

# **OHIO DEPARTMENT OF INSURANCE**

**A  
MARKET CONDUCT EXAMINATION  
OF  
UNIVERSAL GUARANTY LIFE INSURANCE COMPANY  
NAIC #70130**

**As Of**

**December 31, 2002**





Bob Taft, Governor  
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067  
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin  
Director  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, Ohio 43215-1067

Director:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a market conduct examination was conducted on the Ohio business of:

Universal Guaranty Life Insurance Company  
NAIC Company Code 70130

The examination was conducted at the Company's main administration office located at:

5250 South Sixth Street  
Springfield, Illinois 62703

A report of the examination is enclosed.

Respectfully submitted,

A handwritten signature in cursive script that reads 'David R. Beck'.

David R. Beck

Chief, Market Conduct Division

Date: 9/29/2003



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## **SCOPE OF EXAMINATION**

The examination of Universal Guaranty Life Insurance Company (the Company) commenced on March 17, 2003 at the Company's main administration office in Springfield, Illinois. The Company's statutory home office is in Columbus, Ohio. The examination was restricted to Company activities for individual ordinary life insurance business and individual annuity business from the period of January 1, 2000 through December 31, 2002. The examination is reported by test.

This examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and Ohio's applicable statutes, rules, and regulations. Accordingly, the examination included the following areas of the Company's operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Marketing
- E. Universal Life
- F. Illustrations
- G. Replacements
- H. Underwriting
- I. Policyholder Services
- J. Paid Claims

## **METHODOLOGY**

The examination was conducted through a review of the Company's individual ordinary life insurance and individual annuity policy files and claim files. A review was also conducted on the Company's corresponding procedure manuals. This information was supplemented, as

necessary, with interviews of Company managers and written inquiries to the Company requesting clarification and/or additional information.

Only files with Ohio insureds, policyholders or claimants were reviewed. A series of tests were designed and applied to the files reviewed to determine the Company's level of compliance to Ohio insurance statutes, rules and regulations. These tests are described and the results noted in this report.

The Examiners used the NAIC's standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test.

The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply.

In any instance where errors were noted, the Examiners submitted a request to the Company for information describing the apparent error. Response to these inquiries were returned to the Examiners with notes as to whether the Company:

- Concurred with the findings, and/or
- Had additional information for the Examiners to consider, and/or
- Proposed remedial action(s) to correct the apparent deficiency.

The Examiners' recommendations, as applicable, are included in this report. The Company's comments are attached at the end of this report.

## **SAMPLING**

The Examiners requested, and the Company supplied, reports of policy and claim data in file formats specified by the Examiners, which could be reviewed on an IBM compatible personal computer. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. These samples were selected using a standard business database application that provides a true random sample since it supplies a random starting point from which to pull the sample.

## **COMPANY HISTORY**

The Company was incorporated on November 15, 1966 and commenced business on December 31, 1966. During its early years, the Company sold policies through a captive agency. Throughout the 1980's, the Company's general makeup changed with the introduction of excess interest whole life policies, general agents, and universal life contracts. In the mid-1980's, the Company's insurance holding company, United Trust Group, was formed in Illinois. In the late 1980's, United Trust Group formed United Income, Inc, an Ohio insurance holding company, which then created United Security Assurance Company. In 1989, the Company was sold to First Commonwealth Corporation, an insurance holding company with a history of insurance company acquisitions. In 1992, United Trust Group purchased First Commonwealth Corporation and all its subsidiaries. First Commonwealth Corporation later merged into the Company's parent, United Trust Group.

In 1998, the United Trust Group was acquired by First Southern Holdings, LLC, whose controlling person, Mr. Jesse Correll, retains control today. In 1999, United Security Assurance Company merged in to the Company.

## **COMPANY OPERATIONS**

The Company is licensed in thirty-eight states and currently operates in Ohio and Illinois with lesser activities in Iowa, Indiana, Missouri and Wisconsin. The Company's statutory home

office is in Columbus, Ohio. The Company is currently licensed and operating as third party administrator for two companies, Independent Order of Vikings and MaxRE/GE Life and Annuity. The Company is providing customer service and processing new business, claims, financial, and premium accounting activities for these companies. During the second quarter of 2002, the Company entered into an agreement with Fiserv Life Insurance Services to jointly provide third party administration services to various insurance entities, with Fiserv Life Insurance Services acting as the system administrator and the Company acting as the third party administrator.

The Company's reported life direct premiums written and direct losses paid during the examination period as reported on Life Insurance Part 1 of the Company's financial annual statement are as follows:

<u>Line</u>	<b>2002 Ohio Ordinary</b>	<b>2001 Ohio Ordinary</b>	<b>2000 Ohio Ordinary</b>
Life insurance	5,293,929	6,185,258	7,642,474
Annuity considerations	<u>26,643</u>	<u>41,430</u>	<u>69,407</u>
Totals (direct premiums and annuity considerations)	<u>5,320,572</u>	<u>6,226,688</u>	<u>7,711,881</u>
Totals (direct claims and benefits paid)	<u>7,868,267</u>	<u>6,486,751</u>	<u>8,991,284</u>
<u>Line</u>	<b>2002 National Ordinary</b>	<b>2001 National Ordinary</b>	<b>2000 National Ordinary</b>
Life insurance	16,346,713	18,211,073	20,743,544
Annuity considerations	<u>739,771</u>	<u>841,969</u>	<u>987,980</u>
Totals (direct premiums and annuity considerations)	<u>17,086,484</u>	<u>19,053,042</u>	<u>21,731,524</u>
Totals (direct claims and benefits paid)	<u>22,481,903</u>	<u>22,655,518</u>	<u>27,462,920</u>

As of December 31, 2002, the officers of the Company were:

President:	Randall Lanier Attkisson
Treasurer:	Theodore Clayton Miller
Secretary:	Theodore Clayton Miller
Actuary:	Wilfred Joseph Albracht

### **CERTIFICATE OF AUTHORITY**

The Company operates under Certificates of Authority issued in accordance with the statutes, rules and regulations of Ohio. In the course of the examination, the Examiners found the Ohio operation of the Company to be in compliance with its Certificates of Authority for the state.

### **MARKETING**

The Company currently markets a very limited portfolio of products through two distribution channels: 1) personal-producing general agents who have been with the Company an average of five or more years, and 2) as part of the Company's conservation effort, through licensed home office employees. The Company is also planning on insurance distribution through licensed bank employees of the parent organization.

The Company's product portfolio currently consists of 1) UL90A, a high value universal life product, 2) Tradition, a non-par value whole life policy, 3) Horizon, a flexible premium deferred annuity, and 4) a single premium immediate annuity. In addition, the Company is planning on adding three additional products to its portfolio in the next several months. These products consist of a mid-range universal life policy, a ten pay whole life policy, and a non-par value whole life policy.

The last two products are targeted for Appalachian Life Insurance Company clientele in West Virginia. Appalachian Life Insurance Company is a sister company to the Company and will be merging with the Company in the future.

The Company does not utilize regional offices, third party administrators or managing general agencies.

**UNIVERSAL LIFE**

**Standard:** Company rules pertaining to the handling requirements for universal life policies are in compliance with applicable statutes, rules, and regulations.

**Test:** Did the Company follow all rules and regulations for handling of universal life policies according to Ohio Administrative Code §3901-6-07 (G) (1)-(7)?

**Methodology:**

- The Company supplied the following data files:
  1. Ordinary Individual Life new business written during the examination period.
  2. A file of all policy forms and plan codes used to write new Ordinary Individual Life policies.
- The Examiners reviewed a random sample of fifty (50) universal life policies written during the examination period.
- A file was considered an exception if the policies did not include mandatory policy provisions.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
295	50	50	0	90%	100%

The standard of compliance is 90%. The Company's handling practices for universal life policies is above this standard.

## ILLUSTRATIONS

**Standard:** The Company files all illustration certifications with the Department of Insurance as required by statutes, rules, and regulations.

**Test:** Did the Company file the Annual Life Illustrations Certifications as required by Rule §3901-6-04 (K) (4) of the Ohio Administrative Code and did the Certifications accurately state which policies were being marketed with illustrations?

### Methodology:

- The Company supplied the following data files:
  1. Individual Ordinary Life new business written during the examination period.
  2. A file of all policy forms and plan codes used to write new Individual Ordinary Life business.
- The Company supplied copies of the Annual Life Insurance Illustration Certifications for the years covered in the examination period.
- Each policy form was manually checked against the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.
- A file was considered an exception if either:
  1. A policy form was listed in the Company supplied data files as using an illustration but was not listed as using an illustration per the Company-supplied Annual Life Illustration Certifications (hereinafter referred to as "Certification");
  2. The policy file contained an illustration that was not listed on the Certification;
  3. The policy file did not contain an illustration, but that policy form was listed on the Certification as requiring one; or
  4. The policy file contained an illustration, but it was dated outside of the certification period.

**Findings:**

The Examiners found no illustrated policy forms that were not identified on the Annual Life Insurance Illustration Certification.

**Standard:** An illustration used in the sale of a policy contains all required information and is delivered in accordance with statutes, rules and regulations.

**Test:** Did the Company's illustrations comply with the life insurance illustration requirements of Ohio Administrative Code §3901-6-04?

**Methodology:**

- The Company supplied for review all written policies and procedures that instructed the agents on the Company's Illustration procedures and requirements.
- The Company supplied the following data files:
  1. Individual Ordinary Life new business written during the examination period.
  2. A file of all the policy forms and plan codes used to write new Individual Ordinary Life business.
- The Company supplied copies of the Annual Life Insurance Illustration Certifications for the years covered in the examination period.
- The entire population of fifty-five (55) new Individual Ordinary Life policies indicating the use of illustrations, were pulled for review.
- Each policy file was reviewed to verify that all required information was contained in the illustration and that it was delivered according to the illustration law.
- A file was considered an exception if it did not comply with the portion of the illustration law tested.

**Findings:**

Test	Population	Yes	No	Standard	Compliance
Was an illustration or certification submitted with the application?	55	55	0	90%	100%
Was the agent issued illustration or certification signed at the date of the application?	55	55	0	90%	100%
Was the illustration clearly labeled “Life Insurance Illustration”, did it contain the name of the insurer, the name, age, and sex of the insured, the name and business address of the agent or other authorized representative, the underwriting/rating class, the generic policy name, product name and form number, the initial death benefit, when applicable the dividend option election or application of non-guaranteed elements and were the terms defined in language understood by the typical public?	55	55	0	90%	100%
Did the basic illustration contain all parts required?	55	54	1	90%	98%
Did the Narrative Summary contain all parts required?	55	54	1	90%	98%
Did the Numeric Summary contain the required statements that were signed and dated by both the agent and the policy owner; include policy maturity and final expiration if premium was to change; contain the correct guaranteed death benefit and surrender value corresponding to the policy year for which the contract premium has been paid; and were non-guaranteed elements shown for the same duration as guaranteed elements?	55	55	0	90%	100%
Did the illustration not include prohibited language, terms, or misleading representations?	55	54	1	90%	98%
Was the revised illustration sent with the policy marked as “Revised Illustration”, signed and dated by the applicant or policy owner no later than the policy delivery date and did the Company receive a signed copy of the revised illustration?	55	50	5	90%	91%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

**Examiners' Additional Comments:**

Although the Company's performance was above the minimum standard, the Company should establish procedures to mark any illustrations, subsequent to the initial illustration sent with the application, as "Revised" in accordance with Ohio Administrative Code §3901-6-04 (I)(1)(b).

**EXTERNAL REPLACEMENTS-LIFE**

**Standard:** Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company require their agents to comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company's replacement register for business replaced in Ohio.
- A file was produced for review containing:
  1. The entire population of thirty-three (33) policies listed in the replacement register.
  2. A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.

## Findings: Life Insurance Policy External Replacements

Agent requirements for external replacements:

Test	Population	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	33	33	0	90%	100%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	33	33	0	90%	100%
Did the agent present to the applicant a "Notice Regarding Replacement"?	33	33	0	90%	100%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	33	33	0	90%	100%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	33	33	0	90%	100%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	33	0	33	90%	0%
Did the agent submit a completed application to the replacing company?	33	33	0	90%	100%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number?	33	33	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in one of the eight tests.

### Examiners' Recommendations:

The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form be revised to meet required state regulations.

**Standard:** Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company’s practices of handling replacement policies comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company’s replacement register for business replaced in Ohio.
- A file was produced for review containing:
  1. The entire population of thirty-three (33) policies listed in the replacement register.
- A file was considered an exception if it did not comply with the company requirement section of the replacement laws tested.

**Findings: Life Insurance Policy External Replacements**

Company’s requirements for external replacements:

Test	Population	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?	33	33	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	33	33	0	90%	100%

Test	Population	Yes	No	Standard	Compliance
Did the Company require from the agent, with the application, a list of all the applicant's existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured, and contract number?	33	33	0	90%	100%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	33	33	0	90%	100%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	33	0	33	90%	0%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	33	33	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	33	23	10	90%	70%
Did the Company include in the written communication a policy or ledger statement to each existing insurer?	33	33	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in two of the eight tests.

**Examiners' Recommendations:**

1. The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form be revised to meet required state regulations and that the Company should not accept applications unless the "Notice " is signed by both agent and applicant.

2. The Company needs to develop procedures and have controls in place to assure the company being replaced is notified of the replacement with three (3) working days from the receipt of the application.

### **INTERNAL REPLACEMENTS-LIFE**

**Standard:** Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company require their agents to comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company’s replacement register for business replaced in Ohio.
  2. New business files written during the examination period.
- A file was produced for review containing:
  1. A random sample of fifty (50) policies listed in the replacement register.
  2. A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement laws tested.

**Findings: Life Insurance Policy Internal Replacements**

Agent requirements for Internal replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	273	50	50	0	90%	100%

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	273	50	50	0	90%	100%
Did the agent present to the applicant a "Notice Regarding Replacement"?	273	50	50	0	90%	100%
Was the "Notice Regarding Replacement" signed not later than the time of taking the application?	273	50	50	0	90%	100%
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	273	50	50	0	90%	100%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	273	50	0	50	90%	0%
Did the agent submit a completed application to the replacing company?	273	50	50	0	90%	100%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number?	273	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in one of the eight tests.

**Examiners' Recommendation:**

The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form needs to be revised to meet required state regulations.

**Standard:** Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company’s practices of handling replacement policies comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company’s replacement register for business replaced in Ohio.
  2. New business files written during examination period.
- A file was produced for review containing:
  1. A random sample of fifty (50) policies listed in the replacement register.
  2. A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules and regulations.
- A file was considered an exception if it did not comply with the company requirement section of the replacement law tested.

**Findings: Life Insurance Policy Internal Replacements**

Company’s requirements for Internal replacements:

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?	273	50	50	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	273	50	50	0	90%	100%

Test	Population	Sample	Yes	No	Standard	Compliance
Did the Company require from the agent, with the application, a list of all the applicant's existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number?	273	50	50	0	90%	100%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	273	50	0	50	90%	0%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	273	50	50	0	90%	100%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	273	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in one of six tests.

**Examiners' Recommendations:**

The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form be revised to meet required state regulations.

**Examiners' Additional Comments:**

The Examiners determined that 89% of new business policies were internal replacements. This was analyzed to assure that no abuses were occurring. It was found that the Company discourages the practice of internal replacements by lowering commissions paid on these transactions. The Examiners verified that the commissions were markedly reduced on the internal replacements reviewed. Most of the internal replacements involved moving a policyholder from a participating whole life policy to a newer universal life product.

## ANNUITY REPLACEMENTS

**Standard:** Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company require their agents to comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company’s replacement register for business replaced in Ohio.
  2. Policies terminated in Ohio during the examination period.
  3. Policies in force on Ohio at the end of the examination period.
- A file was produced for review containing:
  1. The entire population of two (2) internal annuity replacement policies listed in the replacement register.
  2. A file was considered an exception if it did not comply with the portion of the agent requirement section of the replacement law tested.

Agent requirements for replacements:

Test	Population	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	2	2	0	90%	100%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	2	2	0	90%	100%
Did the agent present to the applicant a “Notice Regarding Replacement”?	2	2	0	90%	100%
Was the “Notice Regarding Replacement” signed not later than the time of taking the application?	2	2	0	90%	100%

Test	Population	Yes	No	Standard	Compliance
Did the agent submit a copy of the "Notice Regarding Replacement" to the replacing company?	2	2	0	90%	100%
Was the "Notice Regarding Replacement" signed by both the applicant and the agent?	2	0	2	90%	0%
Did the agent submit a completed application to the replacing company?	2	2	0	90%	100%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identified by name of insurer, the insured and contract number?	2	2	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in one of eight tests.

**Examiners' Recommendations:**

The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form needs to be revised to meet required state regulations.

**Standard:** Company rules pertaining to Company requirements in connection with replacements are in compliance with applicable statutes, rules and regulations.

**Test:** Did the Company's practices of handling replacement policies comply with the replacement requirements for life insurance according to Rule §3901-6-05 of the Ohio Administrative Code?

**Methodology:**

- The Examiners reviewed all written policies and procedures on the Company's replacement procedures and requirements.
- The Company supplied the following data files:
  1. The Company's replacement register for business replaced in Ohio.
  2. New business files written during the examination period.

- A file was produced for review containing:
  1. The entire population of two (2) annuity replacement policies listed in the replacement register.
- A review was performed of the replacement register to determine if it contained all of the necessary information according to state statutes, rules and regulations.
- A file was considered an exception if it did not comply with the company requirement section of the replacement law tested.

Company requirements for replacements:

Test	Population	Yes	No	Standard	Compliance
Did the Company require a statement by the applicant as to whether the proposed insurance would replace existing life insurance?	2	2	0	90%	100%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	2	2	0	90%	100%
Did the Company require from the agent, with the application, a list of all the applicant's existing life insurance to be replaced and was that list properly identified by the name of the insurer, insured and contract number?	2	2	0	90%	100%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	2	0	2	90%	0%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statement used?	2	2	0	90%	100%
Did the Company provide notification in or with the policy about the 20 day free look period and premium refund?	2	2	0	90%	100%
Did the Company send a written communication to the existing insurer advising of the replacement within three (3) working days of receipt of the application?	2	2	0	90%	100%

Test	Population	Yes	No	Standard	Compliance
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	2	2	0	90%	100%

The standard of compliance is 90%. The Company's performance was below the minimum standard in one of eight tests.

**Examiners' Recommendations:**

The "Notice Regarding Replacement" form being utilized by the Company does not contain a section for the agent's signature. The Examiners recommend to the Company that the form needs to be revised to meet required state regulations.

**UNDERWRITING**

**Standard:** Rejections and declinations are not unfairly discriminatory.

**Test:** Does the Company avoid unfairly discriminatory rejection/declination reasons per Ohio Revised Code §3901.21(F)?

**Methodology:**

- The Company supplied a computer file of all new business life policies declined in Ohio during the examination period.
- The entire population of thirty-nine (39) new business declined files were requested for review.
- A file would be considered an exception if:
  1. The rejection/declination reason was contrary to applicable state law; or
  2. Appropriate refunds were not made to the applicant.

**Findings:**

Population	Yes	No	Standard	Compliance
39	39	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

**Standard:** File documentation adequately supports decisions made.

**Test:** Did the Company uphold its duty to furnish specific reasons for adverse underwriting decisions and provides applicants with a summary of rights per Ohio Revised Code §3904.10?

**Methodology:**

- The Company supplied a computer file of all new business life policies declined in Ohio during the examination period.
- The entire population of thirty-nine (39) new business declined files were requested for review.
- A file would be considered an exception if:
  1. The file did not contain adequate support documentation for adverse underwriting decision.

**Findings:**

Population	Yes	No	Standard	Compliance
39	39	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

## POLICYHOLDER SERVICES

**Standard:** Policy transactions are processed accurately and completely.

**Test:** Did the Company process terminated life insurance policies according to the policy provisions and Ohio Revised Code §3915.071?

### **Methodology:**

- The Examiners requested, and the Company supplied, a data file containing all life insurance terminations that occurred during the exam period.
- From the data file, the population of surrendered life insurance policies was identified.
- A surrendered file would be considered an exception if:
  1. Cash surrender values were not calculated correctly or not provided when required.
  2. Nonforfeiture benefits were not offered to the policyholder according to the policy provisions.
  3. The policy was not terminated according to policy provisions.

### **Findings:**

Population	Sample	Yes	No	Standard	Compliance
2859	50	50	0	90%	100%

The standard of compliance is 90%. The Company's performance was above the minimum standard.

## PAID CLAIMS

### **Adequate Documentation**

**Standard:** Claim files are adequately documented.

**Test:** Were the claim files adequately documented to determine the date of death, receipt date of notification of the death, receipt date of proof of death and the dates of all correspondence?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Rule §3901-1-07 of the Ohio Administrative Code. The Examiners also selected the entire population of three (3) annuity death claim files to test for compliance with Rule §3901-1-07 of the Ohio Administrative Code
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if proper documentation could not be found within the claim file.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Findings:** Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
3	3	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Initial Contact**

**Standard:** The initial contact by the Company with the claimant is within the required time frame.

**Test:** Upon receiving notification of claim, did the Company contact the claimant within fifteen (15) working days of receiving notice of the claim according to Rule §3901-1-07 (C) (5) of the Ohio Administrative Code?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Rule §3901-1-07 (C) (5) of the Ohio Administrative Code. The Examiners also selected the entire population of three (3) annuity death claims files to test for compliance with Rule §3901-1-07 (C) (5) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not contact the claimant within the prescribed number of days from the date of notification of the insured’s death.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	50	0	93%	100%

The standard of compliance is 93%. The Company’s performance was above the minimum standard.

**Findings:** Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
3	3	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Timely Investigation**

**Standard:** Investigations are conducted in a timely manner.

**Test:** Did the Company begin investigating the claim within fifteen (15) working days of receiving notice of the claim according to Rule §3901-1-07 (C) (4) of the Ohio Administrative Code?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Rule §3901-1-07 (C) (4) of the Ohio Administrative Code. The Examiners also selected the entire population of three (3) annuity death claims files to test for compliance with Rule §3901-1-07 (C) (4) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not begin investigating the claim within the required time frame or could not document investigating the claim with the required time frame.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Findings:** Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
3	3	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Timely settlement**

**Standard:** Claims are settled in a timely manner.

**Test:** Was the claim settled not later than two months after the receipt of proof of death according to §3915.05 (K) of the Ohio Revised Code?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Ohio Revised Code §3915.05 (K). The Examiners also selected the entire population of three (3) annuity death claim files to test for compliance with Ohio Revised Code §3915.05 (K).
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the Company did not settle the claim within the required time frame.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Findings:** Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
3	3	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Timely response to Correspondence**

**Standard:** The Company responds to claim correspondence in a timely manner.

**Test:** Did the Company respond to all claim correspondence within fifteen (15) days according to Rule §3901-1-07 (C) (2) of the Ohio Administrative Code?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Rule §3901-1-07 (C) (2) of the Ohio Administrative Code. The Examiners also selected the entire population of three (3) annuity death claims files to test for compliance with Rule §3901-1-07 (C) (2) of the Ohio Administrative Code.
- The claim files were reviewed to verify dates in the claim process.
- A claim was considered an exception if the file showed that the Company did not respond to subsequent, not the initial contact, claim correspondence within the required time frame.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	50	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Findings:** Annuity Paid Death Claims

Population	Yes	No	Standard	Compliance
3	3	0	93%	100%

The standard of compliance is 93%. The Company's performance was above the minimum standard.

**Claim handling**

**Standard:** Claim files are handled in accordance with policy provisions and state law.

**Test:** Were the claims correctly paid with interest from the date of the death of the insured to the date of the payment of the proceeds according to §3915.052 of the Ohio Revised Code?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all claims files that had death claims paid on them during the exam period. The Examiners selected a random sampling of fifty (50) life insurance paid death claim files to test for compliance with Ohio Revised Code §3915.052. The interest test does not apply to annuity policies.
- The claim files were reviewed to verify dates in the claim process, the insured's resident state at the time of death and the issue state of the policy.
- A payment set up as a separate account/checking account for the beneficiary was considered a lump sum payment.
- A claim file was considered an exception if the Company did not accurately calculate interest payments due.

**Findings:** Life Insurance Paid Death Claims

Population	Sample	Yes	No	Standard	Compliance
248	50	33	17	93%	66%

The standard of compliance is 93%. The Company's performance was below the minimum standard.

**Examiners' Recommendations:**

The Company needs to establish procedures and controls to assure the higher of the annual short-term applicable federal rate in effect at the time of the claim or the current Company rate in effect at the time of payment is used. The Company should review the entire population of paid death claims and any errors in calculation resulting in underpayments of interest should be corrected and appropriate funds sent to the beneficiaries.

**Examiners' Additional Comments:**

The Examiners noted that the Century 2000 policy (U159385A) appeared to be in violation of Ohio rules and regulations. The policy states that the interest will be paid on the Death Benefit of this policy or any refunds of premiums paid if the proceeds are not paid within 30 days from the proof of death. Ohio Revised Code §3915.052 states that interest is payable from the date of death to date of payment. The Company has indicated that this form number has been retired since December 31, 2000.

**ADDITIONAL EXAMINATION FINDINGS**

The Examiners conducted a review of the Company's complaints and complaint handling procedures. The Company received a total of thirteen (13) complaints from Ohio policyholders during the examination period. The review was conducted to identify any problem areas or negative trends in service. Even though the numbers of complaints does not raise a concern, the complaints do provide some indications that could be addressed by the Company to better serve Ohio consumers:

1. The Company does not have procedures established to track or log complaints (a copy of the complaint form and the Company's response are kept in individual files). The Examiners recommend that the Company develop a complaint register or complaint log to track all types of complaints being received, whether from the Department or from

consumers. Procedures should be adopted for periodic review of the complaints. Trend analysis should be performed on immediate problem areas that need to be targeted, and areas requiring additional training should be identified.

2. The Company should develop training programs to assist agents in reviewing of policies and insurance forms with policyholders. Of the thirteen (13) complaints reviewed, nine (9) involved policyholder’s confusion about coverage, endorsements, or policy provisions. The complaint logs and periodic review described above would have identified these problems and enabled the Company to take corrective action.

### SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
Life Insurance External Replacements – Agent Requirements “Notice of Replacement” signed by Agent	90%	0%
Life Insurance External Replacements – Company Requirements “Notice of Replacement” signed by Agent	90%	0%
Written communication sent to Existing Insurer in 3 days	90%	70%
Life Insurance Internal Replacements – Agent Requirements “Notice of Replacement” signed by Agent	90%	0%
Life Insurance Internal Replacements – Company Requirements “Notice of Replacement” signed by Agent	90%	0%
Annuity Replacements – Agent Requirements “Notice of Replacement” signed by Agent	90%	0%
Annuity Replacements – Company Requirements “Notice of Replacement” signed by Agent	90%	0%
Paid Death Claims-Life Claim Handling-Interest on Death Benefits	93%	66%

This concludes the report of the Market Conduct Examination of the Universal Guaranty Life Insurance Company. The examiners, Don Layson, Larry Stovall, Cheryl Davis, and Robert Stroup would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



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Don Layson, CPCU, AIM, AIS, API

Examiner in Charge

9-29-2003

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Date

## ATTACHMENT

August 21, 2003

Director Ann Womer Benjamin  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, Ohio 43215

AUG 25 2003  
OHIO DEPT. OF INSURANCE  
MARKET CONDUCT DIVISION



RE: Market Conduct Examination  
Universal Guaranty Life Insurance Company  
NAIC 70130  
As of 12/31/2002

Dear Director Womer Benjamin:

We have reviewed the aforementioned report and would like to offer the following comments regarding its contents.

In summary, the Department's review noted 8 areas where Universal's practices were below the required level of performance. However, 6 of these areas were related to the single issue of the Company's outdated replacement form. We have combined these six items in our response.

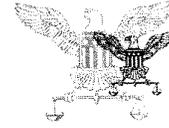
#### Replacement Form

As you are probably aware, the replacement form text is included as an appendix to the Ohio Department of Insurance Regulations. It appears that Universal Guaranty Life Insurance Company failed to recognize a regulatory change that modified this appendix adding an agent signature line, probably in 1998. It is therefore true that the Company's replacement form did not include the required agent's signature. However the Company does observe the following facts that we feel are significant.

- Replacement forms albeit outdated, were required in all instances.
- The replacement question was asked on our application twice, in both instances these questions would be over the agent's signature.
- Within one week of the recognition of this problem the Company had created and distributed compliant forms to the agents.

#### Written Notices of Replacement not sent within 3 days

The Company admits that it failed to mail these notices within 3 days of receipt; however, we believe that this was caused in large part due to the infrequency of our Company engaging in external replacements. During the examination period the Company averaged less than one Ohio external replacement per month. While the Company admits that infrequency does not alleviate the responsibility, we do feel that it is a mitigating circumstance. Other key findings we believe include:



- While the form may have been delayed, in no instance did the examination uncover a case where the Company failed to provide the required notification.
- Over the three-year period only 10 Ohio applications were negatively impacted.

Interest on Death Claims

The Company admits that it used an incorrect interest rate on several claims paid during the examination period. It appears that this was generally caused by either misinformation or misunderstanding on the part of our claims processors.

After having been made aware of this problem the Company reviewed all Ohio claims from 1/1/2000 to current date (May 2003). As of June 1, 2003 all errors have been corrected and all beneficiaries paid with interest.

Sincerely,

A handwritten signature in cursive script that reads "Michael Borden".

Michael K. Borden  
Vice President Research and Planning



**Bob Taft, Governor**  
**Ann Womer Benjamin, Director**

2100 Stella Court, Columbus, OH 43215-1067  
(614) 644-2658 [www.ohioinsurance.gov](http://www.ohioinsurance.gov)

February 11, 2004

Mr. Randall L. Attkisson, President  
Universal Guaranty Life Insurance Company  
P.O. Box 5147  
Springfield, IL 62705-5147

**RE: Market Conduct Examination**  
**Universal Guaranty Life Insurance Co.**  
**NAIC 70130**  
**Exam I.D. 859**

Dear Mr. Attkisson:

The Ohio Department of Insurance has concluded the above referenced examination. The final report is enclosed. I am pleased to report that the exam showed the company to be in compliance in most areas tested.

The examiners noted, however, some deficiencies in the company's compliance, specifically:

- 1) The use of an outdated replacement form that was not changed when Ohio's replacement regulation was amended in 1998. The use of this form caused the company to not satisfy various parts of the replacement regulation. The company promptly corrected this matter upon being informed.
- 2) The failure to send replacement notices to existing insurers within the required three (3) days. There was relatively little replacement activity and notices were sent but were not always timely.
- 3) The rate of interest paid on death claims was not consistently the correct rate and was too low. During the course of the exam, the company represented that all Ohio claims during the exam period had been reviewed and appropriate interest paid to beneficiaries.

After considering all of the circumstances, the Department will close this examination with no administrative penalty. The Department expects the company to implement procedures to correct any of the above deficiencies that remain.



Accredited by the National Association of Insurance Commissioners (NAIC)  
Consumer Hotline: 1-800-686-1526    Fraud Hotline: 1-800-686-1527    OSHIP Hotline: 1-800-686-1578

Mr. Randall L. Attkisson  
Universal Guaranty Life Insurance Company  
February 11, 2004  
Page 2

Under Ohio law, examination expenses are paid by the company. Total expenses for this exam are \$17,537.99 and may be paid by check payable to the Ohio Department of Insurance by January 31, 2004. Please send the check to the attention of David R. Beck, Chief, Market Conduct Division.

I would like to extend my thanks for your company's cooperation and the courtesy extended to my staff. If I can ever be of service, please do not hesitate to contact me at (614) 644-2438 or at my email address: [sue.stead@ins.state.oh.us](mailto:sue.stead@ins.state.oh.us).

Sincerely,

A handwritten signature in cursive script that reads "Susan T. Stead".

Susan T. Stead  
Assistant Director  
Office of Investigative & Licensing Services

STS/msr

cc: David R. Beck, Chief, Market Conduct Division