



Bob Taft, Governor
Ann Womer Benjamin, Director

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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 regulation desk audit was conducted on the Ohio business of:

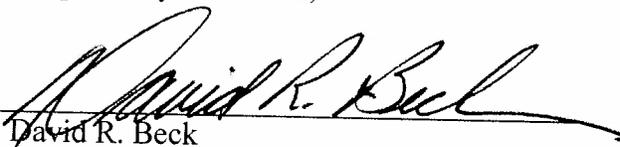
Pennsylvania Life Insurance Company
525 North Twelfth St
Leymone PA 17043
NAIC Company Code 67660.

The desk audit was conducted at the Ohio Department of Insurance office located at:

2100 Stella Court
Columbus OH 43215.

A report of the desk audit is enclosed.

Respectfully submitted,


David R. Beck

Chief, Market Regulation Division

1-10-2007
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 desk audit was conducted under authority provided under Ohio Revised Code ("R.C.") 3901.011.

SCOPE OF EXAMINATION

On September 23, 2005, the Market Regulation Division, Ohio Department of Insurance ("Department"), opened a desk audit into the non-financial business practices of Pennsylvania Life Insurance Company ("Company") by sending the Company a call letter and initial request for information.

The desk audit was restricted to a review of Company activities for Ohio life insurance claims for the period of January 1, 2003 through December 31, 2004. The desk audit is reported by test and was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") and the state of Ohio's applicable statutes and rules.

Accordingly, the desk audit included the following areas of the Company's operations:

- Company History
- Company Operations
- Certificate of Authority
- Paid Death Claims
- Denied Death Claims
- Complaint Handling

METHODOLOGY

As part of the desk audit, the Department's examiners reviewed the Company's life insurance claim files and the Company's corresponding procedures. This information was supplemented by interviewing Company managers, with written inquiries requesting clarification, and/or additional information.

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

The examiners used the National Association of Insurance Commissioners' standard of:

7% error ratio on claim files (93% 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. A "no" response may be referred to in this report as an "exception".

In any instance where errors were noted, the examiners described the apparent error and asked the Company for an explanation. The Company responded to the examiners and either:

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

If applicable, the examiners' recommendations are included in this report.

SAMPLING

Upon request, the Company supplied reports of policy and claim data in file formats, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies and were selected using a standard business database application that provides a true random sample given that it supplies a random starting point from which to select the sample.

COMPANY HISTORY

As part of our desk audit, the Company was asked to provide a brief corporate history. The following is the text of their response:

January 12, 1948, Pennsylvania Life, Health and Accident Insurance Company, a limited life insurance company was incorporated in Pennsylvania. The Company merged with Pennsylvania Accident and Health Insurance Company and the surviving entity was reincorporated as Pennsylvania Life, Health and Accident Insurance Company, a stock life insurance company. In December 1954, the Company's name was changed to its current name.

After several acquisitions over the years, the Company was acquired by the present company, Universal American Financial Corp. ("Universal") in February 1999. This acquisition was done through Universal's wholly owned subsidiary American Exchange Life Insurance Company, a Texas insurance company, as well as, Capital Z Financial Services Fund II, LP and Capital Z Financial Services Private Fund, LP (jointly referred to as "Capital Z") to acquire all of the stock, of all classes.

In March 2003, the Pyramid Life Insurance Company ("Pyramid") was acquired from Ceres Group. The Company holds all the outstanding shares of Pyramid.

COMPANY OPERATIONS

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

The Company's 2003 and 2004 reported life direct written premiums and direct incurred losses paid during the desk audit period are as follows:

Life Year	Ohio		National	
	Direct Written Premiums	Incurred Losses	Direct Written Premiums	Incurred Losses
2003	\$1,470,018	\$1,423,744	\$14,445,208	\$8,560,172
2004	\$2,424,812	\$347,919	\$18,070,966	\$6,503,721

As of December 31, 2004, the officers of the Company were:

President: William Edwin Wehner Jr.
Treasurer: Donald Mark Gray
Secretary: Michael Allan Colliflower
Actuary: Harold Neil Lund

CERTIFICATE OF AUTHORITY

The Company operates under a Certificate of Authority issued in accordance with R.C. 3911.01, which permits it to transact appropriate business as defined by R.C. 3911.01. In the course of the desk audit, the examiners determined the Company's operations were in compliance with its Certificate of Authority.

PAID CLAIMS

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 provide all items, statements and forms within the time frame required by Ohio Adm. Code 3901-1-07(C)(5)?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance with Ohio Adm. Code 3901-1-07(C)(5).

- 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:

Population	Sample	Yes	No	Standard	Compliance
117	117	115	2	93%	98%

The standard of compliance is 93%. The Company's performance met this standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within the time frame required by Ohio Adm. Code 3901-1-07(C)(4)?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance with Ohio Adm. Code 3901-1-07(C)(4).

- 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 investigation of the claim with the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
117	117	115	2	93%	98%

The standard of compliance is 93%. The Company's performance met this standard.

Timely Settlement

Standard: Claims are settled in a timely manner.

Test: Was the claim settled within the policy provisions required in R.C. 3915.05(K)?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance with R.C. 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 provide settlement within the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
117	117	117	0	93%	100%

The standard of compliance is 93%. The Company's performance met this 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 the time frames required within Ohio Adm. Code 3901-1-07(C)(2)?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance with Ohio Adm. Code 3901-1-07(C)(2).

- 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 claim correspondence subsequent to the initial contact within the required time frame.

Findings:

Population	Sample	Yes	No	Standard	Compliance
117	117	114	3	93%	97%

The standard of compliance is 93%. The Company's performance met this standard.

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 Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance.

- 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:

Population	Sample	Yes	No	Standard	Compliance
117	117	113	4	93%	97%

The standard of compliance is 93%. The Company's performance met this standard.

Claim Settlement

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

Test: Were the claims correctly paid with interest where required by policy provisions and R.C. 3915.052?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance with R.C. 3915.052

- 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 claim file was considered an exception if the Company did not accurately calculate interest payments due.

Findings:

Population	Sample	Yes	No	Standard	Compliance
117	117	106	11	93%	91%

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

- 11 files did not comply because the interest computation was incorrect.

Examiners' Recommendations:

1. It is recommended that the Company's rules and regulations pertaining to paid claims comply with applicable statutes, rules and regulations.
2. It is recommended that the Company revise its procedures concerning methods used in computing interest on paid death claims.
3. The Company should review all Ohio claims for the desk audit period and pay any additional interest due to claimants, based on the corrected interest computations.

Cancelled checks and drafts

Standard: Canceled benefit checks and drafts reflect appropriate claim handling practices.

Test: Do the cancelled checks and drafts show that the claim was paid according to Company policies, policy provisions, beneficiary requests and documentation within the claim file?

Methodology:

The Company supplied a listing of all paid death claims during the desk audit period. The examiners selected a full sample of 117 files to test for compliance.

- Canceled benefit checks were reviewed and compared to claim files to verify correct payee, payment amounts and payment dates.
- A claim was considered an exception if the Company did not follow Company procedures for claim payments or the provisions in the initial policy and if information on the canceled benefit check did not match information in the claim file itself.

Findings:

Population	Sample	Yes	No	Standard	Compliance
117	117	106	11	93%	91%

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

Examiners' Recommendation:

It is recommended that the Company review their file maintenance procedures to insure that all pertinent documents are kept for verification purposes.

DENIED DEATH CLAIMS

The examiners conducted a review of the Death Claims that had been denied by the Company during the desk audit period and it appears all claim denials were justified and in accordance with policy language and applicable rules and regulations.

COMPLAINT HANDLING

The examiners conducted a review of the complaints filed against the Company during the desk audit period. During this time, 10 complaints were filed against the Company with the

Department. The review was conducted to assure service issues are properly addressed. The exam findings were as follows:

- Five of the complaints pertained to alleged agent misconduct.
- Four complaints were related to coverage declination and rescission.
- One complaint pertained to agent disclosure.

Examiners' Recommendations:

It is recommended that the Company review agent performance procedures to identify agents who are the subject of multiple complaints and take proper disciplinary actions if warranted.

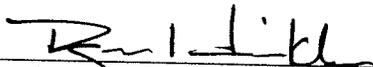
It is recommended that the Company review their underwriting and delivery procedures so risks are properly evaluated and prospective insureds are fully informed about the insurance products they are purchasing.

SUMMARY OF NON-COMPLIANCE

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>
<u>Paid Claims</u>		
Claim Settlement	93%	91%
Cancelled Check Documentation	93%	91%

This concludes the report of the Market Regulation desk audit of the Pennsylvania Life Company. The examiners would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Roger K. Hinkle
Examiner in Charge

1-10-07

Date

STATE OF OHIO
DEPARTMENT OF INSURANCE

IN THE MATTER OF : CONSENT ORDER
PENNSYLVANIA LIFE INSURANCE :
COMPANY :
MARKET REGULATION DESK AUDIT :

The Superintendent of the Ohio Department of Insurance ("Department") is responsible for administering Ohio insurance laws pursuant to Ohio Revised Code ("R.C.") Section 3901.011. Pennsylvania Life Insurance Company ("Company") is authorized to engage in the business of insurance in the State of Ohio and as such is under the jurisdiction of the Superintendent and the Department. The Department conducted a desk audit of the Company's life insurance claims handling practices from January 1, 2003 through December 31, 2004 to ensure compliance with Ohio law.

SECTION I

As a result of the desk audit the Department alleges deficiencies in the following area:

- A) In 11 of 117 files examined, the Company failed to pay appropriate interest on life insurance policy benefits in violation of R.C. Section 3915.052. In 5 of those 11 files, no interest was paid at all.
- B) In 11 of 117 files examined, the Company failed to keep a copy of the cancelled check within the claim file that would demonstrate that the claim was paid according to Company policies, policy provisions, beneficiary requests and documentation within the claim file.

SECTION II

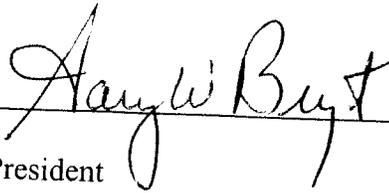
IT IS HEREBY AGREED AND CONSENTED TO BY THE PARTIES THAT:

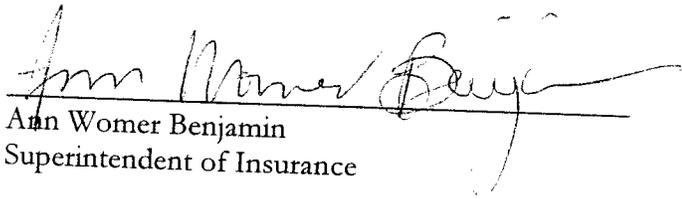
- A) The Department and the Company enter into this Consent Order to resolve the allegations as set forth in Section I of this order. Further, the Company admits to the allegations set forth in Section I.
- B) The Company has been advised that it has a right to a hearing before the Superintendent pursuant to R.C. Chapter 119.; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative who is permitted to practice before the agency; and that, at a hearing, it would be entitled to present its position, arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.

- C) The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company expressly waives any prerequisites to jurisdiction that may exist.
- D) The Company shall review and modify its life insurance claim payment practices to ensure compliance with R.C. Section 3915.052. Specifically, the Company shall provide documentation that it has reviewed its rules and regulations pertaining to paid claims and the method by which the Company has brought these rules and regulations into compliance with R.C. Section 3915.052. The Company shall provide documentation of how it has revised its procedures concerning methods used in computing interest on paid death claims in accordance with the requirements of R.C. Section 3915.052. The Company shall review their file maintenance procedures to ensure that all pertinent documents are kept for verification purposes. The Company shall immediately provide the name of the officer, including his/her title, office, location, and telephone number, who is responsible for documenting the corrective actions outlined above. These corrective actions will be reported to the Department within forty-five (45) days after the Company executes this Consent Order. The Company will continue to monitor all claim payments to ensure effectiveness.
- E) The Company shall review all life claim payments during the desk audit period and pay the appropriately calculated interest to beneficiaries whose claims were settled in violation of R.C. Section 3915.052.
- F) The Company shall review all life claims paid since the effective date of R.C. Section 3915.052 and shall determine what additional interest, if any, that is due the beneficiaries under those policies, and shall pay the interest due accordingly.
- G) The Company shall report their findings and the total amount of interest paid pursuant to Paragraphs (E) and (F) of this Consent Order and shall report quarterly, starting with the first quarter beginning after the date the Company executes this Consent Order, and continue until the review is complete and all interest due under the terms of this Consent Order is paid.
- H) The Company shall pay an administrative fine in the amount of \$7,500 by check or money order made payable to the Ohio Department of Insurance no later than thirty (30) days after the date of execution of this Consent Order.
- I) The Company shall pay \$2,962.50 in administrative costs incurred by the Department of Insurance to perform the Market Regulation desk audit. Payment will be made by check or money order payable to the Ohio Department of Insurance no later than thirty (30) days after the Company executes this Consent Order.
- J) The Company waives any and all causes of action, claim or rights, known or unknown, which it may have against the Department, and any employees,

agents, consultants, contractors or officials of the Ohio Department of Insurance, in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms.

K) This Consent Order is a public record and shall be entered into the Journal of the Ohio Department of Insurance.

Name: 
President
Pennsylvania Life Insurance Company

Date: 11/20/06 
Ann Womer Benjamin
Superintendent of Insurance