed 20 Business Unit M (formerly ML) Life Denied claims provided by the Company in response to REQ035.

The Company did not meet Standard 13, in apparent violation of A.R.S. § 20-461(A)(3) and A.A.C. R20-6-801(F) by failing to complete a prompt investigation of three (15%) of 20 claims within 30 days after notification of the claims. See PF # 019

Summary of Findings – Timely and Reasonable Investigation of Claims

Bus. Unit	Description	Population	Sample Size	Insured Claims Reviewed	Exceptions	Error Ratio	PF #
M	Life Denied	20	20	20	3	15%	019
	Totals	**20**	**20**	**20**	**3**	**15%**	

A 15% error ratio does not meet the standard; therefore recommendations are warranted.

Time Service for Accepting and Denying Claims

The Examiners reviewed 20 Business Unit M Life Denied claims provided by the Company in response to REQ035.

The Company did not meet Standard 13, in apparent violation of A.R.S. § 20-461(A)(5), A.A.C. R20-6-801(G)(1)(a) and the 2001 Consent Order by failing to deny three (15%) of 20 claims within 15 working days after receipt of properly executed proofs of loss. See PF # 018

Summary of Findings – Time Service for Accepting and Denying Claims

Bus. Unit	Description	Population	Sample Size	Insured Claims Reviewed	Exceptions	Error Ratio	PF #
M	Life Denied	20	20	20	3	15%	018
	Totals	**20**	**20**	**20**	**3**	**15%**	

A 15% error ratio does not meet the standard; therefore recommendations are warranted.

EXAMINATION FINDINGS – PASSED STANDARD 13 (INTEREST PAYMENTS) WITH COMMENT

Based on the Examiners' review of selected sample claim files, the Company passed the following standard with comment:

#	STANDARD	Regulatory Authority
13	Claims are handled timely and appropriately in accordance with policy provisions and applicable statutes and rules.	A.R.S. §§ 20-461, 20-462, and 20-1215, and A.A.C. R20-6-801

During the Examiners' review of samples of paid claims provided by the Company, the Examiners reviewed the timeliness of claims, and where appropriate, the payment of interest at the legal rate in accordance relevant laws governing provider-paid or insured-paid claims. In select samples, the Company met the 5% threshold to pass this standard. In each case, the violation was found in a single claim file within the sample; however, because the findings involved monies owed to the insured, the findings are included in this Report as "Passed With Comment."

The Examiners reviewed 37 Business Unit A Life Paid Claims provided by the Company in Response to REQ032.

The Company appears to have violated A.R.S. § 20-462(A) with regard to one death claim because it failed to pay benefits of $15,924.00 within 30 days after receipt of final proofs of loss and failed to pay the correct amount of interest. The Company underpaid the interest due in the amount of $111.30. See PF # 001.

The Examiners reviewed one Division D Exton Processor, Pearl SD paid cancer policy provided by the Company in Response to REQ116.

The Company appears to have violated A.R.S. § 20-462(A) with regard to one Cancer policy claim because it failed to pay benefits of $1,950 within 30 days of receipt of acceptable proofs of loss and failed to pay interest on the late claim. The Examiners found that the Company underpaid the interest due in the amount of $38.98. See PF # 058.

Subsequent Events

As a result of this examination, the Company paid interest on the cancer claim cited in PF # 058 in the amount of $38.98. Proof of this Payment was provided to the Examiners with the Company's response to PF # 058.

Summary of Findings – Interest Payments on Insured Claims

Bus. Unit	Description	Final Proof Rec'd	Date Paid	Days to Pay	Benefits Paid	Interest Accrued	Interest Paid	Interest Due	PF #
A	Life Paid	04/27/12	06/26/12	60	$15,924	$261.05	$149.75	$111.30	001
D	Cancer Paid	09/25/12	12/07/12	74	1,950	38.98	38.98	None	058
	Totals					**$300.03**	**$188.73**	**$111.30**	

EXAMINATION FINDINGS – FAILED STANDARD 17

Based on the Examiners' review of samples of denied health claims handled by the Company during the examination period, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
17	The Company takes adequate steps to finalize and dispose of the complaints in accordance with policy provisions and applicable statutes and rules.	A.R.S. §§ 20-461 and 20-2530 *et seq.*, A.A.C. R20-6-801

The Examiners reviewed 55 Business Unit D NEBCO Limited Benefit Retirement Medical denied claims provided by the Company in Response to REQ134.

The Company did not meet Standard 17, in apparent violation of A.R.S. § 20-2533(D), by using an appeal notice for 25 of the 55 files reviewed that limited the time for filing a first level appeal to 180 days, rather than the two years provided by A.R.S. §§ 20-2535(A) and/or 20-2536(A). See PF # 054.

EXAMINATION FINDINGS – FAILED STANDARD 19

Based on the Examiners' review of samples of canceled, nonrenewed, and/or rescinded policy files provided by the Company in response to Attachment C of the Coordinator's Handbook:

#	STANDARD	Regulatory Authority
19	The Company does not cancel, non-renew, or rescind coverage except as allowed by law.	A.R.S. §§ 20-448, 20-1204, 20-1213, and 20-2636

The Examiners reviewed three of three (100%) Business Unit D – No TPA life cancellations files provided by the Company in response to REQ173. In one of these files, MDNOTPATLC-003, the insured was denied the privilege to convert the coverage to whole life insurance when the coverage terminated because of his age.

The "Conversion Privilege For Life Insurance" provision in the certificate states in pertinent part:

> "If the Insured's Member's life insurance under the Group Policy, ***or any portion of such Life Insurance Benefit ceases***, such person shall be entitled to have issued without evidence of insurability a non-participating individual policy of life insurance..."

(Emphasis added).

On November 1, 2011, the Company sent a letter to the insured advising that the Expiry Date of the group term life insurance coverage was 01/01/12 and that Policy/Certificate provisions "may allow you to convert your insurance to whole life insurance." On November 15, 2011 the insured contacted the Company indicating that he would like to convert his policy from term to whole life if available.

In a letter dated November 22, 2011, the Company advised the insured that the policy/certificate provisions did not provide an option to convert to Whole Life coverage.

The Company did not meet Standard 19, in apparent violation of A.R.S. § 20-443(A)(1) by misrepresenting the provision in the certificate that allowed the insured to convert the coverage to a non-participating individual policy of life insurance without evidence of insurability when "any portion of such Life Insurance Benefit ceases." See PF # 050.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

EXAMINATION FINDINGS – FAILED STANDARD 23

Based on the Examiners' review of forms and procedures used by the Company during the examination period with regard to the replacement of existing life insurance or annuities, the Company failed to meet the following standard for review:

#	STANDARD	Regulatory Authority
23	Company internal policies and procedure, forms and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.	A.R.S. §§ 20-1241, *et seq.*

Marketing Materials

The Examiners reviewed the policies and procedures and documented notices to producers used by the Company to inform producers of the requirements of A.R.S. § 20-1241, et al. These materials were provided by the Company in response to the ADVERTISING/MARKETING/SALES section of Attachment A of the Coordinator's Handbook.

The Company did not meet Standard 23, in apparent violation of A.R.S. § 20-1241.04(B)(1) by failing to provide accurate information about what constitutes a replacement in its Practical Guide to Professional Conduct, wherein the Replacement Guidelines incorrectly includes a "more than 25% of loan value" requirement when the replaced instrument is pledged as collateral or subjected to borrowing. Arizona law places no such minimum requirement in the definition of what constitutes a replacement. (See A.R.S. § 20-1241(11)(e).) The Practical Guide to Professional Conduct is a 53-page printed document disseminated to all new agents at the time they are retained. See PF # 002.

A standard in the areas of procedures, forms and/or the use of policy forms was not met if any exception was identified.

RECOMMENDATIONS

Within 90 days of the filed date of this Report, the Company should provide documentation that procedures and controls are in place to ensure that the Company:

1. Includes the related policy exclusions, limitations, or reductions in all ads that identify specific policy benefits, to comply with A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(7).
2. Includes the policy's preexisting condition exclusions, limitations, or reductions in all ads that identify specific policy benefits, to comply with A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(9).
3. Does not misrepresent the benefits or advantages available under the coverage in its advertising, to comply with A.R.S. SS 20-443(A).
4. Does not use hypothetical illustrations in its advertising likely to mislead or deceive purchasers or prospective purchasers, to comply with A.R.S. § 20-444(A) and A.A.C R20-6-201(C)(2).
5. Does not use words and statements in its advertising that exaggerate the policy benefits, to comply with A.R.S. § 20-444(A) and A.A.C. R20-6-201(C)(3).
6. Does not use testimonials in in its advertising without retaining the required documentation concerning the author, full text, age of the testimonial, or whether the individual was compensated directly or indirectly for the testimonial, in apparent violation of A.R.S. § 20-444(A) and A.A.C R20-6-201(E).
7. Does not use life insurance policy forms that limit the maximum amount available for policy loans to an amount less than the cash/surrender value of the policy, to comply with A.R.S. § 20-1209.
8. Specifies in its disclosure authorization forms the exact nature of the information sought, to comply with A.R.S. § 20-2106(4).
9. Limits the disclosure authorizations for claims other than health insurance to the duration of the claim, to comply with A.R.S. § 20-2106(8)(b).
10. Provides a Summary of Rights at the time any policy application is declined, to comply with A.R.S. § 20-2110(A).
11. Acknowledges claims within 10 working days of receipt of the claim, to comply with A.R.S. § 20-461(A)(2) and A.A.C. R20-6-801(E)(1).

12. Completes a prompt investigation of claims within 30 days after notification of the claims, to comply with A.R.S. § 20-461(A)(3) and A.A.C. R20-6-801(F).
13. Accepts or denies claims within 15 working days of receipt of the claims, to comply with A.R.S. § 20-461(A)(5) and A.A.C. R20-6-801(G)(1)(a).
14. Pays the previously underpaid interest in the amount of $111.30 to the Insured whose claim is identified as ADOI File No. MALPC-020 from the sample provided in response to REQ032.
15. Provides an appeal notice for a first level appeal that allows two years to file the appeal for all denied health insurance claims, to comply with A.R.S. § 20-2533(D).
16. Does not misrepresent the conversion privilege contained in its policies and permits an insured whose coverage was terminated because of his age to convert the coverage, to comply with A.R.S. § 20-443(A).
17. Does not use forms that require a "more than 25% of loan value" requirement when the replaced instrument is pledged as collateral or subjected to borrowing, to comply with A.R.S. § 20-1241.04(B)(1).

ADDENDUM I – STANDARDS FOR REVIEW

A. Operations and Management

#	STANDARD	PASS	FAIL
1	Company maintains and produces records in a timely manner as required by the Examiners for the completion of the market conduct examination. A.R.S. § 20-157(A) and A.A.C. R20-6-801(C).	X	
2	The Company's contracts with a supplier of consulting, investment, administrative, sales, marketing, custodial or other services with respect to variable life products are in writing and afford the Department access to records necessary for the examination of these products. (A.R.S. § 20-2602)	X	

B. Advertising, Marketing, and Sales

#	STANDARD	PASS	FAIL
3	All advertising and sales materials are in compliance with applicable statutes and rules. (A.R.S. §§ 20-442, 20-443, 20-444, 20-1110(E), 20-1137, and A.A.C. R20-6-202)		X
4	The Company markets its products in a fair and nondiscriminatory manner to all eligible individuals and/or groups. (A.R.S. §§ 20-448)	X	
5	**(Annuity only)** Company applications and policy/contract forms contain notices the right to request information regarding benefit and contract provisions and the right to return the contract for a refund of premium as prescribed by law. A.R.S. § 20-1233(A), (B) & (C)	X	
6	**(Annuity Only)** Company provides disclosure documents, buyer's guides and annual report to contract owners as prescribed by law. A.R.S. § 20-1242.02.	X	

C. Forms

#	STANDARD	PASS	FAIL
7	Policy forms, including but not limited to contracts, certificates, applications, riders, and endorsements, comply with pertinent Arizona laws and/or the laws of the state where the policy was issued. (A.R.S. §§ 20-448, 20-1201 through 20-1277, and 20-2601 through 20-2662)		X
8	Individual insurance policy forms, except those for which no renewal is provided, contain a 10-day free look provision, which is prominently displayed on the first page of the policy. (A.A.C. R20-6-501)	X	

#	STANDARD	PASS	FAIL
9	**(Annuity only)** Company applications and policy/contract forms contain notices the right to request information regarding benefit and contract provisions and the right to return the contract for a refund of premium as prescribed by law. A.R.S. § 20-1233(A), (B) & (C)	X	
10	**(Annuity Only)** Company provides disclosure documents, buyer's guides and annual report to contract owners as prescribed by law. A.R.S. § 20-1242.02.	X	

D. Underwriting

#	STANDARD	PASS	FAIL
11	The Company obtains prior written consent, using approved consent forms, before conducting tests for HIV or genetic disorders. (A.R.S. §§ 20-448.01, 20-448.02, and A.A.C. R20-6-1203)	X	
12	The Company complies with all notice of insurance information and privacy requirements. (A.R.S. §§ 20-2101, *et seq.*)		X

E. Claims Processing

#	STANDARD	PASS	FAIL
13	Claims are handled timely and appropriately in accordance with policy provisions and applicable statutes and rules. (A.R.S. §§ 20-461, 20-462, and 20-1215, and A.A.C. R20-6-801)		X
14	Claim files are adequately documented in order to be able to reconstruct the claim. (A.R.S. § 20-461 and A.A.C. R20-6-801)	X	
15	All claim forms contain an appropriate fraud warning. (A.R.S. § 20-466.03)	X	
16	The Company provides accurate benefits information to claimants and does not misstate pertinent provisions of the policy or Arizona law. (A.R.S. § 20-461, A.A.C. R20-6-801)	X	

F. Policyholder Services

#	STANDARD	PASS	FAIL
17	The Company takes adequate steps to finalize and dispose of the complaints in accordance with policy provisions and applicable statutes and rules. (A.R.S. § 20-461, A.A.C. R20-6-801)		X

G. Cancellation, Non-Renewals, and Rescissions

#	STANDARD	PASS	FAIL
18	The Company affords adequate grace periods without cancellation of coverage for the receipt of premiums as required by law. (A.R.S. §§ 20-191, 20-1203, 20-1219)	X	
19	The Company does not cancel, non-renew, or rescind coverage except as allowed by law (A.R.S. §§ 20-448, 20-1204, 20-1213, and 20-2636)		X
20	**(Life and Annuity)** The Company's contracts and applications contain appropriate notices concerning the right to return the policy/contract for a full refund of premiums. A.R.S. § 20-1233(A), (B), and (C).	X	
21	**(Life and Annuity)** Company handling of requests for refunds using the "Free Look" option, or the 30 day option if the application involved replacement of existing coverage are in compliance with applicable statutes, rules and regulations. A.R.S. §§ 20-1233(A) & (B), 20-1241.05(E), 20-1241.07(B), and 20-1242.02(F).	X	

H. Nonforfeiture, Dividends, Loans (Life and Annuity)

#	STANDARD	PASS	FAIL
22	The Company complies with pertinent Arizona law regarding nonforfeiture, dividends and/or policy loans. (A.R.S. §§ 20-1207 through 20-1212, 20-1231 through 20-1232, 20-2602, 20-2604, and 20-2636)	X	

I. Replacements (Life and Annuity)

#	STANDARD	PASS	FAIL
23	Company internal policies and procedure, forms and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations. A.R.S. §§ 20-1241, *et seq.*		X