

PRESS RELEASE

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INSURANCE DIRECTOR IMPOSES \$80,000 CIVIL PENALTY AGAINST NEW YORK LIFE INSURANCE COMPANY

Chuck Cohen, Director of the Arizona Department of Insurance announced today the entry of an order that assesses an \$80,000 civil penalty against New York Life Insurance Company for violations of Arizona's laws governing the marketing of life insurance and long term care insurance.

This consent order is based on the Department's examination of New York Life's market conduct during the period January 1, 1991 through December 31, 1993. New York Life, like many life insurers, invites insurance consumers holding paid up life insurance policies, to replace their current policies with new policies. Because of the great potential for exploitation in this situation, state law requires an insurance company to provide policyholders with extensive information and disclosures about the transaction, and the potential impact on the policyholder's finances.

After reviewing numerous life insurance application files, the Department found that New York Life representatives failed to make legally required disclosures and timely provide information and documents to policyholders who were considering replacement of, or replacing, life insurance policies. Company agents told some policyholders that premiums on the new policies would be paid in full from earnings from existing policies and that the policyholders would have no out-of-pocket costs. Later, the company billed these policyholders for premium payments. The company failed to explain to some policyholders which policy dividends were guaranteed and which were not. The company and its agents misled some consumers about whether interest on policy loans was tax deductible. Using computer software supplied by New York Life, company agents also provided misleading information and illustrations to insurance consumers, which did not explain premium offsets or explain what benefits and coverage an insured would have.

The Department's market conduct examination revealed other types of violations as well. The company paid commissions to unlicensed agents who marketed policies in Arizona. In some cases, New York Life failed to obtain required consents from insureds prior to testing them for HIV; others completely lacked a consent for HIV testing even though the file showed test results. In several cases involving the purchase of long term care insurance, New York Life failed to make legally required disclosures.

The Department's order prohibits New York Life from engaging in the behavior that resulted in the findings of violations. It also requires the insurance company to provide the Department with a written corrective action plan, and revised manuals governing procedures, and practices for underwriting,

claims, sales, agent training, auditing, and monitoring. Cohen stated, "Although we are confident New York Life has ceased these improper practices, the Department will carefully scrutinize these documents and monitor the company's future conduct. We will actively verify that New York Life is complying with all provisions in the order."

Arizona is one of several states to take regulatory enforcement action against New York Life arising out of sales practices and other conduct that were the subject of a separate class action against the insurance company in New York State. New York Life and other insurance companies were the subjects of several class action lawsuits brought by policyholders throughout the country who alleged they were subjected to misleading and abusive sales practices regarding the purchase of replacement life insurance.

The class action against New York Life involved policyholders who purchased life insurance between January 1, 1982 and December 31, 1994. That class action was resolved by a final order dated November 8, 1995. In the order, New York Life agreed to provide more than \$250 million in economic benefits for policyholders through 1 of 3 options to be chosen by the policyholders: optional premium loans, an enhanced value life insurance policy, and an enhanced value annuity. The 1995 order settling the class action resolved any individual claims for monetary compensation or damages.

New York Life acknowledged the need to change its practices and was cooperative throughout the Department's examination.