

# **OHIO DEPARTMENT OF INSURANCE**

**A**  
**MARKET CONDUCT EXAMINATION**  
**OF**  
**HOUSEHOLD LIFE INSURANCE COMPANY**  
**NAIC #93777**

**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:

Household Life Insurance Company  
NAIC Company Code 93777

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

200 Somerset Corporate Boulevard Suite 100  
Bridgewater, New Jersey 08807

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

A handwritten signature in cursive script that reads "April 28th 2005".

Date



Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIIP Hotline: 1-800-686-1578

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## **FOREWORD**

This examination was conducted under authority provided by Section 3901.011 of the Ohio Revised Code (ORC).

## **SCOPE OF EXAMINATION**

The examination of Household Life Insurance Company (“the Company”) commenced on February 23, 2004, at the Company’s main administration office in Bridgewater, New Jersey. The examination was restricted to Company activities for group credit life insurance and group credit accident and health policies from the period of January 1, 2001 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 applicable state 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 and Advertising
- E. Policy Forms
- F. Rates and Premiums
- G. Internal Audits
- H. New Business
- I. Denied Death Claims
- J. Denied Disability Claims
- K. Terminations
- L. Complaint Handling

## METHODOLOGY

The examination was conducted through a review of the Company's policies, applications, and claims files for group credit life and group credit accident and health. A review was also conducted on the Company's corresponding procedure manuals. This information was supplemented, as necessary, with interviews with Company personnel 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 the Ohio insurance statutes, rules and regulations. These tests are described and the results noted in this report. The Examiners used the NAIC 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 to the Company a request 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;
- 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.

## **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**

Household Life Insurance Company was incorporated as Security Trust Life Insurance Company, and its name was changed to Hamilton National Life Insurance Company on April 13, 1987. Household Life Insurance Company was incorporated as part of the insurance holding company system on December 18, 1980, as a wholly owned subsidiary of Alexander Hamilton Life Insurance Company of America, which, in turn, was controlled by Household Finance Corporation, through its wholly owned subsidiary Household Group, Inc. All of Household Finance Corporation stock is held by Household International, Inc. which is the "ultimate controlling person" of Household Life Insurance Company. On October 6, 1995, Alexander Hamilton Life Insurance Company of America was dissolved and certain of its assets merged into Jefferson- Pilot Pension Life Insurance Company. Prior to its merger, ownership of 100% of Household Life Insurance Company's stock was transferred to Household Group, Inc.

On June 10, 1999, Household Group, Inc. transferred to Household Insurance Group Holding Company 100% of the voting securities of the Household Life Insurance Company in exchange for preferred stock of Household Insurance Group Holding Company. On October 24, 2000, Household Insurance Group Holding Company formed a new wholly owned Delaware Life Insurance Company, Household Life Insurance Company of Delaware. On January 2, 2001, Household Insurance Group Holding Company contributed all of the voting securities of Household Life Insurance Company to Household Life Insurance Company of Delaware. All of Household Life Insurance Company of Delaware's stock is held by Household Insurance Group Holding Company, a Delaware corporation, which, in turn, is a wholly owned subsidiary of

Household International, Inc., which, in turn, is a wholly owned subsidiary of HSBC Holdings plc, which is the “ultimate controlling person” of Household Life insurance Company.

The Examiners found policies issued by Arcadia National Life Insurance Company and Central National Life Insurance Company. Arcadia National Life Insurance Company was sold and all business was assumed by The Central National Life Insurance Company on February 25, 1999, through a bulk reinsurance treaty. This treaty transferred all of the risks insured by Arcadia National Life Insurance Company to the Central National Life Insurance Company. In Ohio, and all states where possible, the policies were transferred to The Central National Life Insurance Company at the same time.

On December 31, 1991, The Central National Life Insurance Company of Omaha was sold. On the same date, The Central National Life Insurance Company and Household Life Insurance Company entered in to a bulk reinsurance treaty that transferred The Central National Life Insurance Company risks to Household Life Insurance Company. Also, all policies that could be transferred , including all Ohio policies, were assumed by Household Life Insurance Company.

### COMPANY OPERATIONS

The Company is licensed in the District of Columbia and all states except California and New York. Their statutory home office is in Detroit, Michigan.

The Company’s reported credit life and credit accident and health premiums and losses during the examination period as reported in the Company’s Annual Financial Statements (page 29) are as follows:

Life

Year	Ohio		National	
	Direct Premiums	Death Benefits	Direct Premiums	Death Benefits
2002	\$2,496,393	\$6,175,569	\$79,884,103	\$70,039,855
2001	\$12,241,541	\$5,305,973	\$224,208,230	\$60,739,109

Accident and Health

Ohio			National	
Year	Direct Written Premiums	Paid Losses	Direct Written Premiums	Paid Losses
2002	\$4,602,180	\$4,576,267	\$101,898,490	\$54,225,112
2001	\$7,397,127	\$4,214,472	\$160,646,780	\$42,685,278

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

President:	Patrick Anthony Cozza
Secretary:	Jo Ann Davis
Treasurer:	Timothy Joseph Titus
Actuary	Gerard Lunemann

**CERTIFICATE OF AUTHORITY**

The Company operates under a Certificate 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 Certificate of Authority for the state.

**MARKETING AND ADVERTISING**

The Examiners conducted a review of the Company's marketing, advertising, and sales material utilized during the exam period. The review was done to assure compliance with ORC §3901.21 and Ohio Administrative Code (OAC) §3901-1-14 (B)(3) and (4).

**Findings:**

Direct mail applications/enrollment cards and products sold via telemarketing, did not comply with OAC §3901-1-14 (B)(4)(c). The required Appendix 1 was not included at time of application or with the fulfillment kits for policies marketed through direct mail and telemarketing. See also the test results on page 14.

The Examiners also reviewed the Company's agent licensing procedures to assure that the company was in compliance with licensing requirements. The Examiners found that the Company's procedures for agent licensing were in compliance.

**Examiner Recommendations:**

The Examiners recommend that the Company establish procedures requiring Appendix 1 to be included in fulfillment kits for policies sold by direct mail and telemarketing. Procedures should also require that the Appendix 1 disclosure form be returned to the Company with the consumer's initials and that the Company should maintain these forms in its files.

**POLICY FORMS**

The Examiners conducted a review of the Company's policy forms utilized during the exam period. The review was done to assure compliance with ORC §3901.21, §3918.06, §3918.07, and OAC §3901-1-14 (B) and (D).

**Findings:**

The Examiners found the following two (2) policy forms to be out of compliance with Ohio statutes.

Group Policy Form LCCGM.US:

OAC §3901-1-14 (D)(2) states: "If the debtor is covered by a group credit insurance policy providing for payment of premiums to the insurer on a monthly outstanding balance basis, then the group policy shall provide that, in the event of a termination of the policy for whatever reason, the insured debtor shall be notified that coverage will continue for thirty days from the date of notice, except where replacement of coverage by the same or another insurer in the same or greater amount takes place without lapse of coverage. The notice required in this paragraph shall be given by the insurer or, at the option of the insurer, by the creditor."

Group policy form LCCGM.US does not contain the provision that insured debtors are to be given thirty days of notice in the event of termination of the group policy.

Certificate Schedule of Insurance:

The Certificate Schedule of Insurance indicates the “Monthly Insurance Charge”: The insurance charge is .XXX per \$100 of the balance upon which the premium is assessed. This amount is composed of coverage components. Below is an example of how the premium breakdown occurs on the form:

Group Credit Single Life:	\$ .061
Group Credit Single Disability	\$ .130
Group Credit Single IUI*	\$ .380
Total	\$ .731

\*Involuntary Unemployment Insurance

The three components listed do not add up to the total, because the charge for “Family Medical Leave” is not included. The Examiners take exception to the presentation of premium rates in this manner as being in violation of ORC §3901.21, which prohibits any practice that could be deemed untrue, misleading, or deceptive.

**Examiner Recommendations:**

The Examiners recommend that the monthly charge for the “Family Medical Leave” benefit be included in the certificate, so that the total equals the sum of the separate components listed on the form as being included in the total.

**RATES AND PREMIUMS**

**Single Premium Policies:**

**Standard:** Was the appropriate rate charged for coverage provided?

**Test:** Were the appropriate rates charged for coverage provided as required by OAC §3901-1-14 (C)(1)(b) and ORC §3918.08?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all single premium new business policies with an effective date during the exam period.
- The Examiners selected 100 files to test for compliance with the Section cited above.
- In any instance where the Examiners could not find sufficient documentation of the Company's premium rating activity for any examination test, the file documentation was considered incomplete.
- A file was considered to be an exception if the rates calculated were in excess of the rates submitted on the Company's rate and form filings.

**Findings:**

Population	Yes	No	Standard	Compliance
34,516	100	0	90%	100%

The standard for compliance is 90%. The Company's premium rate handling practices were above this standard.

**Monthly Outstanding Balance Policies:**

**Standard:** Was the appropriate rate charged for coverage provided?

**Test:** Were the appropriate rates charged for coverage provided as required by OAC §3901-1-14 (C)(1)(b) and ORC §3918.08?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all monthly outstanding balance new business policies with an effective date during the exam period.
- The Examiners selected 100 files to test for compliance with the Section cited above.
- In any instance where the Examiners could not find sufficient documentation of the Company's premium rating activity for any examination test, the premium file documentation was considered incomplete.

- A monthly premium/transaction list was requested from the Company.
- A file was considered to be an exception if the rates calculated were in excess of the rates submitted on the Company's rate and form filings. A tolerance of \$0.05 was allowed for any variations resulting from rounding calculations.

**Findings:**

Population	Yes	No	Standard	Compliance
43,525	91	9	90%	91%

The standard for compliance is 90%. The Company's premium rate handling practices were above this standard.

- 1) Four files were not in compliance because the files were not provided.
- 2) Five files were not in compliance due to incorrect premiums being charged.

**Examiners' Recommendations:**

Although the Company meets testing standards in this area, all premium overcharges should be corrected. The Examiners recommend that the Company conduct a review of the entire population of monthly outstanding balance policies. Any policyholder that has been overcharged should have adjustments made to the policy and refunds sent, if applicable.

**INTERNAL AUDITS**

The Examiners conducted a review of the Company's internal audit procedures performed during the exam period. The review included copies of internal audit reports, procedures developed by the Company on conducting the audits, and an interview with Company personnel responsible for the audits. The review was done to assure compliance with OAC §3901-1-14 (F).

**Findings:**

It was determined that the internal audits were performed as required, except as noted below:

- OAC §3901-1-14 (F) (1) requires a thorough review of each creditor with respect to its first year of business and as reasonably may be necessary to assure compliance. The audits do not reflect a review of each creditor.
- The Company supplied a report for internal audits completed in 2001. The report noted five (5) areas that were potential problem areas for Ohio. The Company conducted a follow-up in 2002 on the five noted areas. A report on these findings was finalized in 2004 and submitted to the Examiners. The report findings indicated that areas that had been specifically addressed in the 2001 report had been corrected. The one area addressed involved policies that did not provide evidence that the customer requested insurance cancellation in writing.

**Examiner Recommendations:**

The Examiners recommend full compliance with OAC §3910-1-14 (F) by revising internal audit procedures to assure a thorough review of each creditor with respect to its first year of business and as reasonably may be necessary to assure compliance.

**NEW BUSINESS****Methodology:**

- The Examiners requested, and the Company supplied, a report of all new business files that were issued with effective dates during the exam period.
- The Examiners selected 100 new business files to test for compliance with ORC §3918.04 and OAC §3901-1-14.
- The Examiners reviewed all Company procedure manuals.
- The Examiners interviewed Company personnel.
- Marketing and Advertising materials supplied by the Company were reviewed.

**Standard:** The amount of consumer credit insurance sold meets the requirements of state statutes, rules, and regulations.

**Test:** Did the initial amount of consumer credit insurance issued not exceed amount of loan as required by ORC §3918.04?

**Test Methodology:** A file was considered an exception if the amount of consumer credit insurance sold exceeded the amount of the loan.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** The effective dates and termination dates of coverage are in accordance with state statutes, rules, and regulations.

**Test:** Did the coverage commence on the appropriate date and policy term not extend more than 15 days beyond the scheduled maturity date as required by ORC §3918.05?

**Test Methodology:** A file was considered an exception if the policy did not commence or end on the required dates.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** Debtors are informed of each plan for which the debtor is eligible and the premium or insurance charge for each.

**Test:** Was the debtor informed of all available credit insurance plans applicable to the type of loan as required by OAC §3901-1-14 (B)(5)?

**Test Methodology:** A file was considered an exception if proper documentation of notice to debtor of all applicable credit insurance plans was not included in the file.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** Debtors are allowed an option to furnish insurance owned or controlled by the debtor, if insurance is required as additional security for the debt.

**Test:** If additional security was required for the debt, was debtor informed of the option to provide his/her own insurance as required by ORC §3918.11?

**Test Methodology:** A file was considered to be an exception if proper documentation of debtor being informed of security option could not be found in file.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** Policies, certificates, and endorsements are issued accurately, timely, and completely.

**Test:** Was the policy or certificate delivered at the time of indebtedness or within 30 days of the date the indebtedness was incurred as required by ORC §3918.06 (C) or (D)?

**Test Methodology:** A file was considered an exception if certificate delivery dates did not meet the prescribed requirements.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** Disclosures are provided in compliance with state statutes, rules, and regulations.

**Test:** Did the Company provide the required disclosure of pertinent information regarding the insurer, the insured, the rate, and the coverage amounts/terms at time of application as required by OAC §3918.06 (D)?

**Test Methodology:** A file was considered an exception if proper documentation of disclosure was not included in the file.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	100	0	90%	100%

The standard for compliance is 90%. The Company's new business handling practices were above this standard.

**Standard:** Disclosures are provided in compliance with state statutes, rules, and regulations.

**Test:** Was Appendix 1 included as part of the application in the exact format shown as required by OAC §3901-1-14 (B)(4)(c)?

**Test Methodology:** A file was considered an exception if proper documentation of disclosure was not included in the file.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
78,041	100	78	22	90%	78%

The standard for compliance is 90%. The Company's new business handling practices were below this standard.

Twenty-two files did not contain the required disclosure (Appendix 1).

### **DENIED DEATH CLAIMS**

**Standard:** Claims are properly handled in accordance with policy and certificate provisions and applicable state statutes, rules, and regulations.

**Test:** Did the Company deny a claim on the grounds of a specific policy provision, condition, or exclusion without reference to such provision, condition, or exclusion as required by OAC §3901-1-07 (C)(1)(b)?

**Methodology:**

- The Examiners requested and the Company supplied, a report of all denied death claims files that occurred during the exam period.

- The Examiners selected all 33 claims files to test for compliance with OAC §3901-1-07 (C)(1)(b).
- In any instance where the Examiners could not find sufficient documentation that the Company provided the policyholder with the specific policy provision, condition, or exclusion utilized in the denial of the claim, the file was deemed an exception.

**Findings:**

Population	Yes	No	Standard	Findings
33	33	0	93%	100%

The standard for compliance is 93%. The Company’s claims handling practices were above this standard.

**DENIED DISABILITY CLAIMS**

**Standard:** Claims are properly handled in accordance with policy and certificate provisions and applicable state statutes, rules, and regulations.

**Test:** Did the Company deny a claim on the grounds of a specific policy provision, condition, or exclusion without reference to such provision, condition, or exclusion as required by OAC §3901-1-07 (C)(1)(b)?

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all denied disability claims files that occurred during the exam period.
- The Examiners selected to review 50 claims files to test for compliance with OAC §3901-1-07 (C)(1)(b).
- In any instance where the Examiners could not find sufficient documentation that the Company provided the policyholder with the specific policy provision, condition, or exclusion utilized in the denial of the claim, the file was deemed an exception.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
340	50	50	0	93%	100%

The standard for compliance is 93%. The Company's claims handling practices were above this standard.

**TERMINATIONS**

**Methodology:**

- The Examiners requested, and the Company supplied, a report of all terminated files that had a termination date during the exam period.
- The Examiners selected 100 claims files to test for compliance with the ORC §3918.08 (B) and OAC §3901-1-14 (D)(3)(b), (c), (d), and (f).
- The Examiners reviewed all Company procedure manuals.

**Standard:** Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable state statutes, rules, and regulations.

**Test:** Was the refund of any unearned premium paid or credited promptly as required by ORC§3918.08 (B)?

**Test Methodology:** A file was considered an exception if the amount of unearned premium was calculated incorrectly.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
39,510	100	99	1	90%	99%

The standard for compliance is 90%. The Company's termination handling practices were above this standard. One file was not provided.

**Standard:** Cancellation practices comply with policy or certificate provisions and applicable state statutes, rules, and regulations.

**Test:** Was charge for final month of coverage calculated correctly (no charge for first 15 days of a loan month, full month may be charged for 16 days or more of a loan month) as required by OAC §3901-1-14 (D)(3)(f)?

**Test Methodology:** A file was considered an exception if the coverage was not calculated correctly.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
39,510	100	99	1	90%	99%

The standard for compliance is 90%. The Company's termination handling practices were above this standard. One file was not provided.

**Standard:** Unearned premiums are correctly calculated and returned to appropriate party in a timely manner and in accordance with applicable state statutes, rules, and regulations.

**Test:** Was refund calculated accurately in accordance with the respective statute as required by ORC § 3901-1-14 (D)(3)(b), (c), (d), and (f)?

**Test Methodology:** A file was considered an exception if the amount of unearned premium was calculated incorrectly.

**Findings:**

Population	Sample	Yes	No	Standard	Findings
39,510	100	99	1	90%	99%

The standard for compliance is 90%. The Company's termination handling practices were above this standard. One file was not provided.

**COMPLAINT HANDLING**

The Examiners conducted a review of the Company's complaint handling procedures. The review included copies of the Company's complaint register and the ten (10) complaint files received during the exam period. The review was done to assure compliance with OAC §3901-1-07 (C)(15).

**Findings:**

The Company's complaint handling procedures were found to be in compliance.

**SUMMARY**

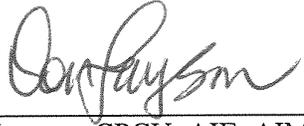
The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
New Business:		
Disclosure Requirements (Appendix 1)	90%	78%

In addition, the Examiners found:

- Appendix 1 was not provided on direct mail and telemarketing situations.
- Two forms were not in compliance.
- Inadequate procedures for conducting internal audits.

This concludes the report of the Market Conduct Examination of the Household Life Insurance Company. The Examiners, Don Layson, Ron Roush and Rob 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, AIE, AIM, AIS, API

Examiner in Charge



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Date

## ATTACHMENTS



March 17, 2005

RECEIVED  
MAR 21 2005  
OHIO DEPT. OF INSURANCE  
MARKET CONDUCT DIVISION

Mr. Don Layson  
Examiner In-Charge,  
Market Conduct Section  
Ohio Department of Insurance  
2100 Stella Court  
Columbus, OH 43215-1067

RE: Market Conduct Examination – Household Life Insurance Company

Dear Mr. Layson:

This letter is to provide comments in response to the initial Market Conduct draft report.

Regarding Company Operations, please note that Household Life Insurance Company (at the time of the report) was licensed in all states except New Hampshire, Hawaii, Vermont, and New York. Household Life Insurance Company has been subsequently licensed in Hawaii and Vermont.

### **Marketing and Advertising/New Business (Appendix 1):**

Section 3901-1-14 (A) indicates that the provisions of section 3901-1-14 are applicable to all policies, riders, applications for insurance, notices of proposed insurance, certificates of insurance and endorsements. In the case of telemarketing, an application is not completed. The debtor is advised that credit insurance is optional and the debtor verbally elects to enroll for coverage. In the case of direct mail, an enrollment form, not an application, is completed to enroll for the optional credit insurance.

We have reviewed the definition of application. Specifically Blacks Law Dictionary defines an "application" with regard to an insurance policy as:

*The preliminary request, declaration, or statement made by a party applying for an insurance policy.*

Also, the Ohio Revised Code distinguishes between applications and enrollment forms. Section 3923.44 (1) of the Revised Code regarding Long-Term Care insurance specifically addresses both enrollment forms and applications. Section 3901-1-14 of the Administrative Code, only references applications.

An application implies a process of approval. In this situation the insurance is guaranteed issue and there is no formal approval process. The customer merely elects the desired optional product when we telemarket or use direct mail. Since the disclosure is required only when an application for insurance is completed the referenced section does not apply to this situation.

Additionally, 3901-1-14(B)(3) does not provide how or when the "additional" disclosures are required. We feel our initial disclosures adequately inform consumers and convey those disclosures that appear on Appendix 1. The language in Appendix 1 clearly applies to point of sale insurance sales and is not suited to direct mail and telemarketing campaigns or when insurance is procured merely through an enrollment form. Moreover, furnishing the Appendix 1 Disclosure to telemarketing and direct mail enrollee's with fulfillment packages is likely to cause substantial customer confusion and could create inconsistent company records.

### **HSBC Insurance Services**

First Central National Life Insurance Company of New York Household Life Insurance Company Service General Insurance Company  
Household Life Insurance Company of Arizona Household Life Insurance Company of Delaware Wesco Insurance Company

Mr. Don Layson  
March 17, 2005  
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For example, after providing a positive verbal or written enrollment, the customer may check the wrong box on the Appendix 1 Disclosure. When the company receiving the form from the customer it would then have to cancel coverage. However, the customer may believe he still had coverage because he initially elected coverage. While we disagree that Appendix 1 applies when Credit insurance products are sold via direct mail and telemarketing, and we believe that our current disclosures comply with the letter and spirit of 3901-1-14 (B)(3), we have changed our procedures and have implemented the Appendix 1 disclosures in all Ohio telemarketing and direct mail fulfillment kits. It should be noted that as evidence of proper election, the company maintains the recorded telephone enrollments and the signed direct mail enrollments. Therefore, it is our position that the Appendix 1 Disclosure, if required to be given after a direct mail or telemarketing election, should not be required to be returned to the company when the company maintains in its records either the recorded telephone enrollment or the signed direct mail enrollment.

**Policy Forms - LCCGM:US:**

While the language of OAC 3901-1-14(D)(2) does not appear exactly in the group master policy LCCGM: US, Household Life has never cancelled a group master policy under this Policy number. However, in the event that there is a termination of the group master policy, the creditor does notify the Insured debtor via written notice at least 30 days prior to the cancellation of master policy. The notice provides the effective date and the name of the replacing insurer. In addition, if it is a replacement, the notice gives the Insured Debtor the option to keep or cancel the insurance. As such, while the exact language is not included in the group master policy LCCGM: US, Household Life does fully comply with the statutory language, when and if, a group master policy is cancelled. Therefore, we feel we are compliant with the intent of the statute. Moreover, group master policy LCCGM: US was previously approved by the state of Ohio. However, in accordance with the examiner's recommendation, the group master policy with the exact statutory language was refiled and approved by the Ohio Department of insurance effective March 8, 2005.

**Policy Forms - Certificate Schedule of Insurance:**

We respectively disagree that the product as approved was untrue, misleading or deceptive. It certainly was not designed or intended to be untrue, misleading or deceptive. The total rate is correct and clearly disclosed. Unfortunately, the Family Leave rate was not separately itemized and included in the summary of rates, and we could find no Ohio regulation requiring such. In any event, this form is no longer currently in use. However, the certificate will be refiled before any future use.

**Monthly Outstanding Policies:**

We have reviewed accounts we believe could possibly be affected by any rate discrepancy and have refunded, where applicable, any certificate holder identified as being overcharged.

**Internal Audits:**

- The examiner recommended full compliance with OAC §3910-1-14(F) by revising internal audit procedures to assure a thorough review of each creditor with respect to its first year of business and as reasonably may be necessary to assure compliance.

Our sample selection methodology reflects the nature of Household's insurance processing environment, and our procedures are targeted to ensure each unique credit insurance process is properly examined. Household's credit insurance processes, such as insurance elections, are organized and managed according to Business Unit (BU), and not creditor company name. In this context, our audit techniques use statistically valid sampling techniques to select samples for compliance testing, and choosing samples based on specific creditor company names would be inefficient and unnecessary to reach a valid conclusion on each specific creditor company's compliance level.

Mr. Don Layson  
March 17, 2005  
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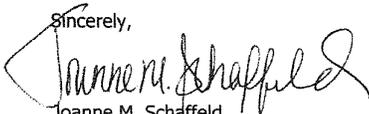
We select our samples by first establishing pools of like transactions that are handled or processed in the same manner (typically the BU level). Note that inherently, the population of each pool includes all creditors who process the particular transaction targeted. Next, we obtain the population of each pool for a specific period of time (*e.g.*, 4th Quarter 2003) and then calculate a sample size that will statistically be representative of the whole population of the pool.

The pool is then stratified by state, and, lastly, the test items are selected from the stratified pool using the interval selection method to ensure the sample distribution reflects the composition of the pool. Based on this sampling technique, the test results provide an accurate picture of the compliance rate for each pool of transactions and thus provide assurance of compliance with OAC §3901-1-14 (F) (1).

If you have any questions, please do not hesitate to contact me.

Thank you,

Sincerely,



Joanne M. Schaffeld  
Manager, Policy and Compliance



Bob Taft, Governor  
Ann Womer Benjamin, Director

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

April 28, 2005

Joanne Schaffeld  
Household Life Insurance Company  
200 Somerset Corporate Blvd, Suite 100  
Bridgewater, NJ 08807

Dear Ms. Schaffeld:

Your letter to Don Layson dated March 17, 2005, and this letter will be attached to and become part of the Ohio Department of Insurance ("the Department") Market Conduct Examination report on Household Life Insurance Company ("the Company").

**Marketing and Advertising/New Business (Appendix 1)**

The Department maintains that Ohio Adm.Code 3901-1-14(B)(4)(c) is not ambiguous. It states, "Additional disclosure *shall* be made using the *exact* form set forth in 'Appendix I'" (emphasis added). The form specifically requires that the form be initialed by the customer, debtor, or lessee. Therefore, the Department requires that the Company make a diligent effort to obtain the initialed form. This requirement may be satisfied by including in the mailing a self-addressed postage prepaid envelope with instruction for the return of the signed Appendix 1.

Possible errors by the debtor in completing the form do not justify noncompliance. Declination of unintended insurance is the essential purpose of this required form. Failure to obtain an initialed form defeats the protection provided by the rule to both the consumer and the Company. If there is concern that the declination may have been in error, the Company could simply contact the debtor to confirm the intent. However, the Company may not disregard the clear purpose and intent of the rule.

**Internal Audits**

Ohio Adm.Code 3901-1-14(F)(1) states clearly that the insurer "shall be responsible to conduct a thorough review of each creditor with respect to the first year of business with such creditor." The auditing procedure described in the Company's March 17, 2005, letter complies only with audits conducted after the first year of business. The Department requires that the Company comply with this rule and establish a review of each creditor with respect to the first year of business with that creditor.

Given the Company's overall compliance rate, the Department considers this examination closed with the stipulation that the Company must comply with all requirements of Ohio Adm.Code 3901-1-14.

Sincerely:

A handwritten signature in black ink, appearing to read 'Melissa Hull'.

Melissa Hull  
Acting Assistant Director  
Office of Investigative & Licensing Services  
Ohio Department of Insurance



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