

NOV 18 1994

STATE OF ARIZONA
DEPARTMENT OF ARIZONA

DEPARTMENT OF INSURANCE
By

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In the Matter of:)	
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PIONEER LIFE INSURANCE)	Docket No.: 8611
COMPANY OF ILLINOIS,)	
)	CONSENT ORDER
Respondent.)	
_____)	

A market conduct examination was made of Pioneer Life Insurance Company of Illinois (hereinafter "Respondent") by a Market Conduct Examiner for the Arizona Department of Insurance (hereinafter "the Department"). Said market conduct examination covered the time period of January 1, 1989, through June 30, 1991. Based upon the examination results, the Department is prepared to issue a Notice of Hearing alleging that Respondent has violated certain provisions of Title 20, Arizona Revised Statutes (hereinafter "A.R.S.") Sections 20-461 and 20-462, and the Arizona Administrative Code (hereinafter "A.A.C.") Rules 4-14-215, 4-14-606 and 4-14-801, as set forth below in the Findings of Fact and Conclusions of Law. Respondent wishes to resolve this matter without formal adjudicative proceedings and hereby agrees to a Consent Order.

The Director of Insurance of the State of Arizona (hereinafter "the Director") enters the following Findings of Fact and Conclusions of Law, which are neither admitted nor denied by Respondent, and issues the following Order:

.....

FINDINGS OF FACT

1
2 1. Respondent is authorized to transact life and
3 disability insurance in the State of Arizona pursuant to a
4 Certificate of Authority issued by the Director.

5 2. The Examiner was authorized by the Director to
6 conduct a market conduct examination of Respondent and has
7 prepared a report entitled Report of Examination of the Market
8 Conduct Affairs of Pioneer Life Insurance Company (hereinafter
9 "the Report"). The period covered by the on-site examination
10 was January 1, 1989, through June 30, 1991.

11 3. The Examiner reviewed 51 claims-related
12 complaints filed with the Department against Respondent. Of the
13 complaints reviewed by the Examiner, Respondent had failed to
14 respond to the Department within 15 working days of receiving
15 the complaint from the Department in nine (18%) of the files.

16 4. The Examiner reviewed seven replacement life
17 insurance policies issued by Respondent. Of the seven
18 replacement policies reviewed:

19 a. two files failed to include a signed statement
20 submitted by the agent concerning whether replacement
21 was or was not involved in the transaction;

22 b. four files failed to contain the required notice
23 from the agent to the applicant regarding the
24 replacement of life insurance; and

25 c. one file failed to include notification to the
26 existing insurer within three working days of the
27 possibility of replacement.

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1 5. The Examiner reviewed 106 Medicare supplement
2 policies, 67 of which involved the replacement of Medicare
3 supplement insurance policies by Respondent. Of the Medicare
4 supplement policies reviewed:

5 a. two policy files failed to include the necessary
6 replacement notice;

7 b. seventeen policy files indicated that the correct
8 "Replacement Notice" had not been given to the
9 applicant;

10 c. two policy files failed to include a list by the
11 agent of policies still in force;

12 d. seven policy files failed to include a list by
13 the agent of policies sold in the past five years and
14 no longer in force;

15 e. twenty-eight policy files indicated that
16 commission rates for the first year exceeded more than
17 200% of commission rates for the second year and/or
18 failed to maintain level commissions during the entire
19 renewal period;

20 f. ten policy files indicated that commissions were
21 paid at a higher rate than the renewal rate when
22 replacement of an existing Medicare supplement policy
23 was involved;

24 g. two policy files indicated that first-year
25 commissions were paid on increases in premiums while
26 no comparison of benefits form was obtained;

27 h. sixteen replacement policy files lacked the
28 required comparison of benefits form; and

1 i. two policy files indicated that the applicant had
2 existing Medicare supplement, but Respondent and/or
3 its agents failed to ascertain whether there would be
4 a duplication of benefits.

5 6. The Examiner reviewed 5 of the 14 Arizona death
6 claims paid by Respondent during the examination period.

7 7. The Examiner reviewed 352 Arizona accident and
8 health claims paid by Respondent during the examination period.
9 Reviewed claim files included 204 Medicare supplement claims
10 (Illinois Office), 27 claims under senior products and others
11 (Illinois Office), and 121 Underage Association claims (Texas
12 Office). As to the paid accident and health claims reviewed,
13 Respondent:

14 a. failed to acknowledge receipt of notification of
15 the claim within ten working days in 102 claim files
16 (29%);

17 b. failed to notify the claimant of the acceptance
18 or denial of the claim within 15 working days after
19 receiving the proof of loss in 109 claim files (31%);
20 and

21 c. failed to pay interest on claims paid more than
22 30 days after the receipt of proof of loss from
23 first-party claimants in 59 claim files (17%).

24 8. The Examiner reviewed 196 Arizona accident and
25 health claims closed by Respondent without payment during the
26 examination period. Reviewed claim files included 101 Medicare
27 supplement claims (Illinois Office), 12 claims under senior
28 products and others (Illinois Office), and 83 Underage

1 Association claims (Texas Office). As to the reviewed accident
2 and health claims closed by Respondent without payment,
3 Respondent:

4 a. failed to acknowledge receipt of notification of
5 the claim within ten working days in 70 claim files
6 (36%); and

7 b. failed to notify the claimant of the acceptance
8 or denial of the claim within 15 working days after
9 receiving the proof of loss in 61 claim files (31%).

10 CONCLUSIONS OF LAW

11 1. The Director has jurisdiction in this matter.

12 2. The failure of Respondent to respond within 15
13 working days of receipt of a complaint from the Department
14 violates A.A.C. R4-14-801(E)(2).

15 3. The failure by Respondent's agents to provide
16 required notices to the applicant regarding the replacement of
17 life insurance constitutes violations of A.A.C.
18 R4-14-215(E)(1)(b), R4-14-215(E)(2)(a), and R4-14-215(F)(3)(a).

19 4. The failure by Respondent and/or its agents to
20 provide a notice to the existing carrier within three working
21 days of the possibility of replacement of the coverage
22 constitutes a violation of A.A.C. R4-14-215(E)(1)(a).

23 5. The failure by Respondent and/or its agents to
24 provide required notices to the applicant regarding the
25 replacement of Medicare supplement insurance constitutes
26 violations of A.A.C. R4-14-606(C).

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1 required notices to the applicant regarding the replacement of
2 life insurance; provide required notices to the applicant
3 regarding the replacement of Medicare supplement insurance;
4 acknowledge receipt of notification of a claim within ten
5 working days of receipt of said notification unless the claim is
6 paid within that time; notify the claimant of acceptance or
7 denial of the claim within 15 working days after receiving a
8 satisfactory proof of loss and pay interest to a first-party
9 claimant where the subject claim was not paid within 30 days
10 after receipt of the proof of loss.

11 2. Respondent shall develop a written action plan
12 acceptable to the Department to monitor and ensure strict
13 compliance with the claims processing requirements of A.R.S.
14 Sections 20-461 and 20-462, and A.A.C. R4-14-801.

15 3. Respondent shall develop a written action plan
16 acceptable to the Department to monitor and ensure strict
17 compliance with the procedures for the replacement of life
18 insurance policies as set forth in A.A.C. R4-14-215.

19 4. Respondent shall develop a written action plan
20 acceptable to the Department to monitor and ensure strict
21 compliance with the procedures for the issuance and replacement
22 of Medicare supplement insurance policies as set forth in A.A.C.
23 R4-14-606. {Now A.A.C. R4-14-1101 et seq}

24 5. Within 30 days of the filed date of this Report,
25 Respondent shall pay to the 64 claimants cited in the Findings
26 of Fact, 6(c) and 7(c) above, interest on the amounts of their
27 claims which were unpaid on the 30th day after Respondent's
28 receipt of proofs of loss containing all information necessary

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for claims adjudication. Interest shall be paid at the rate of ten percent (10%) per annum calculated from the date the claim was received by Respondent to the date the claim was paid. This payment shall be accompanied by a letter to the insured acceptable to the Director. A list of payments, giving the name and address of each party to whom they were made, the base amount, the amount of interest paid or credited, and the date of payment shall be provided to the ADOI when all payments have been made.

6. The Department shall be permitted, through an authorized representative, to verify that Respondent has complied with all provisions of this Order, and the Director may separately order Respondent to comply.


7. Respondent shall pay a civil penalty of TWENTY THOUSAND DOLLARS (\$20,000) to the Director for remission to the State Treasurer for deposit to the State General Fund in accordance with A.R.S. Section 20-220(B). Said civil penalty shall be provided to the Administrative Law Division of the Department on or before November 15, 1994.

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8. The Report of Market Conduct Examination as of June 30, 1991, to include Respondent's June 18, 1993, June 28, 1993, and August 9, 1993, responses to the Report, shall be filed with the Department as of the effective date of this Order.

DATED at Phoenix, Arizona, this 18th day of November, 1994.


CHRIS HERSTAM
Director of Insurance

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CONSENT TO ORDER

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2 1. Respondent, PIONEER LIFE INSURANCE COMPANY OF
3 ILLINOIS, has reviewed the foregoing Order.

4 2. Respondent is aware of its right to a hearing in
5 this matter at which hearing Respondent may be represented by
6 counsel, present evidence and cross-examine witnesses.
7 Respondent has irrevocably waived its right to such public
8 hearing and to any court appeals relating thereto.

9 3. Respondent admits the jurisdiction of the
10 Director of Insurance, State of Arizona, and consents to the
11 entry of this Order.

12 4. Respondent states that no promise of any kind or
13 nature whatsoever was made to induce it to enter into this Order
14 and that it has entered into this Order voluntarily.

15 5. It is acknowledged and agreed by the Respondent
16 on the one hand and the Department on the other hand, that entry
17 of this Consent Order is not an admission of any fault or
18 liability whatsoever by Respondent or any person, firm,
19 corporation or association, but is entered into to settle the
20 disouted contentions hereinabove referenced.

21 6. Respondent acknowledges that the acceptance of
22 this Order by the Director of Insurance, State of Arizona, is
23 solely for the purpose of settling this litigation against it
24 and does not preclude any other agency or officer of this State
25 or any subdivision thereof from instituting other civil or
26 criminal proceedings as may be appropriate now or in the future.

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7. THOMAS J. BROPHY represents that as
the PRESIDENT of Respondent, PIONEER LIFE INSURANCE
COMPANY OF ILLINOIS, that he/she has been authorized by
Respondent to enter into this Order for and on its behalf.

November 11, 1994
Date

By: Thomas J. Brophy PRESIDENT
Name, Title

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COPY of the foregoing mailed/delivered
this 18th day of November , 1994, to:

- Gay Ann Williams
Deputy Director
- Gregory Y. Harris
Chief Administrative Law Judge
- Erin Klüg
Manager
Market Conduct Examinations Division
- Saul Saulson
Supervisor
Examinations Section
- Shirley Polzin
Supervisor
Life and Disability Section
- Deloris E. Williamson
Assistant Director
Rates & Regulations Division
- Gary Torticill
Assistant Director and Chief Financial Examiner
Corporate & Financial Affairs Division
- Cathy O,Neil
Assistant Director
Consumer Services and Investigations
- Mary Butterfield (L&D Orders only)
Manager
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