

**REPORT OF THE
INTERSTATE COLLABORATIVE
MARKET CONDUCT EXAMINATION
OF
SOUTHLAND LIFE INSURANCE COMPANY
NAIC # 68950
AS OF
JUNE 30, 2001**

April 7, 2003
Columbus, Ohio

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Director
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Directors:

Pursuant to your instructions and in accordance with the powers vested under the following applicable statutes:

Illinois Insurance Code Article IX, Sections 131.21 and 132 and
Article XXIV, Sections 402 and 425

Nebraska Revised Statutes §44-5901 through 5910 and §44-1527

Ohio Revised Code Section §3901.011

Oregon Revised Statute 731.300

A target Interstate Collaborative Market Conduct Examination has been conducted on the ordinary individual life insurance business of Southland Life Insurance Company, herein, generally referred to as the Company, at the regional office located in Denver, CO.

Ohio was the lead state for the purpose of this examination, and was assisted by examiners from Illinois, Nebraska and Oregon during the on-site examination.

The report, and attached Company comments, are submitted as follows:

TABLE OF CONTENTS

<u>SCOPE OF EXAMINATION</u>	1
<u>METHODOLOGY</u>	1
<u>SAMPLING</u>	3
<u>COMPANY HISTORY</u>	3
<u>COMPANY OPERATIONS</u>	4
<u>CERTIFICATE OF AUTHORITY</u>	5
<u>MARKETING</u>	5
<u>ILLUSTRATIONS</u>	6
<u>REPLACEMENTS</u>	11
<u>POLICYHOLDER SERVICES</u>	20
<u>PAID CLAIMS</u>	23
<u>ADDITIONAL EXAMINATION FINDINGS</u>	32
<u>SUMMARY</u>	34

SCOPE OF EXAMINATION

In collaboration with the Market Conduct Divisions of the Illinois, Nebraska, Ohio and Oregon Departments of Insurance, the examination of Southland Life Insurance Company (the Company) commenced on November 3, 2001 with the call letter and initial requests for information. The actual on-site portion of the examination of the Company's non-financial business practices commenced on January 28, 2002 at the Company's regional office in Denver, Colorado. The examination was restricted to Company activities for individual ordinary life insurance business in the four states from the period of July 1, 1999 through June 30, 2001. The examination is a report by test.

This examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and each state'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. Illustrations
- F. Replacements
- G. Policyholder Services
- H. Paid Claims

METHODOLOGY

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

managers and written inquiries to the Company requesting clarification and/or additional information.

Only files with Illinois, Nebraska, Ohio and Oregon 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 four states' insurance statutes, rules and regulations. 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)

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. Responses 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 Company's responses and 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 used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from data files provided. The samples were pulled from populations that included policies from all four states, not from each individual state's corresponding files.

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 select the sample.

COMPANY HISTORY

The Company originated and was organized in the state of Texas in October of 1908. It was a family owned company until 1984 when it was sold to the Franklin Life Insurance Company based in Springfield, IL. In 1989, American Brands, Inc., parent of Franklin Life, agreed to sell Southland to what was then GeorgiaUS Corporation, a United States corporation owned by Nationale-Nederlanden, N.V. of the Netherlands. Nationale-Nederlanden, through its merger with the Netherlands-based PostBank, became a part of what is described as the "ING Group." GeorgiaUS Corporation was renamed "ING America Life Corporation" and remains the immediate parent company of Southland Life Insurance Company.

Operational changes over the last five years have included the transitioning of certain work functions from Atlanta, GA to other ING locations. New business processing was transferred to the Denver, CO site in 1999, but is currently in the process of being transitioned to Minot, ND, along with policyholder services. Other operations, such as contracting, licensing and payment of agent commissions were transitioned to the Minot, ND Service Center earlier in 2001.

COMPANY OPERATIONS

The Company is licensed in all states except New York. Their statutory home office is in Plano, TX but their primary location of financial books and records is in Atlanta, GA.

The Company's reported Ordinary Life Insurance Direct Written Premium and Ordinary Life Insurance Death Benefits Paid during the examination period are as follows:

	Ordinary Life Insurance Direct Written Premium		
	1999	2000	2001
Illinois	\$ 8,737,727	\$10,215,395	\$17,891,283
Nebraska	2,069,108	1,553,810	1,343,537
Ohio	13,685,552	33,179,692	11,389,785
Oregon	2,000,643	2,375,817	6,813,844
Exam Total	\$26,493,030	\$47,324,714	\$37,438,449
National	\$442,201,157	\$603,021,911	\$455,419,294

	Ordinary Life Insurance Death Benefits Paid		
	1999	2000	2001
Illinois	\$41,215	\$703,148	\$2,155,702
Nebraska	529	1,875,803	191,663
Ohio	12,320	2,180,189	1,415,615
Oregon	61,867	389,740	145,954
Exam Total	\$115,931	\$5,148,880	\$3,908,934
National	\$51,445,572	\$70,780,101	\$96,148,095

Note: Ordinary Direct Life Insurance Written Premium and Ordinary Life Insurance Death Benefits Paid by state were taken from the Company's Financial Annual Statements.

As of December 31, 2000, the officers of the Company were:

Chief Executive Officer:	Robert C. Salipante
President:	Chris Duane Schreier
Treasurer:	David Scott Pendergrass
Secretary:	Paula Cludray-Engelke

CERTIFICATE OF AUTHORITY

The Company operates under Certificates of Authority issued in accordance with the statutes, rules and regulations of the four participating states. In the course of the examination, the Examiners found the Illinois, Nebraska, Ohio and Oregon operations of the Company to be in compliance with its Certificates of Authority for each state.

MARKETING

The Company's producers sell life products made available through a Managing General Agent distribution channel. The distribution channel has three Sales Division offices - Eastern, Central and Western. Each divisional office consists of a Sales Vice President and Divisional Sales Manager who are responsible for recruiting independent marketing organizations known as Managing General Agents (MGA). Each divisional office has a Sales Service Coordinator, whose primary responsibility is maintaining relationships with the MGAs and their key office personnel in their region. The Sales Vice President, Divisional Sales Manager and Sales Service Coordinator are employees of ING Southland Life. The MGA is not an employee of ING Southland Life, but is independently licensed to recruit new agents and to write new business. The MGA maintains a primary relationship with the agents recruited and offers the necessary resources for the agent regarding sales, marketing and submission of new business. The MGA's incentive for this comes in the form of an override, which is a commission paid to the MGA for the business written by the agents they have contracted. The agents recruited by the MGA are contracted with ING Southland Life and are non-captive agents since they sell products with multiple carriers. The contract designations determine the level of commission earned by the agent and are based on different factors, including life sales experience.

ILLUSTRATIONS

Standard: The Company files all 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 the statutes, rules, and regulations listed below and did the Certifications accurately state which policies were being marketed with illustrations?

Illinois: 50 Illinois Administrative Code 1406.40

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 72(011)

Ohio: Ohio Administrative Code 3901-6-04(K)(4)

Oregon: Oregon Administrative Rules 836-051-0590 (4)(a)

Methodology:

- The Company supplied the following data files:
 1. Ordinary Individual Life new business written during the examination period for the four participating states.
 2. A file of all of the policy forms and plan codes used to write new Ordinary Individual Life business in the four participating states. This file indicated whether or not these policy forms used illustrations.
- The Company supplied copies of the Annual Life Illustration Certifications filed in the four participating states for the years covered in the examination period.
- A random sample was pulled from the new business file, one policy from each state for each different policy form. This produced a sample file of forty-five (45) policies that was used to test the accuracy of the Annual Life Illustration Certifications.
- Each policy file was reviewed to determine if an illustration was used. The policy form for that file was then traced back to the Annual Life Illustration Certifications to verify that the Certification was accurate and complete.

- A file was considered an exception if either:
 1. the file contained an illustration that was not listed on the Certification or

2. the file did not contain an illustration but that policy form was listed on the Certification as requiring one.
3. the file contained an illustration but it was dated outside of the certification period.

Findings:

- One (1) policy form was removed from the sample because the computer file contained the wrong policy form number. The corrected policy form number was reviewed under another file in the sample.

Policy Forms Reviewed	Yes	No
44	41	3

- Three (3) policy forms were not marketed with an illustration but the forms were listed on the Annual Life Illustration Certifications for Illinois, Nebraska and Ohio. This was due to typographical errors in the Certifications.

Examiners' Recommendations:

The Company should verify that all Annual Life Illustration Certifications filed with the states are accurate before filing.

Company's Response:

See the Company's attached response.

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 the following states:

Illinois: 50 Illinois Administrative Code 1406

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 72

Ohio: Ohio Administrative Code 3901-6-04

Oregon: Oregon Administrative Rules 836-051-0540, 836-051-0550 and 836-051-0570

Methodology:

- The Company supplied for review, all written policies and procedures that instructed the agents on the Company's illustrations procedures and requirements.
- The Company supplied the following data files:
 1. Ordinary Individual Life new business written during the examination period for the four participating states.
 2. A file of all of the policy forms and plan codes used to write new Ordinary Individual Life business in the four participating states. This file indicated whether or not these policy forms used illustrations.
- The Company supplied copies of the Annual Life Illustration Certifications filed in the four participating states for the years covered in the examination period.
- A sample of one hundred (100) new Ordinary Individual 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 law.
- A file was considered an exception if it did not comply with the portion of the illustration laws tested.

Findings:

- Thirty-seven (37) files in the original sample were replaced with new files to review because, either the file was for variable life insurance, which is not governed by the illustration law or the file contained a composite illustration that was already reviewed under another file in the sample. The initial sample contained sixteen (16) files that were part of the same composite illustration. After the additional thirty-seven (37) files were reviewed, it was again

determined that eight (8) still were not governed by the illustration law. It was determined to not replace these files in the sample.

- Two (2) files did not contain the required illustration so the files were deemed to have failed all applicable tests.

Test	Population	Sample	Yes	No	Standard	Compliance
Did the file contain the required illustration?	1,417	92	90	2	90%	98%
Was the agent issued illustration or certification signed at the date of the application?	1,417	92	79	13	90%	86%
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?	1,417	92	80	12	90%	87%
Did the basic illustration contain all parts required?	1,417	92	89	3	90%	97%
Did the Narrative Summary contain all parts required?	1,417	92	90	2	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 correspond 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?	1,417	92	83	9	90%	91%
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?	1,417	92	70	22	90%	76%

The standard of compliance is 90%. The Company's performance was below the minimum standard in three (3) tests.

Examiners' Additional Comments:

1. When the Company was the authorized representative, the illustration used showed the words "[First Name] [Last Name]" as the agent instead of the name of the Company.
2. When revised illustrations were used, the documentation consisted of part of the original illustration and part of the revised illustration but not a complete set of both. This made it difficult to determine what exactly the consumer received.

Examiners' Recommendations:

1. It is recommended that the Company's rules pertaining to illustrations comply with applicable statutes, rules and regulations for each state that the Company transacts business.
2. It is also recommended that the Company institute agent training and awareness of the illustrations requirements of each state that the Company transacts business.
3. Although the Company can be the authorized representative, the illustration should show the Company's name as the representative and not [First Name] [Last Name] as the agent on every page of the illustration.
4. For documentation purposes, the Company should maintain an entire copy of the illustration. This should include the first illustration from the agent and the revised illustrations sent by Company personnel if one was produced.
5. It is recommended that the Company institute procedures to insure that when revised illustrations are used, that they be marked "Revised Illustration".

Company's Response:

See the Company's attached response.

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 the following statutes, rules and regulations:

Illinois: 50 Illinois Administrative Code 917.70(a)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210,
Chapter 19(006) and Bulletin CB-56

Ohio: Ohio Administrative Code 3901-6-05

Oregon: Oregon Administrative Rules 836-080-0025

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 the four participating states.
 2. Ordinary Individual Life new business written in the four participating states during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 3. Policies terminated in the four participating states during the examination period.
 4. Policy loans granted in the four participating states during the examination.
 5. Policies in-force in the four participating states as of the end of the examination period.
- All of the data files supplied were compared to each other, looking for possible unreported replacements.
- The new business and in-force files were analyzed, looking for any agents that had a high percentage of replacements to in-force policies.
- A file was produced for review containing:
 1. A random sample of one hundred (100) policies listed in the replacement register.
 2. Thirty-four (34) policies that were listed in the new business file as being replacements but were not listed in the replacement register supplied.
- 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:

- Five (5) files were removed from the original sample because they were not policy replacements or they were policies issued in a state outside of one of the four participating states.
- Two (2) files were not located by the Company so the files were deemed to have failed all applicable tests.

Test	Population	Sample	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	348	129	124	5	90%	96%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	348	129	126	3	90%	98%
Did the statement signed by the applicant confirm that a replacement was involved?	348	129	119	10	90%	92%
Did the agent present to the applicant a “Notice Regarding Replacement”?	348	129	118	11	90%	91%
Did the agent present to the applicant a “Notice Regarding Replacement” at the time the application was completed?	348	129	121	8	90%	94%
Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company?	348	129	119	10	90%	92%
Was the “Notice Regarding Replacement” signed by both the applicant and the agent?	348	129	64	65	90%	50%
Did the agent submit a completed application to the replacing company?	348	129	124	5	90%	96%
Did the agent obtain a list of all existing life insurance to be replaced and was the list properly identify by name of insurer, the insured and contract number?	348	129	120	9	90%	93%

The standard of compliance is 90%. The Company’s performance was below the minimum standard in one (1) test.

Examiners' Additional Comments:

1. Ten (10) files contained erroneous replacement answers on the application which were not amended at issue to correct the response.
2. The "Notice Regarding Replacement" used for policies issued in Ohio does not comply with Ohio Administrative Code 3901-6-05 and the form that was used was not approved by the Ohio Superintendent in accordance with Ohio Administrative Code 3901-6-05(E)(2)(a).
3. The "Notice Regarding Replacement" used for policies issued in Nebraska does not comply with Nebraska Administrative Code 210.19.008.02A. The form that was used was not approved by the Director in accordance with Nebraska Administrative Code 210.19.006.02A.
4. An agent did not sign one (1) of the replacement notice forms but a stamp of the agent's signature was used in place of the agent's actual signature.

Examiners' Recommendations:

1. It is recommended that the Company's rules and procedures pertaining to agent requirements in connection with replacements comply with applicable statutes, rules and regulations.
2. In particular, it is recommended that the Company institute new policies and procedures to insure that both the agent and the applicant sign the "Notice of Replacement" before any application is accepted.
3. It is also recommended that the Company institute agent training and awareness of each state's individual replacement requirements.

Company's Response:

See the Company's attached response.

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 the following statutes, rules and regulations:

Illinois: 50 Illinois Administrative Code 917.70(a), 215 Illinois Code Section 5/224(2)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210,

Chapter 19(007),(008)& (009)

Ohio: Ohio Administrative Code 3901-6-05

Oregon: Oregon Administrative Rules 836-080-0022

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 the four participating states.
 2. Ordinary Individual Life new business written in the four participating states during the examination period. This data file stated for each policy whether it was a replacement for another existing life insurance policy owned by the insured.
 3. Policies terminated in the four participating states during the examination period.
 4. Policy loans granted in the four participating states during the examination.
 5. Policies in-force in the four participating states as of the end of the examination period.
- All of the data files supplied were compared to each other, looking for possible unreported replacements.
- A file was produced for review containing:
 1. A random sample of 100 policies listed in the replacement register.
 2. 34 policies listed in the new business file as being replacements but were not 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 portion of the company requirement section of the replacement laws tested.

Findings:

- Five (5) files were removed from the original sample because they were not policy replacements or they were policies issued in a state outside of one of the four participating states.
- Sixteen (16) files were removed because they were internal replacements with affiliated companies. The Company requirement section does not apply to internal replacements in Illinois, Nebraska and Oregon.

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?	348	113	108	5	90%	96%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement was or could be involved?	348	113	110	3	90%	97%
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?	348	113	104	9	90%	92%
Did the Company require from the agent, with the application, a copy of the "Notice Regarding Replacement"?	348	113	100	13	90%	88%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement", the policy and contract summary or any ledger statements used?	348	113	101	12	90%	89%
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?	348	113	54	59	90%	48%
Did the Company include in the written communication a policy or contract summary or ledger statement to each existing insurer?	348	113	0	113	90%	0%

The standard of compliance is 90%. The Company's performance was below the minimum standard in four (4) tests.

Examiners' Additional Comments:

1. The review of the actual replacement register showed that the Company was maintaining the register as required.
2. The Company was unaware that Section 224(2) of the Illinois Insurance Code requires the Company to transmit a policy summary to the existing insurer within three (3) working days after the date the replacement policy is issued. While the Company does have standard operating procedures in place to include a copy of the policy summary with the letter that is sent to the existing insurer within three (3) working days after the application is received, the Company did not have procedures for sending a revised summary when the policy is issued other than as applied. As previously stated, the Company did not have procedures in place to document the items that were enclosed with the letters mailed to existing insurers notifying them of the proposed replacement.
3. During the examination period, the Company was unaware that the State of Ohio does not exempt transactions with affiliated companies from the replacement requirements and treated such transactions as internal replacements.
4. The Company's procedure manual indicates that on a quarterly basis, the Company randomly selects and reviews several replacements that were processed during the prior quarter. The Company indicated that such reviews were conducted, but no documentation was provided for the examiner's review when requested. The Company informed the examiners that the Company has adopted a policy to institute quarterly business quality review beginning the first quarter of 2002. These quarterly reviews will include both a review of New Business, in general and of replacements, and Service and will be formally documented.
5. The Company's procedure manual also states that the Company analyzes replacement activities to identify situations in which excessive or inappropriate replacements occur. If questionable trends appear, the Company reviews the transactions. The examiners requested the Company to provide the results of the Company's reviews of replacement activities that were conducted during the examination period. Documentation was provided to the examiners only for the most recent quarterly review. That review revealed three (3) agents who had significant replacement activity in Illinois, Nebraska, Ohio and Oregon. The Company wrote to these three (3) agents in January of 2002 requesting detailed information

regarding their replacement activity during 2001. These were the same agents about whom the examiners also had concerns regarding the percentage of replacement business written.

6. The Company's Replacement Policy is based on the NAIC Model Replacement Regulation. From the information reviewed, it appears the Company did not take into consideration the actual laws adopted by the states in which it is authorized to transact insurance at the time the Company's Replacement Policy was adopted. The Company's definition of replacement does not comply with the laws of Illinois, Nebraska, Ohio and Oregon. The Company's definition of exempted transactions are not defined as exemptions in the states' regulations. Examples of this noncompliance are shown in the following table:

<u>Company Defined Exemption</u>	<u>States Where Company Exemption is Not Listed as an Exemption</u>
Group life insurance or annuities used to fund formal prepaid funeral contracts.	Illinois, Nebraska, Ohio, Oregon
Existing life insurance that is a non-convertible term life insurance policy that will expire in five years or less and cannot be renewed.	Oregon, Nebraska, Ohio
Immediate annuities that are purchased with proceeds from an annuity contract. Immediate annuities purchased with funds obtained by the withdrawal or surrender of or by borrowing from values of an existing life insurance policy are considered replacements.	Illinois, Nebraska, Ohio, Oregon
Structured settlement annuities.	Illinois, Nebraska, Ohio, Oregon
New coverage provided under a life insurance policy or annuity contract where the cost is borne wholly by the insured's employer or by an association of which the insured is a member.	Illinois, Nebraska, Ohio
ERISA pension or welfare benefit plans; employer established or maintained 401(1), 401(k), or 403(b) plans; a government or church 414 plan; and government or tax exempt 457 plans are normally exempt unless plan participants may choose from two or more providers and there is direct solicitation of individual employees.	Nebraska, Oregon

Examiners' Recommendations:

1. It is recommended that the Company's rules and procedures pertaining to company requirements in connection with replacements comply with applicable statutes, rules and regulations.
2. It is also recommended that the Company review the applicable replacement laws for each state and adjust procedures accordingly.
3. It is recommended that the Company put into place a procedure to insure documentation is kept of all correspondence involved in the replacement of existing insurance.

Company's Response:

See the Company's attached response.

POLICYHOLDER SERVICES

Standard: Policy transactions are processed accurately and completely.

Test 1: Did the Company process policy loans according to the policy provisions and the following statutes, rules and regulations:

Illinois: 215 Illinois Code Section 5/234.1

Nebraska: Nebraska Revised Statutes 44-405, 44-502

Ohio: Ohio Revised Code 3915.05 (G), Ohio Revised Code 3915.051

Oregon: Oregon Revised Statute 743.186, Oregon Revised Statute 743.187

Methodology:

- The Company supplied a computer file of all of the policy loans requested by policyholders in the four participating states during the examination period.
- A random sample of 100 policy loans was pulled.
- A policy loan file would be considered an exception if:
 1. the file did not document prior written authorization by the policyholder in either the request for the cash loan or in the policy application for automatic premium loans,
 2. the file did not document interest rates used according to the policy provisions,

3. there were not a minimum of three (3) years of premium payments before the loan was given.

Findings:

- Five (5) policy loans were removed from the sample because they were not new loans granted during the examination period but loans that were part of 1035 exchanges.

Population	Sample	Yes	No	Standard	Compliance
138	95	88	7	90%	93%

The standard of compliance is 90%. The Company’s performance met the minimum standard.

- Each of the files that did not meet this standard may have failed for one or more of the reasons shown:
 1. Two (2) automatic premium loans did not contain the documentation needed to prove that the Company had prior written approval from the policyholder to process the loan.
 2. One (1) automatic premium loan was instituted even though the provision for APL’s was not selected on the application.
 3. Three (3) requested policy loans did not contain documentation of the request. The requests were phone requests, however, there was no documentation in the file of the Company receiving the phone call.
 4. One (1) policy loan did not have the correct interest rate according to the policy provisions.

Company’s Response:

See the Company’s attached response.

Test 2: Did the Company process terminated policies according to the policy provisions?

Methodology:

- The Company supplied a computer file of all of the terminated policies in the four participating states during the examination period.
- The terminations file was broken down into the type of termination. For those types that had fewer than 100 in population, all of the policies were reviewed. This included conversions, expired policies, expired from extended term and surrenders. A random sample of lapsed policies was also pulled to make a total of 100 terminated policies reviewed.
- A terminated 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
519	100	98	2	90%	98%

The standard of compliance is 90%. The Company’s performance met the minimum standard.

- Two (2) of the files did not contain sufficient documentation in the files to determine if nonforfeiture benefits were offered and if the terminations were according to policy provisions.

Company’s Response:

See the Company’s attached response.

PAID CLAIMS

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 provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- 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:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states' jurisdictions.

Population	Yes	No	Standard	Compliance
87	73	15	93%	83%

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

- Fifteen (15) files did not comply because the files did not contain documentation needed to determine the date of death, receipt dates of notification of the death and of proof of death or the dates of all correspondence.

Examiners' Additional Comments:

1. The Company's claim forms state the Company's procedures used to determine settlement option, whether the payment is made to a future account or paid as a lump sum. The Company was not consistently following these procedures and there was no documentation to show why variances to the procedures were being made.
2. The Company's imaging system produced poor quality images and in many cases, the files had to be re-requested by the examiners so that a legible copy could be provided.

Examiners' Recommendations:

1. It is recommended that the Company institute new policies and procedures to insure that documentation is maintained on all claim activity.
2. It is also recommended that the Company review and redefine their quality control procedures for their imaging system.

Company's Response:

See the Company's attached response.

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 the required time frame according to the following statutes, rules and regulations?

Illinois: 50 Illinois Administrative Code 919.50, 215 Illinois Code Section 5/154.6(o)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(006)

Ohio: Ohio Administrative Code 3901-1-07(C)(5)

Oregon: Oregon Administrative Rules 836-080-0225

Methodology:

- The Company provided computer files of all claims paid during the examination period.

- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- 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:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states' jurisdictions.

Population	Yes	No	Standard	Compliance
87	78	9	93%	90%

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

- Each of the files that did not meet this standard may have failed for one of the reasons shown:
 1. Two (2) files did not comply because the claim files were incomplete.
 2. Seven (7) files did not comply because the Company did not contact the claimant within the required time frames.

Examiners' Additional Comments:

1. The Company has a policy that claim forms are not required on small face claims. The claimant calls into a call center to notify the Company of the insured's death. The call center sends the phone log sheet to the Claims Department. No claim forms are mailed to the claimant and no investigation is started by the Company until the proof of death is received by the Claims Department.

Examiners' Recommendations:

1. The Company should institute policies, procedures and controls to insure that the claimant is contacted within the time frames required by applicable statutes, rules and regulations. In the case of small face claims, the Company's Claims Department should correspond with the claimants that have contacted the call center.

Company's Response:

See the Company's attached response.

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within the time frame required by the following statutes, rules and regulations?

Illinois: 215 Illinois Code Section 5/154.6(c)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(007)

Ohio: Ohio Administrative Code 3901-1-07(C)(4)

Oregon: Oregon Administrative Rules 836-080-0230

Methodology:

- The Company provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- 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 within the required time frame.

Findings:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states’ jurisdictions.

Population	Yes	No	Standard	Compliance
87	82	5	93%	94%

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

- One (1) file did not comply because the claim file was incomplete.
- four (4) files did not comply because the Company did not investigate because of their policy on not acknowledging small face claims until the proof of death is received.

Company’s Response:

See the Company’s attached response.

Standard: Claims are settled in a timely manner.

Test: Was the claim settled within the time frames required in the following statutes, rules and regulations?

Illinois: 50 Illinois Administrative Code 919.50(a)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(008)

Ohio: Ohio Revised Code 3915.05(K)

Oregon: Oregon Administrative Rules 836-080-0235

Methodology:

- The Company provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- The claim files were reviewed to verify important dates in the claim process.

- A claim was considered an exception if the Company did not pay the claim within the required time frame.

Findings:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states' jurisdictions.

Population	Yes	No	Standard	Compliance
87	85	2	93%	98%

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

- One (1) file did not comply because the claim was delayed due to a contestable investigation.
- One (1) file did not comply because the claim was delayed due to a request for additional information but then the Company paid the claim without waiting for the additional information.

Company's Response:

See the Company's attached response.

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 the following statutes, rules and regulations?

Illinois: 50 Illinois Administrative Code 919.50(a)

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter 61(006.01)

Ohio: Ohio Administrative Code 3901-1-07(C)(2)

Oregon: Oregon Administrative Rules 836-080-0225

Methodology:

- The Company provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- 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:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states’ jurisdictions.

Population	Yes	No	Standard	Compliance
87	75	12	93%	86%

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

- Two (2) files did not comply because the claim files were incomplete.
- Ten (10) files did not comply because the Company did not respond to additional claim correspondence within the required time frames.

Examiners’ Recommendations:

1. The Company should institute policies, procedures and controls to insure that all claim correspondence is responded to within the time frames required by statutes, rules and regulations.

Company’s Response:

See the Company’s attached response.

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 the following applicable statutes, rules and regulations?

Illinois: 215 Illinois Code Section 5/224

Nebraska: Nebraska Administrative Rules and Regulations, Title 210, Chapter
61(008.04), Revised Statutes 44-1540,44-3,143

Ohio: Ohio Revised Code 3915.052

Oregon: Oregon Revised Statute 743.192

Methodology:

- The Company provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.
- 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 to determine which state's laws were applicable.
- A payment set up as a separate account/checking account for the beneficiary was considered a lump sum payment.
- The different applicable state laws were reviewed and were compared to the interest rate that the Company used for proceeds left on deposit at that time. The higher rate was used to determine interest payments due.
- A claim was considered an exception if the Company did not accurately calculate interest payments due.

Findings:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states’ jurisdictions.

Population	Yes	No	Standard	Compliance
87	81	6	93%	93%

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

- Six (6) files did not comply because when the examiners recalculated the interest based on information provided in the claim file and the applicable state requirement, a different interest amount was calculated. All six (6) of the claims were underpaid.

Examiners’ Additional Comments:

1. It is the Company’s procedure to check the applicable laws for the policy issue state, the insured’s resident state and the beneficiary’s state and use the law that provides the highest interest rate.

Company’s Response:

See the Company’s attached response.

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

Test: Do the canceled 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 provided computer files of all claims paid during the examination period.
- The Examiners selected for review all claims paid that either the issue state or policy state was one of the four participating states. Sampling was not performed due to the small population size. All of the applicable paid claim files were reviewed.

- 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:

- The population was originally one-hundred and ten (110) claims but it was determined that twenty-three (23) claims were actually outside of the four participating states’ jurisdictions.

Population	Yes	No	Standard	Compliance
87	87	0	93%	100%

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

- The review of canceled benefit checks showed no irregularities or differences in comparison to what was contained in the claim files themselves.

Company’s Response:

See the Company’s attached response.

ADDITIONAL EXAMINATION FINDINGS

The examiners had a difficult time reviewing pertinent information required for the examination due to poor image quality in a large portion of the files requested. The examiners also had a difficult time reading receipt date stamps in several files. Original microfiche had to be requested. This resulted in exam delays while the Company tried to locate the microfiche. The imaged files also often contained documentation for unrelated files.

Examiners' Recommendation:

1. It is recommended that the Company review and redefine their quality control procedures for their imaging system. This should include full review of their imaging quality as well as steps to ensure proper documentation is available within each file.
2. The Company should require consistent date stamping of documentation received.

Company's Response:

See the Company's [attached response](#).

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>
Illustrations		
Illustration Signed Prior to Application Received	90%	86%
Illustration clearly labeled and containing all required information	90%	87%
Proper Procedures for Revised Illustrations	90%	76%
Replacements – Agent Requirements		
“Notice Regarding Replacement” signed by applicant and agent	90%	50%
Replacements – Company Requirements		
Require the “Notice Regarding Replacements” with the application	90%	88%
Maintain evidence of the Notice, policy and contract summary	90%	89%
Send a written communication to existing insurer within 3 days	90%	48%
Include in written communication a policy or contract summary	90%	0%
Claims		
Claim Files Adequately Documented	93%	83%
Initial Contact with Claimant	93%	90%
Timeliness in Responding to Claim Correspondence	93%	86%

This concludes the report of the Interstate Collaborative Market Conduct Examination of the Southland Life Insurance Company. The examiners, Lynette Baker (OH), Cheryl Davis (OH), Robert Stroup (OH), David Israel (IL), Reva Vandevoorde (NE) and Gayle Woods (OR) would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



12/1/2002

Lynette A. Baker, CFE
Examiner in Charge

Date

