

REPORT ON MULTI-STATE TARGET EXAMINATION

AS TO

MARKET CONDUCT AFFAIRS

OF

**LIBERTY LIFE INSURANCE COMPANY
GREENVILLE, SOUTH CAROLINA**

AS OF

DECEMBER 31, 2002

SUBMITTED DECEMBER 14, 2003



RBC
Insurance

Mark Wessel
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October 13, 2005

Via E-mail and Overnight Mail

RECEIVED

OCT 14 2005

Dianne H. Irving, CIE, CFE
Chief Market Conduct Examiner
South Carolina Department of Insurance
Post Office Box 100105
Columbia, South Carolina 29202-3105

STATE OF SOUTH CAROLINA
DEPARTMENT OF INSURANCE

Re: Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company

Dear Dianne:

Liberty Life Insurance Company ("Liberty Life") makes the following written response to the Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company of Greenville, South Carolina as of December 31, 2002, as amended (the "Report").

Premium Tax Reporting, pages 9-14. As Liberty Life has explained to the Department, Liberty Life does not believe that premium taxes were due. Liberty Life reported and paid premium tax on the entire amount that it "received." The position of the Report, though, is that Liberty Life should pay premium tax on amounts that it plainly did not "receive" or "collect." Our research reveals **no** state premium tax statute that imposes a tax on amounts that were not received, and the Report cites no such statute. To the contrary, state premium tax statutes use quite precise language. Those statutes consistently and routinely apply only to amounts that are actually "received" or "collected." Because there is virtually universal authority that tax statutes are to be construed according to their plain meaning, and strictly **against** the taxing authority, these terms cannot be stretched to apply to the Fee Reductions under Comp AD.

This conclusion is reinforced by universally recognized instructions and practices surrounding preparation of premium tax returns, which base premium tax on the calculation of gross premiums on Schedule T; Liberty Life followed those rules. By using the figures from Schedule T, Liberty Life calculated and paid premium tax in accordance with industry standards, the

instructions and customs of individual states, and generally accepted principles of accounting for insurance premiums.

Finally, even if premium tax were due, the Report fails to take into account the effect of the various applicable statutes of limitations on amounts of tax that would be due.

Possible Use of Unlicensed Brokers, page 29. As the Report notes, the brokers were not involved in the selling, soliciting, or negotiating of insurance on behalf of Liberty Life, but instead were involved in negotiating the business relationship between CBSI and the financial institution. Accordingly, regardless of the method of compensation, Liberty Life does not believe that any such brokers who may not have been licensed were, under law, required to be licensed.

Variations in Duration of Complimentary Coverage, pages 31-32. Six of the categories of variance noted in the Report deal with complimentary periods of a duration other than six months. This is not a violation of law or of the terms of the program.

As the Report acknowledges, neither the scripts used by the telephone operators nor the application and certificate speak of a six-month complimentary period. Instead, the marketing materials and each application provide a *specific date* upon which the complimentary coverage would expire. In every case, Liberty Life adhered to that date.

Typically, this termination date was set for an entire campaign. If a potential participant delayed in responding, for instance, some of the complimentary period available to him or her could elapse during that delay. However, it was clear at all times to all potential participants that the complimentary coverage would be available only through the date stated to that person. Liberty Life did exactly what it promised it would do, and performed precisely in accordance with the terms of its policies – indeed, if it had given every insured precisely six months' of complimentary coverage, *that* would have violated the terms of the policies at issue. S.C. Code Ann. § 38-55-50, relied on in the Report, requires an insurer to adhere to the terms of its policies.

75-Day Notification, page 32. As the Report notes, there was no legal or regulatory requirement that the notice letters be sent at all, and most of the notices that were given after Liberty Life's target for providing notice were still given with plenty of time for the insured to react. There is no indication that any insured was prejudiced at all with regard to this issue.

Telemarketers Not Licensed by Insurer, pages 33-34. Liberty Life believes that – with the exception of those few instances noted at page 28 of the Report, all appropriate licenses were in place. In general, as the Report notes, the Complimentary Accidental Death product was marketed using a two-tiered method (an approach which is used by other insurers). While this involved the initial placing of a telemarketing call by an unlicensed telemarketing representative, the Liberty-Life-approved script for that call required that, if the customer wished to enroll in the insurance program, then the call had to be transferred to an insurance agent who was licensed in the state where the customer resided. Enrollment *could not* occur without that licensed agent's involvement. The conversation between the duly licensed insurance agent and the new insured

Dianne H. Irving, CIE, CFE

October 13, 2005

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was taped, with the customer's knowledge and consent, and that tape was stored for future reference and verification.

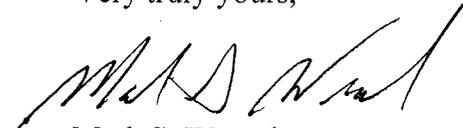
Over the life of the program, the insurance departments of several states have reviewed this two-tiered telemarketing approach for this product; beside the "one-tier" states described below, not a single department ever identified this approach as a problem or violation.

Liberty Life is aware that certain states require the use of a duly licensed insurance agent during the initial call and therefore, the procedures for enrollments of residents of these states differed from the normal "two-tiered" approach. In those "one-tier" states, no unlicensed telemarketers participated in placing calls.

In addition, statutes in a number of states expressly allow a person enrolling individuals in group plans – like the program at issue here – to proceed without a license, at least as long as no commissions are paid. *See, e.g.* S.C. Code Ann. § 38-43-20(2). The telemarketers in question earned no commissions, and so qualified for these exemptions.

Liberty Life appreciates the hard work of the Department that went into this Report. We also appreciate the efforts by the Department to take Liberty Life's evidence into account in drafting the Report. With respect to the foregoing issues, however, Liberty Life must respectfully differ with the Report, and so must respond.

Very truly yours,



Mark S. Wessel



**South Carolina
Department of Insurance**

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Governor

Division of Financial Services
Office of Market Conduct Examinations
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ELEANOR KITZMAN
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September 15, 2005

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Robert David Black
President & CEO
Liberty Life Insurance Company
P.O. Box 789
Greenville, S.C. 29602-0789

Dear Mr. Black:

Enclosed herewith is an amended copy of the Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company of Greenville, South Carolina, as of December 31, 2002, made pursuant to S. C. Code Ann. § 38-13-10 (A) (as amended).

Your attention is directed to the following items within the Report:

<u>Item</u>	<u>Page</u>
C. Premium Tax Reporting	9
D. Summary and Analysis	14
E. Complaint Handling	38
F. Claims Handling	41
G. Consideration of other States' Statutes	44

Your written response should be received by this Department within thirty (30) days from the date of this letter. If you have any questions or concerns, I can be reached at (803) 737-6209, or facsimile transmission number (803) 737-6232.

Yours truly,

DIANNE H. IRVING, CIE, CFE
Chief Market Conduct Examiner



Mark Wessel
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March 26, 2004

VIA FEDERAL EXPRESS

Ms. Dianne H. Irving
Chief Market Conduct Examiner
South Carolina Department of Insurance
300 Arbor Lake Drive, Suite 1200
Columbia, SC 29223

Dear Dianne:

Enclosed is Liberty Life's response to the Draft Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company of Greenville, South Carolina, as of December 31, 2002.

As you will see from our response, we are eager to meet with you to talk about the findings in the Draft Report and our questions and responses. Because we have not been able to have full access to the files reviewed during the Examination, one of the first things we are interested in doing is gaining a fuller understanding of some of the variances claimed in the Draft Report.

Over the life of the Complimentary Accidental Death Insurance program, Liberty Life worked very hard to analyze how the features of that program fit within the insurance regulatory structure, and was diligent in designing its offerings and procedures to comply with that structure. It also spent a great deal of time monitoring the performance of CBSI, to ensure that the program as administered followed Liberty Life's design.

Consequently, if there were variances, they were inadvertent, and regretted. However, we do not believe that many of the items set forth in the Draft Report accurately reflect the program, and so we look forward to further conversation with the Department.

Ms. Dianne H. Irving
March 26, 2004
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In addition, because Liberty Life has terminated the Comp AD program, we are hopeful that any disagreements between the Department and Liberty Life can be resolved through negotiation. To the extent that there were variances in the program (and we do not believe there were any material issues), they stopped with the end of the program. We look forward to further discussions aimed at bridging any differences that may remain after the Department has reviewed this response.

Sincerely,



Mark S. Wessel

cc: R. David Black
Robert E. Evans
Harold Huffstetler

RESPONSE OF

LIBERTY LIFE INSURANCE COMPANY

To the Draft Report on Multi-State Target Examination

As to Market Conduct Affairs as of December 31, 2002

March 29, 2004

Liberty Life Insurance Company (Liberty Life) respectfully submits its Response to the Draft Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company of Greenville, South Carolina, as of December 31, 2002 (the "Report").

I. Introduction

This examination focused on Liberty Life's Complimentary Accidental Death Program ("Comp AD"), which was available for enrollment from 1993 to approximately April of 2003. It is true that Comp AD involved some less commonplace features – specifically, the complimentary period and enrollment by telephone. However, Liberty Life worked very hard to analyze how those features fit within the insurance regulatory structure, and was diligent in designing its offerings and procedures to comply with that structure.

Consequently, Liberty Life respectfully disagrees with the findings of purportedly material non-compliance in the Report. For instance, as we will discuss in greater detail below:

- No premium tax is due. Virtually all states instruct insurers to Report premiums on their premium tax returns on a cash basis. This is consistent with statutes that tax premiums that are "received" or "collected." During the complimentary period, "premiums" – as clearly defined by the tax statutes themselves – were neither received nor collected.
- Liberty Life did not use any unapproved forms. To the contrary, Liberty Life went to great lengths to file all necessary forms with every state in which Comp AD might be offered.
- The telephone operators who made contact with group members were not required to be licensed as agents. Similarly, the individuals who helped negotiate the financial relationships between the various financial institutions that participated in Comp AD and Liberty Life's agent Chartered Benefit Services, Inc. ("CBSI") did not need a license, since they did not write insurance business on behalf of Liberty Life or do any other acts reserved to licensed brokers or agents.

Furthermore, Liberty Life continuously monitored and reviewed its Comp AD program. It conducted periodic financial and compliance audits of CBSI's administration of the program, and provided corrective instructions to CBSI whenever it appeared that one of CBSI's practices might create an issue. As the Department knows from reviewing Liberty Life's periodic audits of CBSI and other documents, Liberty Life took great pains to design and implement Comp AD in accordance with insurance laws and regulations. If there are variances, they were inadvertent, and regretted – and they were corrected as soon as possible by Liberty Life. In addition, Liberty Life's termination of Comp AD means that any issues that are outstanding are historical only.

Aside from our substantive position that there are no material variances within Comp AD, we have two significant procedural concerns about the Report and the steps leading up to it.

- The Report does not respond at all to Liberty Life's previous submissions to the Department. In the course of the Examination, Liberty Life has made its positions on most of the items in the Report clear to the Department, both formally and informally. Nowhere in the Report is there any evidence that these positions have even been considered, and there is certainly no substantive rebuttal of any of those positions. This is frustrating. Liberty Life respectfully submits that any fair examination must include a response to the positions of the insurer.
- Liberty Life has not had a meaningful opportunity to review the files that form the basis of the Report's factual findings and, accordingly, no opportunity to rebut those findings. Obviously, a great deal of the Report is devoted to a tally of purported deficiencies detected in the 2,100 files reviewed as part of the Examination. Liberty Life strongly believes that many of the claimed variances are in error. In order to establish this, however, we would need to review the files. We have not been given a full opportunity to do this.

Liberty Life requests a conference with the Department to discuss our objections to the Report in more detail. We understand that the Department agrees that such a

conference is the next logical step in this process. To promote further discussion, we have endeavored to make this response as brief and as to-the-point as possible.

In addition, as we have noted, Liberty Life has previously submitted documents setting forth its position in detail to the Department. Those submissions raise significant points in Liberty Life's favor, and we incorporate them by reference. In addition, Liberty Life denies all allegations not specifically addressed in this response.

II. Liberty Life Does Not Owe Premium Tax

This is not a case in which an insurer has decided to ignore its tax obligations. Liberty Life has always complied fully with reporting requirements, and its obligation to pay taxes. Instead, this is a case of a somewhat unusual program which includes a complimentary period for the insured – during which no premium is called for in the contract, billed, or received by Liberty Life. Liberty Life has filed timely premium tax returns in every state involved in this Examination, and for every year of the Comp AD program. These returns were completed according to the instructions of each state, standard practices in the industry, and NAIC guidelines.

In short, Liberty Life has reported and paid premium tax on the entire amount that it “received.” The position of the Report, though, is that Liberty Life should pay premium tax on amounts that it plainly did not “receive” or “collect.” This contention of the Report has no support in fact or law. While it is the case that Liberty Life received a benefit from the reduction in compensation to the financial institutions (the “Fee Reductions”), those Fee Reductions do not come within the terms of the various premium tax statutes, and so are not taxable.

Our research to date reveals no state premium tax statute that imposes a tax on amounts that were not received, and the Report cites no such statute. To the contrary, state

premium tax statutes use quite precise language. Those statutes consistently and routinely apply only to amounts that are actually “received” or “collected.” Because there is virtually universal authority that tax statutes are to be construed according to their plain meaning, and strictly against the taxing authority, these terms cannot be stretched to apply to the Fee Reductions under Comp AD. This conclusion is reinforced by universally recognized instructions and practices surrounding preparation of premium tax returns, which base premium tax on the calculation of gross premiums on Schedule T; Liberty Life followed those rules.

A. *Liberty Life Never “Received” or “Collected” Premiums for the Complimentary Period; Under the Various State Statutes, Liberty Life Is Not Taxable on Amounts It Never Received*

There can be no dispute that Liberty Life never received even one cent out of the Fee Reductions. It follows under every state’s premium tax statute that no tax is due.

Tax statutes must state with specificity what is taxed, and how much is owed. It is well established that tax statutes are construed strictly against the taxing authority. Where there is doubt, the ambiguously described transaction is not taxed. (See numerous authorities collected in Appendix III to Susan Cyr’s September 25, 2003 letter to Dianne Irving, *et al.* on behalf of Liberty Life.) Here, however, the states do not have even material ambiguity on their side. In general, premium tax statutes impose a tax on premiums “received,” “collected,” or in some instances “written.” None of these terms can reasonably be construed to include an amount that is not called for in the policy and was never paid to or received by the insurer.

Both “dictionary” definitions and judicial constructions of these terms dictate that one must actually acquire or come into possession of a thing in order to “receive” or “collect” it. That did not happen here. And because the Comp AD documentation made it

clear that premium payments did not commence until the close of the complimentary period, there was no premium “written” prior to that point.

Although the details of state premium tax statutes do vary, the foregoing analysis applies to every participating state. In order to streamline this document, we have attached as Appendix A state-by-state analyses of the premium tax language and its inapplicability to the complimentary period provided for in the Comp AD program, for the lead states other than South Carolina.

In short, though, Liberty Life did not provide in the policy for, bill for, collect, receive, seek, or accrue any premium payments for the complimentary periods under Comp AD. In particular, the Fee Reductions were never received, collected, or made part of the individual certificate of insurance. There is no state statute that can be read to impose tax on such a non-event.

B. Liberty Life Based Its Premium Tax Payments on Schedule T, in Accordance with State Instructions and Industry Practice

In virtually every state, in one fashion or another, computation of gross premium for premium tax purposes begins with the amount of premiums allocated to that state on Schedule T of the NAIC Annual Statement. The instructions to the NAIC Annual Statement provide that an insurer may elect to report accident and health insurance premiums on the basis of either (i) premiums collected or (ii) premiums written during the year. Liberty Life has consistently reported its accident and health premiums – including premiums received under Comp AD – on a “premiums collected” basis on Schedule T. These reports have never been challenged by any state.

Thus, it is clear that Schedule T calls for reporting of amounts that are actually *received* and recognized as premium. The Fee Reductions under Comp AD were never received, and

so were not reportable as part of gross premium on Schedule T. It follows that they were not part of the premium tax base.

Whether as a matter of custom, instruction, or regulation, most states have made it clear that the gross premium figure on Schedule T is the appropriate basis for computation of the premium tax base. For example:

- The instructions issued by the Texas Department of Insurance state that Item 7 is to reflect “the total premiums reported on NAIC Annual Statement, Schedule T, Line 44, Column 4.”
- The Illinois Privilege and Retaliatory Tax Statement states in bold that “Amounts Must Agree to Direct Business Page of Company’s Annual Statement” (which ties to Schedule T), and even uses the same line-number designations as the Direct Business Page.
- Schedule A to the California Life Companies Tax Return calls for calculation of Accident and Health Premiums by using “Gross Premiums (Sch. T, Line 5, Col. 4).”
- Pennsylvania, like many states, requires attachment of the Pennsylvania Business Page and Schedule T, and uses the same language as those forms, thus making it clear that Schedule T is the basis for premium tax calculation.

By using the figures from Schedule T, Liberty Life calculated and paid premium tax in accordance with industry standards, the instructions and customs of individual states, and generally accepted principles of accounting for insurance premiums. Thus, the Fee Reductions were properly excluded from calculation of gross premiums.

C In Any Event, the Various Statutes of Limitation Would Limit Any Tax Due

For all of the foregoing reasons, Liberty Life does not owe premium tax with respect to the complimentary period of Comp AD coverage. Liberty Life reported and paid tax on all premiums that it contracted for and received under Comp AD – and that satisfies the premium tax statutes. Even if some premium were arguably due, however, the various state statutes of limitations would limit that amount.

Our research reveals that every participating state has enacted a statute of limitations that governs premium tax returns. Most such statutes measure from the time of filing of the return, although a number measure from some other time, such as the date the return is due. The limitation periods typically range from three to six years.

Liberty Life filed premium tax returns every year. Appendix A to this response provides a state-by-state analysis of the various statutes of limitations for the lead states, and their cut-offs with respect to Liberty Life. The other participating states, of course, will have similar limitation periods. For ease of reference, we note here that this analysis reveals that Liberty Life's returns are closed to review with respect to the following years (and all prior years), for select states:

State	Closed Year
California	1998
Florida	2000
Illinois	1997
Pennsylvania	1998
Texas	1999

The premium tax issue cannot be productively discussed without taking these limitations periods into account.

III. The Comp AD Program Was Appropriately Designed and Operated

The Department's Report contains a "Grand Total Summary" of the Department's review, setting forth a variety of alleged variances. Although this table has over 30 rows, these represent a smaller number of issues (some of which occurred in only one or two

samples). While Liberty Life takes any claim of a variance seriously, we will respond in the greatest detail with those issues that arose most often.

Liberty Life carefully designed Comp AD to comply with all applicable laws, and we firmly believe that it does. Moreover, Liberty Life worked diligently to oversee and guide CBSI in administering the program. While there may have been some lapses in procedure, Liberty Life does not believe that Comp AD involved any systematic violations or problems.

As noted above, Liberty Life is repeating here many arguments that it has already made during the Examination. For whatever reason, the Report does not address those positions. We continue to believe that our positions are correct, and the failure of the Report to acknowledge and address them is frustrating. In addition, Liberty Life expressly requests permission to examine the files and other materials underlying the findings of variance; we dispute the accuracy of many of those findings, and are eager to review the files with the Department to demonstrate our position.

A. All Policy and Application Forms Were Approved

The Report says that a number of unapproved policy and application forms were found. In fact, Liberty Life was assiduous in filing all forms for Comp AD, except where there was an applicable exception. There were approved forms for every state in which enrollments were offered.

To our understanding, the Report's position is that the individual certificates and applications should have been approved by the state of domicile of the financial institution sponsoring the group in question. We believe this is incorrect. It is now well settled that a form or application issued to an individual insured must be approved by the state of residence of that individual. Liberty Life followed this rule, and its files reflect issuance of certificates and applications in approved by the respective states of residence.

Liberty Life had approved forms for every state in which Comp AD was offered, and it issued the proper forms to individual participants. There were no unapproved forms.

B. Files Contained No Broker's Agreement

As Liberty Life has explained, the term "broker" as used with respect to Comp AD does not refer to insurance brokers, but to individuals or firms in the business of assisting financial institutions in locating and negotiating various benefits programs for the customers of the financial institutions. These "brokers" have customer relationships with, and serve the interests of, the financial institutions. Often, such a broker would negotiate on behalf of its financial institution customer over the financial terms of the deal between the financial institution and CBSI.

Accordingly, the broker agreement would not have any association with the file of an individual certificate holder. Accordingly, we are not sure we understand the basis of the assertion in the Report that there were no broker agreements in a number of files; again, we are eager to review the Examiner's methodology to try to understand this finding. Beyond this, though, there would be several common reasons why such a contract might not appear in an individual file:

- In some cases, there may simply have been no broker involved;
- The broker contract might not have been in writing;
- There was a broker, under contract, but the contract simply was not associated with every individual file. There simply would be no reason to duplicate and include the contract for every file.

We are not aware of any requirement that copies of such contracts be maintained in every certificate holder's file. Accordingly, even assuming the contracts are not there, we do not believe this constitutes a violation.

C *The "Brokers" Were Not Required to Be Licensed.*

The Report identifies a number of files in which the "broker" was not licensed. Again, the Comp AD "brokers" were not brokering insurance for Liberty Life and so were not required by law to be licensed.

These brokers represented financial institutions that were looking for products to offer their customers. Moreover, their typical role was to provide an introduction to CBSI and to participate in negotiating the business relationship between CBSI and the financial institution for purposes of setting up direct marketing of Comp AD. These actions did not involve any of the statutory earmarks of brokering insurance. Under either S.C. Code Ann. § 38-43-10 and § 38-43-200, these brokers were not selling, soliciting, or negotiating insurance on behalf of Liberty Life, and so were not required to be licensed by Liberty Life. Instead, Liberty Life is required only to be sure that its agents, acting on its behalf are licensed.

This conclusion is reinforced by NAIC guidance regarding the Producer Licensing Model Act, which makes it clear that an insurer is not required to appoint brokers. It is required only to appoint producers acting as agents on behalf of the insurer. Thus, Liberty Life was not required to appoint these "brokers."

Nevertheless, we understand that many of these brokers were, in fact, licensed with Liberty Life. The Report apparently takes the position that an individual working for a licensed corporate entity must also be licensed. This would render corporate licensing meaningless, of course. Corporations must act through individuals. If a corporation is licensed to broker insurance in a given state, one of its employees may (indeed must) perform the acts necessary to that brokering.

D. The Number of Unlicensed Agents Is Overstated

The Report finds 50 unlicensed agents. We believe this number is overstated, and again look forward to the opportunity to understand how this number was developed, and to comment with specificity on the finding.

Moreover, the great majority of the cases claimed in the Report occurred in 1998. Liberty Life became aware at that time that the telemarketing firm engaged by CBSI was sometimes using agents before their licenses were in place. Liberty took prompt steps to halt and correct this practice, and the record reflects that these steps were very effective. Even the level of variance claimed in the Report dropped sharply after 1998.

E. The Comp AD Program Did Not Promise "Six Months" of Complimentary Coverage

Six of the categories of variance noted in the Report deal with complimentary periods of a duration other than six months. This is not a violation of law or of the terms of the program.

Neither the scripts used by the telephone operators nor the application and certificate speak of a six-month complimentary period. Instead, the marketing materials and each application provide a specific date upon which the complimentary coverage would expire. In every case, Liberty Life adhered to that date.

Typically, this termination date was set for an entire campaign. If a potential participant delayed in responding, for instance, some of the complimentary period available to him or her could elapse during that delay. However, it was clear at all times to all potential participants that the complimentary coverage would be available only through the date stated to that person.

F. *Liberty Life, Through CBSI, Routinely Provided Notification Letters to Certificate Holders That the Complimentary Period Was Going to Expire*

As a preliminary matter, we note that there is no statutory requirement to provide the 75-day notice. Instead, Liberty Life sometimes agreed with a financial institution to provide a notice letter to participants in that campaign only. Only in August 2001 did Liberty adopt a policy of including a notice letter in all campaigns, as a service to its customers. Accordingly, some files might not reflect such letters because they were not part of the program.

Furthermore, individuals who terminated their participation before the triggering date for the notice letter obviously would not receive a letter. Inclusion of such canceling customers in the list of variances would be mistaken.

Once the process was instituted, however, Liberty Life has been assured by CBSI that these letters were routinely sent to certificate holders. Accordingly, Liberty Life disagrees with the claim in the Report that notice letters were not sent with respect to over half the files. We believe the letters were routinely sent, and we look forward to the opportunity to discuss this further.

We would also point out that CBSI did not maintain hard copies of these notification letters. Instead, it kept a computer record reflecting the sending of each letter. Accordingly, there would not normally be a paper copy of the notification letter in any file. This record-keeping practice is relevant not only to the assertion in the Report that letters were not sent to half the sample, but also to the smaller number of instances in which the Report states that a letter was "not in file."

G. *There Is No Requirement That Telemarketers Be Licensured*

As we have set forth in some detail in the September 22, 2003 letter from Mark Wessel of Liberty Life to Dianne Irving and Stan Spell, the initial telemarketers do not need

licenses. Each of the six lead states – like many other states – have exemptions in their licensing laws that provide that someone enrolling individuals in group plans like Comp AD need not be licensed, at least as long as no commissions are paid. (The Wessel letter cites and discusses these laws in detail.) The telemarketers in question earned no commissions, and so qualified for these exemptions.

As a further safeguard, Liberty Life did ensure that a licensed agent conducted the actual final enrollment and confirmation of each participant. As we understand these exemptions, that extra level of care was not required. An unlicensed person could conduct the entire enrollment. However, Liberty Life put procedures in place to ensure that every telephone enrollment was concluded by a licensed agent. This more than satisfies the statutory requirements.

It is worth emphasizing that Liberty Life did look carefully at this issue. A few states – so-called “one-tier” states – require that a licensed agent conduct the entire telephone call. Liberty Life identified those states and put procedures in place to ensure that calls to potential participants in those states were placed only by licensed agents.

H. Liberty Life Believes Customers Were Routinely Notified of Transfers of Loans

Liberty Life is informed and believes that it is industry practice – and indeed required by law – that a financial institution inform its customer when the customer’s loan is sold to another financial institution. The Comp AD program relied on that notification, and so Liberty did not provide a separate notification. Accordingly, the absence of such a notification from Liberty’s files does not mean the notification did not take place. To the contrary, it is reasonable to assume that it did take place in every instance. We do not believe that any violation by Liberty Life is alleged here.

I. Asserted Variances Regarding "Cash on Hand"

Liberty Life is not sure what is entailed under this heading, and so cannot respond. We look forward to discussing this matter with the Department.

J. The Pennsylvania Fraud Statement Was Provided by Direct Mail

The Report concludes that none of the Pennsylvania files contained fraud statements required by that state. In fact, the fraud statement was part of the direct mail package that was sent prior to telephone contact. Furthermore, as a practical matter, no prejudice could flow from any failure to provide fraud notices, since no underwriting was performed for this product.

K. Incomplete Files and Isolated Occurrences

The remaining variances noted in the Report fall into two categories: (i) files with missing documents or that were not Comp AD files; and (ii) isolated occurrences.

As to the first, Liberty Life remains ready to provide whatever additional information the Department might wish. We regret any incompleteness, of course, but some are almost unavoidable in a sample of this size.

As to the second, we of course regret any problems whatsoever, but these few isolated incidents are not indicative of any broader issues, and are again almost inevitable in a program of any substantial size.

IV. Conclusion

Liberty Life takes its compliance obligations very seriously. The Comp AD program has some unique features that required careful analysis. Liberty Life performed that analysis and believes that it performed it correctly. In particular, (i) no premiums were "collected" within the limited meaning of the premium tax statutes during the complimentary period, and so no premium tax was due; (ii) Liberty Life carefully obtained approval of all forms; (iii)

Liberty Life paid careful attention to licensing rules; the Comp AD program used unlicensed persons, but only where appropriate and allowed; (iv) Liberty Life worked hard to oversee the administration of this program.

Liberty Life has terminated Comp AD. We look forward to the opportunity to review the materials relied on by the Department, because we believe we can show that the number of variances is lower than indicated in the Report. We also look forward to meeting with the Department to resolve any issues that may remain after you have reviewed this response, so that the Comp AD program can wind down in orderly fashion.

RBC LIBERTY LIFE INSURANCE COMPANY
Responses to 2004 Multi-State Target Examination Report

EVALUATION OF TEXAS PREMIUM TAX LIABILITY
March 29, 2004

- **The Fee Reduction Is Not Subject to Texas Premium Tax.** Texas law imposes premium tax only on premiums "received during the taxable year on each and every kind of such insurance policy or contract.". Tex. Ins. Code art. 4.11 §§ 1, 2(c) (2004). While Liberty Life benefited from the Fee Reduction under Comp AD, Liberty Life did not "receive" or "collect" the Fee Reduction. The Fee Reduction is not taxable under the Texas premium tax statute.
 - In *All American Life Ins. Co. v. Rylander*, 73 S.W.3d 299 (Tex. App. 2001), the Texas Court of Appeals held that premiums received for purposes of the Texas premium tax means only those premiums actually taken into possession or accepted by insurers. The case involved policyholders who exchanged life insurance policies issued by an insurer for new policies issued by the same insurer.
 - The State Comptroller argued in that case that the policyholders had surrendered the accumulation values of the existing policies in exchange for the new policies from the same insurer, just as if the policyholders had cashed out the existing policies and purchased the new policies. As a result, according to the Comptroller, the insurer had received new premiums which should be subject to the Texas premium tax.
 - The Texas court disagreed, holding that the insurer did not have gross premiums from the policies because neither the insurer nor the exchanging policyholders had ever actually received any cash in the exchanges.
 - A Fee Reduction, by its nature, can neither be collected nor be received. Under the Texas court's holding in *Rylander*, no Fee Reduction can be subjected to the Texas premium tax because it can never be received.
- **Liberty Life Computed Premium Subject to Tax on Schedule T, in Accordance with State Instructions and Industry Practice.** The Texas Annual Insurance Maintenance, Assessment and Retaliatory Report Instructions for Life, Accident and Health Companies, Item 7, expressly direct use of the gross premium number from Schedule T.
- **The Statute of Limitations Prevents Assessment.** As of March 29, 2004, the statute of limitations on assessing additional premium tax should have expired for all of Liberty Life's Texas premium tax returns through 1999. Tex. Tax Code Ann. § 111.201 (2004).

RBC LIBERTY LIFE INSURANCE COMPANY
Responses to 2004 Multi-State Target Examination Report

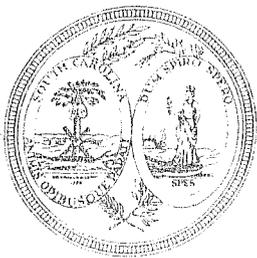
EVALUATION OF ILLINOIS PREMIUM TAX LIABILITY
March 29, 2004

- **The Fee Reduction Is Not Subject to Illinois Premium Tax.** Illinois law imposes premium tax only on the “gross amount of premiums received on direct business during the calendar year on contracts covering risks in [Illinois].” 215 Ill. Comp. Stat § 5/409 (1) (2004). While Liberty Life benefited from the Fee Reduction under Comp AD, Liberty Life did not “receive” or “collect” the Fee Reduction. The Fee Reduction is not taxable under the Illinois premium tax statute.
- **Liberty Life Computed Premium Subject to Tax on Schedule T, in Accordance with State Instructions and Industry Practice.** Illinois insurance companies are subject to premium tax on “any amount [of premium] which is accounted for as direct premium written and reported [in the insurance company’s] Annual Statement . . . or any amount which is otherwise accounted for as direct premium written.” The computation of net taxable premiums on Liberty Life’s Illinois premium tax return is based on the amount of premiums allocated to Illinois on Schedule T of the NAIC Annual Statement.
 - The instructions to the NAIC Annual Statement provide that an insurer may elect to report accident and health insurance premiums on its Annual Statement on the basis of either premiums collected or premiums written during the year. Liberty Life has consistently elected to report its accident and health insurance premiums, including premiums actually received under the Program, on a premiums collected basis.
 - Schedule T of Liberty Life’s Annual Statements for the years at issue properly shows only premiums that have actually been collected during each such year. Schedule T calls for reporting of amounts that are actually *received* and recognized as premium. The Fee Reduction under Comp AD was never received, and so was not reportable as part of gross premium on Schedule T. It follows that it was not part of the premium tax base.
- **The Statute of Limitations Prevents Assessment.** The Illinois Department of Insurance has confirmed that it applies a six-year statute of limitations on assessment of additional premium taxes. This six-year statute of limitations appears to run from the date on which any particular premium tax return is filed. Accordingly, as of March 29, 2004, the administrative statute of limitations should have expired for all of Liberty Life’s Illinois premium tax returns through 1997.

RBC LIBERTY LIFE INSURANCE COMPANY
Responses to 2004 Multi-State Target Examination Report

EVALUATION OF FLORIDA PREMIUM TAX LIABILITY
March 29, 2004

- **The Fee Reduction Is Not Subject to Florida Premium Tax.** Florida law imposes premium tax only on premiums that have been "received during the preceding calendar year." Fla. Stat. Ann. § 624.509 (1) (2003). While Liberty Life benefited from the Fee Reduction under Comp AD, Liberty Life did not "receive" or "collect" the Fee Reduction. The Fee Reduction is not taxable under the Florida premium tax statute.
 - The Florida premium tax statute does not explain the point at which premiums are considered to have been received. The regulations governing the computation of the tax on annuity premiums, however, explain that annuity premiums are considered received "when consideration is remitted by [a purchaser] and is subsequently accepted by an insurer as payment for the issuance of an annuity contract."
 - Nothing in the Florida premium tax statute or the administrative regulations thereunder suggests that the term "received" should have one meaning for annuity premiums and another for accident and health insurance premiums.
 - In the absence of other authorities, premiums under the Policies must be considered to have been received "when consideration was remitted by [a purchaser]" and subsequently accepted by Liberty Life as payment for the issuance of the Policies. Under this view, Liberty Life could never receive the Fee Reduction.
- **Liberty Life Computed Premium Subject to Tax on Schedule T, in Accordance with State Instructions and Industry Practice.** The computation of gross premiums received on Liberty Life's Florida premium tax return is based on the amount of premiums allocated to Florida on Schedule T of the NAIC Annual Statement.
 - The instructions to the NAIC Annual Statement provide that an insurer may elect to report accident and health insurance premiums on its Annual Statement on the basis of either premiums collected or premiums written during the year. Liberty Life has consistently elected to report its accident and health insurance premiums, including premiums actually received under the Program, on a premiums collected basis.
 - Schedule T of Liberty Life's Annual Statements for the years at issue properly shows only premiums that have actually been collected during each such year. Schedule T calls for reporting of amounts that are actually *received* and recognized as premium. The Fee Reduction under Comp AD was never received, and so was not reportable as part of gross premium on Schedule T. It follows that it was not part of the premium tax base.
- **The Statute of Limitations Prevents Assessment.** As of March 29, 2004, the statute of limitations on assessing additional premium tax should have expired for all of Liberty Life's Florida premium tax returns through 2000. See Fla. Stat. Ann. § 95.091(3)(a)(1)-(2) (2003).



South Carolina
Department of Insurance

Division of Financial Services
Office of Market Conduct Examinations
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

MARK SANFORD
Governor

ERNST N. CSISZAR
Director of Insurance

Mailing Address:

P.O. Box 100105, Columbia, S.C. 29202-3105

Telephone: (803) 737-6209

February 5, 2004

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Robert E. Evans
President
Liberty Life Insurance Company
P.O. Box 789
Greenville, S.C. 29602-0789

Dear Mr. Evans:

Enclosed herewith is a copy of the Report on Multi-State Target Examination as to Market Conduct Affairs of Liberty Life Insurance Company of Greenville, South Carolina, as of December 31, 2002, made pursuant to S. C. Code Ann. § 38-13-10 (A) (as amended).

Your attention is directed to the following items within the Report:

<u>Item</u>	<u>Page</u>
C. Premium Tax Reporting	9
D. Summary and Analysis	14
E. Complaint Handling	40
F. Claims Handling	43
G. Non-Compliance with States' Statutes	45

Your written response should be received by this Department within thirty (30) days from the date of this letter. If you have any questions or concerns, I can be reached at (803) 737-6209, or facsimile transmission number (803) 737-6232.

Yours truly,

DIANNE H. IRVING, CIE, CFE
Chief Market Conduct Examiner

cc: Gwendolyn L. Fuller, Deputy Director and General Counsel

Greenville, South Carolina
December 14, 2003

Eleanor Kitman
Director
South Carolina Department of Insurance
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

Honorable Kevin McCarty
Director
Florida Department of Financial Services
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, Florida 32399

Honorable J. Anthony Clark
Director of Insurance
Illinois Department of Insurance
320 West Washington St., 4th Floor
Springfield, Illinois 62767

Honorable Diane Koken
Commissioner of Insurance
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

Commissioner and Directors:

Pursuant to S.C. Code Ann. § 38-13-10 (as amended) and the examination authority of other states, your instructions, the practices and procedures of the National Association of Insurance Commissioners (NAIC), the South Carolina Department of Insurance (Department) and the Liberty Life Multi-State Examination Team (Examination Team), a multi-state target examination as to market conduct affairs has been conducted as of December 31, 2002, of certain underwriting practices of

LIBERTY LIFE INSURANCE COMPANY
GREENVILLE, SOUTH CAROLINA

hereinafter generally referred to as the "Insurer" at its home office at 2000 Wade Hampton Boulevard, Greenville, South Carolina. The report of such multi-state target market conduct examination is hereby respectfully submitted.

A. SCOPE OF THE EXAMINATION

1. BACKGROUND:

Around April 2003, the Insurer requested the Department to conduct a multi-state target market conduct examination into its Complimentary Accidental Death Insurance Program to address concerns of various state insurance departments.

The Insurer stated that it offered, through its Complimentary Accidental Death Program, accidental death coverage to new, as well as existing, mortgage loan customers of various financial institutions for a period of approximately six months via direct mail solicitations with a telephone follow-up using telemarketers. The Insurer informed the Examination Team during the multi-state target market conduct examination that a direct mail solicitation did not always occur prior to the telemarketing solicitation.

The Examination Team conducting the on-site examination consisted of the domestic regulator, South Carolina, and regulators from the states of Florida, Illinois and Pennsylvania. The on-site examination commenced May 27, 2003, and was completed on or about, October 1, 2003, when the Examination Team met to finalize the examination and to conduct the exit conference with the Insurer.

The following states participated in this multi-state target market conduct examination on an active or passive basis:

Alabama	Iowa	Oklahoma
Arizona	Kansas	Oregon
Arkansas	Louisiana	Pennsylvania
California	Maine	South Carolina
Colorado	Maryland	South Dakota
Connecticut	Massachusetts	Tennessee
District of Columbia	Minnesota	Texas
Florida	Mississippi	Utah
Georgia	Nebraska	Virginia
Idaho	North Carolina	Wisconsin
Illinois	North Dakota	Wyoming
Indiana	Ohio	

2. PURPOSE:

The purpose of this Multi-State Target Examination as to Market Conduct Affairs was to determine if concerns regarding the marketing and sales practices of the Insurer's Complimentary Accidental Death Program were justified. The Insurer requested that the Department conduct this examination.

3. METHODOLOGY:

A request, dated April 24, 2003, was mailed to the Insurer by the Department requesting information regarding its Complimentary Accidental Death Insurance Program. As part of this request, the Insurer was requested to provide the Department a detail listing of all complimentary accidental death benefit policies issued in all states that were originally issued as new business for the years 1998, 1999, 2000, 2001 and 2002. This listing was used to obtain samples of policies issued for review. Examiners reviewed approximately twenty one hundred (2,100) certificates issued using sampling techniques developed to ensure a valid statistical sampling was conducted. A detail review was made of certificates/policies issued, complaints received, claims processed/denied, and premium tax reporting for the six (6) states selected for review. The six (6) states selected were California, Florida, Illinois, Pennsylvania, South Carolina and Texas.

These states, with the exception of South Carolina as the domestic regulator, had the largest premium volume written as of December 31, 2002. Initially, it was decided to review one hundred (100) files from the above six (6) states for the years under review. Subsequently, it was decided to review one hundred (100) files from each of the six (6) states for 2002 and 2001, and fifty (50) files from each state for the years 2000, 1999, and 1998. Samples of one hundred (100) files for review were obtained by using Audit Command Language (ACL) software on the database provided by Chartered Benefit Services Inc. (CBSI), third-party administrator of the Insurer for the complimentary accidental death insurance program, for all years for all states under review and then random selection was utilized on the sample produced for 2000, 1999, and 1998 to obtain the fifty (50) files for review.

Also, as part of the April 24, 2003 request, the Insurer was requested to provide the Department a detail listing of complaints received for complimentary accidental death benefit certificates in all states for the years 2002, 2001, 2000, 1999 and 1998. This listing was used to obtain a sample of complaints for review. Examiners reviewed approximately fifty (50) complaints using valid sampling techniques developed to ensure a valid statistical sampling was conducted of the above six (6) states.

The NAIC Examiners Handbook, Market Conduct, Volume II (NAIC Market Conduct Examiners Handbook), Chapter V, provides guidance on sampling methods. Based upon a review of these guidelines, random sampling using ACL was determined to be the method to ensure valid statistical samples would be obtained. In general, the Examination Team followed the guidelines suggested by the NAIC with minor modifications for determination of the samples chosen for review.

The Insurer was subsequently requested to provide listings of open, denied, paid and litigated claims in all states for the years 2002, 2001, 2000, 1999 and 1998. These listings, except for litigated claims for which the Insurer only reported two (2) claims, were used to obtain samples of claims for review. Random sampling using ACL software was determined to be the method to ensure valid statistical samples would be obtained. Sample sizes were determined as follows:

<u>Type</u>	<u>Sample Size</u>
Open Claims	50
Denied Claims	100
Paid Claims	50
Litigated Claims	<u>2</u>
Total Claims Reviewed	<u>202</u>

4. SCOPE OF THE REPORT:

This multi-state target market conduct examination addresses the Complimentary Accidental Death Insurance Program of the Insurer. The information in this report is based upon the samples reviewed for certificates issued, claims handled, complaints received, forms approved by various states, producer licensing, reconciliation of premium tax totals and other relevant data provided by the Insurer.

B. INSURER OPERATIONS/ MANAGEMENT

1. HISTORY:

The Insurer was incorporated November 3, 1905, and commenced business January 1, 1906. The Insurer was originally incorporated as Southeastern Life Insurance Company in 1905. The current corporate name was adopted in 1941.

The Insurer is a wholly-owned subsidiary of RBC Insurance Holdings (USA) Inc., a Delaware corporation. It is licensed to write life, accident and health and annuity insurance

products in the District of Columbia and forty nine (49) states. The Insurer is not licensed in the State of New York.

2. MARKETING:

The Insurer currently markets through three (3) distribution systems. The Insurer's agency division, which contributed fifty six percent (56%) of 2002 premiums, markets various life insurance products to individuals, including individual life, health and interest sensitive whole life policies. This division's primary market is the southeastern United States. The Insurer's Financial Institutions Marketing division, which contributed forty three percent (43%) of 2002 premiums, primarily markets term life, accident and disability insurance designed to pay a residential mortgage balance upon the death or disability of the insured. The Insurer also has a broad market division, which markets products directly to the consumer.

The Department was informed by the Insurer that the solicitation of the complimentary accidental death product that was the subject of this target market conduct examination was being discontinued. CBSI was informed by letter dated March 31, 2003, that on, or before, September 2003, solicitation of this product should be terminated.

3. ADMINISTRATIVE FUNCTIONS:

The administrative functions of servicing and settlement of claims on in-force policies are provided by an affiliate, Liberty Insurance Services Corporation (LIS), at the home office of the Insurer in Greenville, South Carolina. LIS is licensed as a third-party administrator in South Carolina. In addition, CBSI is used as a third-party administrator in marketing, issuance of policies, and billing of accidental death insurance for mortgages for the Insurer. CBSI is currently licensed as a third-party administrator in five (5) states: Illinois, Kansas, North Dakota, South Carolina and South Dakota. Pursuant to an NAIC inquiry, the following states indicated

that CBSI should have been licensed as a third-party administrator (TPA) in their state (including those in which CBSI is already licensed): Florida, Georgia, Illinois, Indiana, Louisiana, Maine, Minnesota, Mississippi, North Carolina, Oklahoma, Oregon, Pennsylvania, South Dakota, South Carolina, Utah, Wisconsin, North Dakota, Kansas and Wyoming, indicating non-compliance with licensing laws in the states in which CBSI was not licensed. Certificates of registration and/or certificates of authority are also required in other states, as well.

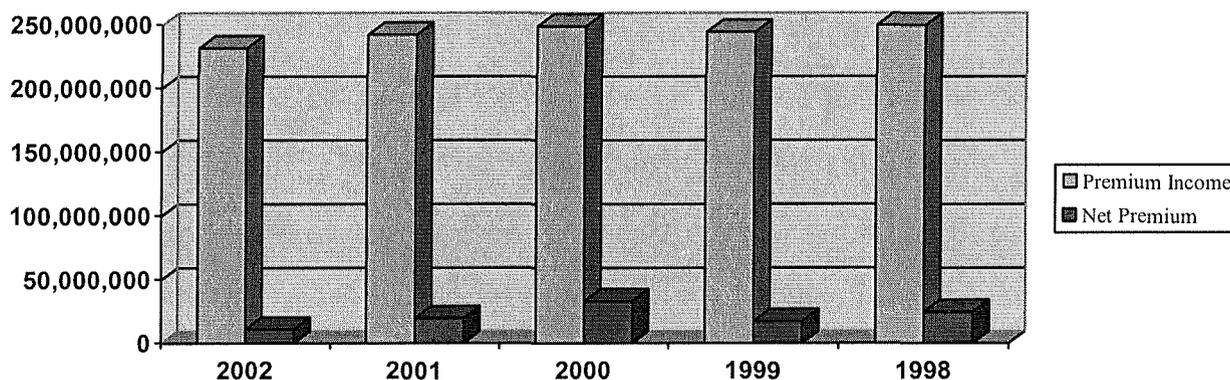
4. PREMIUM INCOME:

The following provides an analysis of the operations of the Insurer for the past five (5) years, as reported in filed annual statements:

(\$000 omitted)

<u>Year Ending</u>	<u>Assets</u>	<u>Premium Income</u>	<u>Net Income</u>	<u>Capital and Surplus</u>
1998	\$1,353,505	\$249,868	\$24,991	\$146,273
1999	1,366,619	244,496	17,454	140,152
2000	1,301,992	248,773	33,421	81,319
2001	1,346,379	242,279	19,999	114,539
2002	1,399,131	231,795	11,150	131,717

5. FIVE (5) YEAR ANALYSIS OF PREMIUM INCOME TO NET INCOME:



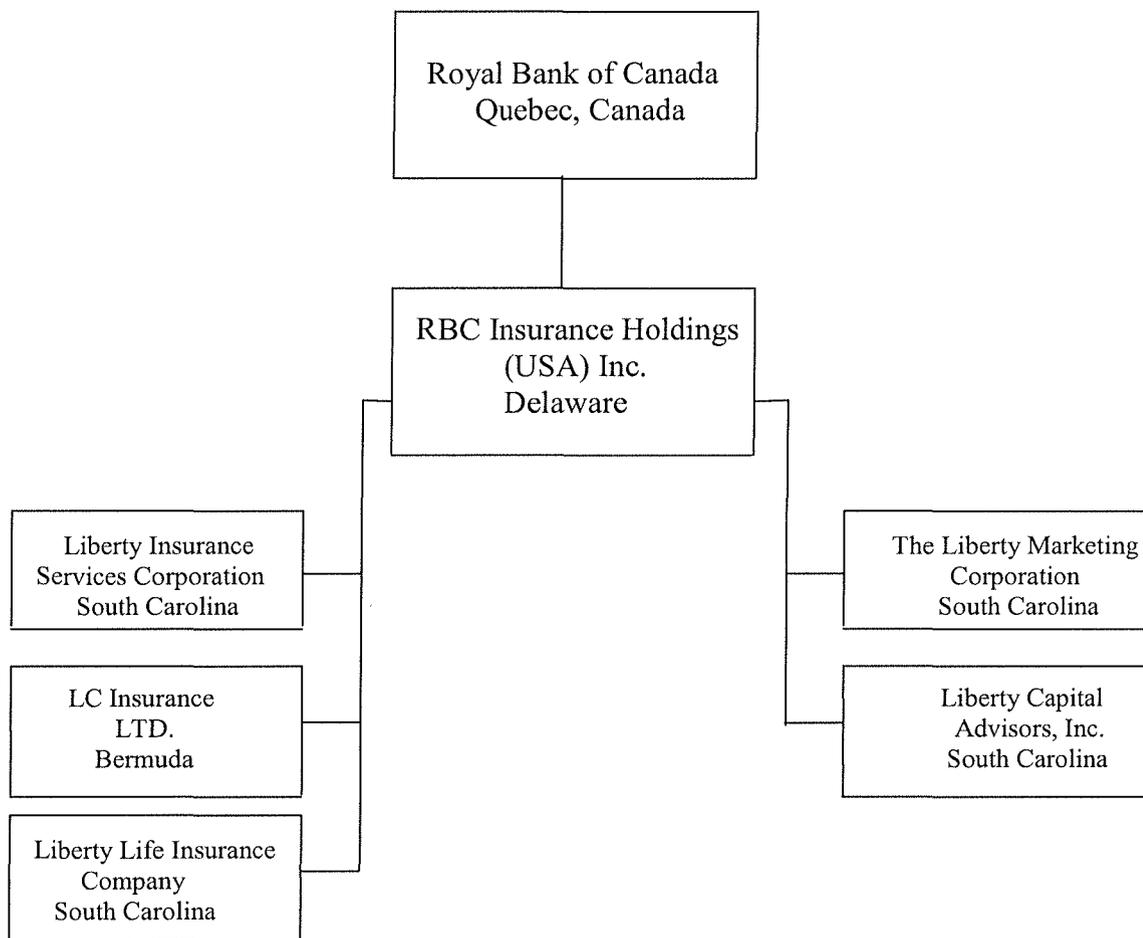
6. OFFICERS AND DIRECTORS:

The Officers and Directors of the Insurer, as of December 31, 2002, were as follows:

Robert E. Evans	President and Director
Walter C. Schutte	Vice President and Director
Susan E. Cyr	Vice President and Secretary
Kenneth W. Jones	Vice President and Treasurer
John R. Obermeier, III	Vice President and Actuary
Robert D. Black	Vice President
Debra B. Patterson	Vice President
James A. Sharkey	Vice President
Douglas W. Kroske	Vice President
Thomas E. Propes	Vice President
Guy H. Smith, III	Vice President
Francis E. Bugge	Vice President
David M. Stevenson	Vice President
Harold W. Huffstetler, Jr.	Vice President
Nancy A. Olson	Vice President
Jerome P. Shaleuly	Vice President
Sarah E. Templeton	Vice President
Simon C. Baitler	Director
William J. Westlake	Director
William H. Hipp	Director

7. ORGANIZATIONAL CHART:

The following provides an organizational chart of the Insurer and its significant affiliates as of December 31, 2002:



C. PREMIUM TAX REPORTING

There was no premium collected by the Insurer for the complimentary period under the Insurer's complimentary accidental death program. It appears premium taxes were paid to only two (2) states, South Carolina and Maryland and were not paid to the majority of states for the complimentary period of approximately six (6) months.

This complimentary accidental death program is marketed as being provided by the financial institution through an arrangement with the Insurer. This arrangement provides that the financial institution must forego commissions during the complimentary period. The Insurer

states that the total commissions that the financial institution must forego and the lower commission rate to the financial institution during the first three (3) years after the insured starts paying the premium is approximately equivalent to the premiums for the complimentary period. The amount retained by the financial institution is twenty five percent (25%) of premium for the first three (3) years and fifty five percent (55%) of premiums thereafter.

A comparison of premiums reported in Schedule T of the December 31, 2002 Annual Statement and the ledger received from CBSI for the period under review was made to verify if both records matched and to verify if these amounts were also the same amounts shown in the premium tax returns for each of the six (6) states selected for review. The amounts included in Schedule T did reconcile to the ledger; however, the complimentary premium was not included. The Insurer made an estimated adjustment to the 2002 Premium Tax Return for South Carolina for the complimentary premium. The Insurer did not provide premium tax returns for South Carolina, Texas and Pennsylvania for 1998.

Resolution of this matter includes resolution of the premium tax issue with all participating states.

1. Complimentary Accidental Death Premiums - Year Ending 2002:

The following represents the complimentary accidental death premiums as shown on the general ledger and Schedule T of the December 31, 2002 Annual Statement of the Insurer for participating states:

(A)	(B)	(C)	(D)
<u>Participating State</u>	2002 Ledger A&H Premiums, <u>CBSI Only</u>	2002 Ledger A&H Premiums, CBSI <u>Excluded</u>	2002 Schedule T A & H Premiums <u>Total</u>
Alabama	\$ 333,712	\$ 9,616	\$ 343,328
Arizona	1,955,708	286,949	2,242,657
Arkansas	773,340	109,594	882,933
California	11,279,453	3,510,391	14,789,844
Colorado	1,614,831	282,360	1,897,191
Connecticut	1,388,809	208,799	1,597,608
District of Columbia	209,633	33,832	243,465
Florida	5,876,269	644,174	6,520,442
Georgia	2,681,275	501,999	3,183,274
Idaho	721,443	57,135	778,578
Illinois	2,998,063	521,625	3,519,688
Indiana	2,135,640	580,994	2,716,634
Iowa	750,545	114,854	865,399
Kansas	718,095	167,191	885,286
Louisiana	999,946	2,334,040	3,333,986
Maine	374,708	48,469	423,177
Maryland	2,591,194	293,713	2,884,906
Massachusetts	1,747,984	305,230	2,053,214
Minnesota	99,376	47,217	146,594
Mississippi	872,555	77,513	950,068
Nebraska	247,349	52,419	299,768
North Carolina	2,526,521	3,663,821	6,190,342
North Dakota	-0-	4,506	4,506
Oklahoma	1,219,974	210,850	1,430,824
Oregon	1,864,093	106,072	1,970,165
Pennsylvania	3,372,085	1,056,017	4,428,102
South Carolina	1,209,219	5,803,827	7,013,046
South Dakota	544	9,967	10,511
Tennessee	2,236,489	581,944	2,818,433
Texas	7,478,741	1,928,573	9,407,314
Utah	1,322,062	97,123	1,419,185
Virginia	2,906,435	406,844	3,313,279
Wisconsin	976,275	156,173	1,132,448
Wyoming	61,243	33,346	94,589

* For several states, column D may not reconcile to columns B plus C by \$1.00.

2. Complimentary Accidental Death Premiums for Complimentary Period – 1998 through 2002:

The Insurer provided a database showing premiums for inforce and closed complimentary premium certificates for a five (5) year period. During the examination, the Insurer was also requested to provide to examiners a database providing complimentary premiums from the date the solicitation of the product commenced.

The following represents premiums as determined by the Department from the database provided by CBSI for the complimentary period (less than seven months) for a five (5) year period:

<u>Participating State</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>Grand Total</u>
Alabama						
Arizona	\$ 709,953	\$ 654,678	\$ 1,023,246	\$ 1,067,267	\$ 956,205	\$ 4,411,349
Arkansas	251,695	194,317	183,793	173,696	410,124	1,213,625
California	3,254,078	4,515,400	6,015,714	4,450,853	6,625,581	24,861,626
Colorado	876,081	728,300	1,001,420	1,238,306	938,180	4,782,287
Connecticut	213,607	414,333	702,100	624,539	795,964	2,750,543
District of Columbia	45,178	49,488	66,976	69,822	72,383	303,847
Florida	1,855,915	1,361,150	2,939,753	1,497,761	2,514,384	10,168,963
Georgia	1,191,249	621,946	1,166,674	1,231,900	1,595,370	5,807,139
Idaho	194,023	259,821	374,682	354,840	435,169	1,618,535
Illinois	1,167,896	1,131,005	1,676,121	1,746,041	1,413,593	7,134,656
Indiana	473,532	596,502	923,894	1,116,327	838,796	3,949,051
Iowa	268,441	276,276	433,865	443,212	405,530	1,827,324
Kansas	287,287	213,105	305,192	203,666	307,694	1,316,944
Louisiana	714,568	315,223	395,951	555,092	364,328	2,345,162
Maine	197,235	105,591	176,136	214,625	158,414	852,001
Maryland	5,562	557,943	1,386,063	1,390,818	1,358,431	4,698,817
Massachusetts	621,439	677,406	1,019,035	1,154,719	1,027,817	4,500,416
Minnesota						
Mississippi	527,674	289,828	238,956	563,728	167,910	1,788,096
Nebraska						
North Carolina	1,304,983	729,342	1,527,066	1,634,411	1,498,324	6,694,126
North Dakota						
Oklahoma	335,882	341,090	341,211	312,130	587,784	1,918,097
Oregon	635,210	989,230	1,357,600	541,349	1,323,907	4,847,296
Pennsylvania	1,113,733	1,018,712	1,181,644	1,676,637	1,745,570	6,736,296
South Carolina	562,593	326,710	617,917	563,778	801,741	2,872,739
South Dakota						
Tennessee	730,534	504,307	1,005,668	1,134,432	953,469	4,328,410
Texas	2,171,594	1,695,651	2,608,408	2,642,274	2,293,063	11,410,990
Utah	528,523	645,635	969,276	1,047,342	777,144	3,967,920
Virginia	629,295	704,589	1,196,339	1,278,117	1,797,598	5,605,938
Wisconsin	654,195	328,924	591,481	816,819	490,979	2,882,398
Wyoming	72,925	11,521	1,376	6,464	5,430	97,716

The total for Ohio, a state added after the participation agreements were received, amounts to \$7,167,617.

As indicated in the above chart, the information provided did not include data for Alabama, Minnesota, Nebraska, and South Dakota. North Dakota was also not provided. However, the ledger of the Insurer did not show any complimentary premiums for North Dakota. A total for the five (5) year period of complimentary premiums for which the Insurer did not pay

premium taxes, with the exception of South Carolina and Maryland, as taken from the database provided, indicates a total of approximately one hundred sixty two million eight hundred and four thousand dollars (\$162,804,000).

D. SUMMARY AND ANALYSIS

The following provides a summary of examination findings:

1. Marketing and Sales:

The Insurer offered complimentary accidental death coverage to customers of financial institutions utilizing the services of CBSI, under an agency agreement, to obtain applications for the Insurer's products, deliver policies to policyholders or certificates to certificate holders, collect premiums and render services to policyholders or certificate holders. The accidental death coverage would provide benefits for an insured's accidental death resulting from a covered accident such as a car accident, accident at home or accident while on vacation. The complimentary accidental death coverage was offered to customers for a period of approximately six (6) months. At the end of the complimentary period, the customer begins to pay a monthly premium, which is based upon the mortgage balance at the time of enrollment. The financial institution collects the premiums along with the monthly mortgage payment. After August 2001, the monthly premium was determined by calculating twenty cents (\$.20) for every one thousand dollars (\$1,000) of the customer's mortgage balance at the time of enrollment. Prior to September 2001, the monthly premium was determined by rounding down to the nearest five thousand dollar (\$5,000) increment resulting in the premiums ending in fifty cents (\$.50) or even dollar (\$1.00) amounts. This complimentary accidental death coverage was designed to pay off the full mortgage loan balance, up to two hundred fifty thousand dollars (\$250,000), in case of accidental death.

The Insurer issued a Monthly Premium Single or Joint Premium Accidental Death Insurance Product. In some states this product was approved as a group trust, and a master policy was issued to the Trustee of Liberty Group Insurance Protection Trust (Trust). This Trustee became the group policyholder. A financial institution could become a member of the trust by completion of an application. The financial institution was not issued a separate policy because it came under the Trust policy. In other states, the product was approved as a group policy. In those states, a policy was issued to the financial institution as the group policyholder.

CBSI enters into an agreement with the financial institution for the financial institution to furnish customer lists, other information and services in exchange for a commission/service fee. The financial institution does not perform acts of selling insurance but acts as a collection vehicle for the monthly premiums paid by the certificate holders. CBSI allows the financial institution to retain the commission/service fee out of the amount collected. The financial institution is not always licensed as a producer to receive a commission or service fee. The amount retained by the financial institution is twenty five percent (25%) for the first three (3) years and fifty five percent (55%) thereafter.

CBSI enters into a broker agreement with a broker to act as its agent for the purpose of negotiating the Insurer's policy as special protection for customers of the financial institution for a commission equal to five percent (5%) of the premiums paid to CBSI. The broker does not perform acts of selling insurance or representing insureds, but acts as a facilitator between the financial institution and CBSI. While receiving this commission, the broker was licensed as an insurance agent/producer in the state where the financial institution was located but not always where the individual certificate holder was located.

CBSI forwards the list of customers from a financial institution to telemarketing

companies to contact the customers, explain the benefits of the policy and enroll the customer, if the customer accepts. For states that allow a two tier process, the telemarketer contacts the customer, explains the benefits and, if the customer accepts enrollment, transfers the customer to a licensed agent to tape a brief confirmation of the sale. For one tier states, the licensed agent/producer conducted the entire process. Also, prior to the telemarketing call, customers were to receive a solicitation in the mail or with their mortgage statement asking if they would like to have this accidental death coverage. This direct mailing did not always occur prior to the telemarketing call. If the insurance is accepted, the coverage becomes effective the first day of the next available month from when the enrollment took place.

During the telemarketer's solicitation, the customer is told that he/she will receive complimentary accidental death insurance underwritten by the Insurer at no cost to the customer until a certain day. On that certain day, the customer is told that the premium for this coverage will be included in the customer's mortgage payment. The customer is also told that a reminder letter seventy five (75) days prior to the premium being charged will be sent to the customer. The telemarketer tells the customer that "I have been authorized by Liberty Life to enroll you today." In closing the solicitation, the telemarketer tells the customer that a Certificate of Insurance will be sent within several business days and also, asks the customer to hold for a moment to be transferred to a licensed agent for confirmation of enrollment.

This complimentary accidental death coverage will remain in effect until one of the following occurs:

- The customer cancels the coverage verbally or in writing;
- The customer fails to pay premiums for three consecutive months;
- The customer pays off their mortgage loan; or
- The customer's loan is sold or refinanced.

If the mortgage loan is sold to or refinanced with another financial institution that was

either a member of the Liberty Master Trust Policy or a Liberty group policyholder, the certificate holder's existing coverage could be continued without change. If the loan was transferred to any other financial institution, the certificate holder would have the option of continuing coverage for a level benefit amount on a "Direct Bill" basis. CBSI confirms that it relied upon the financial institution to notify the customer of the transfer and did not verify that the insured was provided the opportunity to be "Direct Billed."

The following represents the findings from the review of certificates issued by year by state:

2. SUMMARY OF CERTIFICATES ISSUED IN 2002 BY STATE:

** See Pages 30 through 34 for explanations of (2) through (5).

Illinois – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	38	38%
Four (4) months free coverage provided	(2)	1	01%

Florida – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	46	46%
Four (4) months free coverage provided	(2)	3	03%

California – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	23	23%
Four (4) months free coverage provided	(2)	6	06%

Texas – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	23	23%
Four (4) months free coverage provided	(2)	4	04%
Three (3) months free coverage provided	(2)	1	01%

South Carolina – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	33	33%
Four (4) months free coverage provided	(2)	6	06%

Pennsylvania – 2002 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	40	40%
Four (4) months free coverage provided	(2)	9	09%
Files provided did not include fraud statement	(6)	100	100%

3. SUMMARY TOTAL OF 2002 CERTIFICATES REVIEWED:

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	203	34%
Four (4) months free coverage provided	(2)	29	05%
Three (3) months free coverage provided	(2)	1	.2%
Files provided did not include fraud statement *	(6)	100	100%

* Applies to Pennsylvania only.

4. SUMMARY OF CERTIFICATES ISSUED IN 2001 BY STATE:

Illinois – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	38	38%
Four (4) months free coverage provided	(2)	5	05%

Florida – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	56	56%
Four (4) months free coverage provided	(2)	7	07%

California – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	53	53%
Four (4) months free coverage provided	(2)	12	12%

Texas – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	2	02%
Five (5) months free coverage provided	(2)	40	40%
Four (4) months free coverage provided	(2)	10	10%

South Carolina – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	57	57%
Four (4) months free coverage provided	(2)	10	10%

Pennsylvania – 2001 - Population Reviewed = 100

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	65	65%
Four (4) months free coverage provided	(2)	17	17%
Three (3) months free coverage provided	(2)	4	04%
Files provided did not include fraud statement	(6)	100	100%

5. SUMMARY TOTAL OF 2001 CERTIFICATES REVIEWED:

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	2	.3%
Five (5) months free coverage provided	(2)	309	52%
Four (4) months free coverage provided	(2)	61	10%
Three (3) months free coverage provided	(2)	4	.6%
Files provided did not include fraud statement *	(6)	100	100%

*Applies to Pennsylvania only.

6. SUMMARY OF CERTIFICATES ISSUED IN 2000 BY STATE:

Illinois – 2000 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	1	02%
Five (5) months free coverage provided	(2)	16	32%
Four (4) months free coverage provided	(2)	2	04%
Seven (7) months free coverage included	(2)	1	02%

Florida – 2000 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	1	02%
Five (5) months free coverage provided	(2)	27	54%
Four (4) months free coverage provided	(2)	3	06%

California – 2000 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	27	54%
Four (4) months free coverage provided	(2)	5	10%
Agent not licensed by Insurer	(1)	1	02%

Texas – 2000 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	1	02%
Five (5) months free coverage provided	(2)	22	44%
Four (4) months free coverage provided	(2)	8	16%
Seven (7) months free coverage provided	(2)	1	02%

South Carolina – 2000 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	1	02%
Five (5) months free coverage provided	(2)	20	40%
Four (4) months free coverage provided	(2)	3	06%
Seven (7) months free coverage provided	(2)	1	02%

Pennsylvania – 2000 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	18	36%
Four (4) months free coverage provided	(2)	6	12%
Seven (7) months free coverage provided	(2)	2	04%
Files provided did not include fraud statement	(5)	50	100%

7. SUMMARY TOTAL OF 2000 CERTIFICATES REVIEWED:

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	5	02%
Five (5) months free coverage provided	(2)	130	43%
Four (4) months free coverage provided	(2)	27	09%
Seven (7) months free coverage provided	(2)	5	02%
Files provided did not include fraud statement *	(5)	50	100%

* Applies to Pennsylvania only.

8. SUMMARY OF CERTIFICATES ISSUED IN 1999 BY STATE:

Illinois – 1999 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	4	08%
Four (4) months free coverage provided	(2)	1	02%
Seven (7) months free coverage provided	(2)	19	38%
Eight (8) months free coverage provided	(2)	5	10%

Florida – 1999 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	1	02%
Five (5) months free coverage provided	(2)	4	08%
Four (4) months free coverage provided	(2)	2	04%
Three (3) months free coverage provided	(2)	1	02%
Seven (7) months free coverage provided	(2)	19	38%
Eight (8) months free coverage provided	(2)	8	16%

California – 1999 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	3	06%
Four (4) months free coverage provided	(2)	2	04%
Seven (7) months free coverage provided	(2)	26	52%
Eight (8) months free coverage provided	(2)	7	14%
Agent not licensed by Insurer	(1)	2	04%

Texas – 1999 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	5	10%
Four (4) months free coverage provided	(2)	2	04%
Seven (7) months free coverage provided	(2)	23	46%
Eight (8) months free coverage provided	(2)	4	08%

South Carolina – 1999 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer (1)		1	02%
Five (5) months free coverage provided (2)		6	12%
Four (4) months free coverage provided (2)		1	02%
Seven (7) months free coverage provided (2)		20	40%
Eight (8) months free coverage provided (2)		4	08%

Pennsylvania – 1999 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided (2)		3	06%
Three (3) months free coverage provided (2)		2	04%
Seven (7) months free coverage provided (2)		19	38%
Eight (8) months free coverage provided (2)		7	14%
Files provided did not include fraud statement (5)		50	100%

9. SUMMARY TOTAL OF 1999 CERTIFICATES REVIEWED:

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer (1)		4	01%
Five (5) months free coverage provided (2)		25	08%
Four (4) months free coverage provided (2)		8	03%
Three (3) months free coverage provided (2)		3	01%
Seven (7) months free coverage provided (2)		126	42%
Eight (8) months free coverage provided (2)		35	12%
Files provided did not include fraud statement * (5)		50	100%

* Applies to Pennsylvania only.

10. SUMMARY OF CERTIFICATES ISSUED IN 1998 BY STATE:

Illinois – 1998 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	10	20%
Four (4) months free coverage provided	(2)	1	02%
Seven (7) months free coverage provided	(2)	23	46%
Eight (8) months free coverage provided	(2)	1	02%

Florida – 1998 – Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	14	28%
Five (5) months free coverage provided	(2)	3	06%
Four (4) months free coverage provided	(2)	4	08%
Seven (7) months free coverage provided	(2)	16	32%

California – 1998 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	3	06%
Seven (7) months free coverage provided	(2)	23	46%
Eight (8) months free coverage provided	(2)	4	08%
Nine (9) months free coverage provided	(2)	1	02%
Agent not licensed by Insurer	(1)	1	02%

Texas – 1998 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	5	10%
Four (4) months free coverage provided	(2)	3	06%
Seven (7) months free coverage provided	(2)	17	34%
Eight (8) months free coverage provided	(2)	1	02%
Agent not licensed by Insurer	(1)	5	10%

South Carolina – 1998 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	5	10%
Four (4) months free coverage provided	(2)	4	08%
Seven (7) months free coverage provided	(2)	14	28%

Pennsylvania – 1998 - Population Reviewed = 50

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Five (5) months free coverage provided	(2)	12	24%
Seven (7) months free coverage provided	(2)	12	24%
Eight (8) months free coverage provided	(2)	2	04%
Files provided did not include fraud statement *	(5)	50	100%
Agent not licensed by Insurer	(1)	7	14%

* Applies to Pennsylvania only.

11. SUMMARY TOTAL OF 1998 CERTIFICATES REVIEWED:

<u>Description of exception</u>		<u># of exceptions</u>	<u>% of exceptions</u>
Agent not licensed by Insurer	(1)	27	09%
Five (5) months free coverage provided	(2)	38	13%
Seven (7) months free coverage provided	(2)	105	35%
Eight (8) months free coverage provided	(2)	8	03%
Nine (9) months free coverage provided	(2)	1	.3%
Four (4) months free coverage provided	(2)	12	04%
Files provided did not include fraud statement *	(5)	50	100%

* Applies to Pennsylvania only.

12. GRAND TOTAL SUMMARY ALL YEARS ALL STATES

<u>Description of exception</u>		<u>Total Reviewed</u>	<u># of Exceptions</u>	<u>% Error Ratio</u>
Agent not licensed by Insurer	(1)	2100	38	02%
Three (3) months free coverage provided	(2)	2100	8	.4%
Four (4) months free coverage provided	(2)	2100	137	06%
Five (5) months free coverage provided	(2)	2100	705	34%
Seven (7) months free coverage provided	(2)	2100	236	11%
Eight (8) months free coverage provided	(2)	2100	43	02%
Nine (9) months free coverage provided	(2)	2100	1	.05%
Files provided did not include fraud statement *	(5)	350	350	100%

* Applies to Pennsylvania only.

The following provides comments regarding the exceptions noted in the sample of files reviewed:

Use of Brokers to Market the Complimentary Accidental Death Product:

The review of files provided by CBSI for sampling revealed that some files, but not all, contained contracts between CBSI and “brokers.” The Insurer has provided documentation that in some cases brokers were not used but direct mailings occurred without broker involvement. This resulted in a reduction of exceptions noted.

The Insurer, in response to questions related to brokers, has indicated that these “brokers”, as relates to the complimentary accidental death product, does not refer to insurance brokers, but to individuals or firms in the business of assisting financial institutions in locating and negotiating various benefit programs for customers of financial institutions. These “brokers”, per the Insurer, have customer relationships with, and serve the interests of the financial institutions. If there were cases where brokers were used and pursuant to the Brokers Agreements between the “broker” and CBSI, the “broker” received a five percent (5%) commission from CBSI and was not licensed, this could have been in non-compliance with:

S.C. Code Ann. § 38-43-200 (a) (as amended) which provides:

“A licensed agent representing an insurer may not pay, directly or indirectly, any commission, brokerage, or other valuable consideration on account of any policy of insurance on any risk in this State to any nonresident or resident not duly licensed to act as agent or broker for the type of insurance involved;”

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Note (1) – Agents Not Licensed:

It appears the Insurer is in non-compliance with:

- a. S.C. Code Ann. § 38-43-10 (1989) which provides the following definition of an agent/producer:

“A person who:

- (a) solicits insurance in behalf of an insurer,
- (b) takes or transmits other than for himself an application for insurance or a policy of insurance to or from an insurer,
- (c) advertises or otherwise gives notice that he will receive or transmit insurance applications or policies,
- (d) receives or delivers a policy of insurance of an insurer,
- (e) receives, collects, or transmits any premium of insurance, or
- (f) performs any other act in the making of an insurance contract for or with an insurer, other than for himself,

whether these acts are done by an employee of an insurer or at the instance or request of an insurer, must be a licensed agent of the insurer for which the act is done or the risk is taken unless provided otherwise in § 38-43-20;”

- b. NAIC Market Conduct Examiners Handbook – Underwriting and Rating – Standard 8: Producers are properly licensed and appointed (if required) in the jurisdiction where the application was taken.

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Note!

The majority of the Agents Not Licensed exceptions occurred in 1998. the occurrence of this exception decreased after this time period.

Note (2) – Three (3), Four (4), Five (5), Seven (7), Eight (8) and Nine (9) Months Free

Coverage Provided:

The Insurer indicated that the termination of the complimentary period was not tied to an individual's enrollment date but was fixed for all insureds' who enrolled during a particular campaign. An individual who enrolled early in the campaign would receive a longer period of complimentary coverage than one who enrolled later. The Insurer indicated that there was no promises made of six (6) months coverage and that all insureds were told the date on which complimentary coverages would end.

As indicated in the chart, this method resulted in some insureds receiving varying lengths of complimentary coverage.

It appears that the Insurer is not in compliance with the following:

1. NAIC Market Conduct Examiners Handbook – Underwriting and Rating – Standard 7: The company's underwriting practices are not to be unfairly discriminatory. The company adheres to applicable statutes, rules and regulations, and company guidelines in selection of risks.

2. S.C. Code Ann. § 38-55-50 (as amended) which provides:

“An insurer, its agent, or an insurance broker doing business in this State may not make or permit any discrimination in favor of individuals between insureds of the same class and risk involving the same hazards in the amount of the payment of premiums or rates charged for policies of insurance except as provided in §§ 38-57-140, 38-65-310, and 38-71-1110, in the dividends or other benefits payable, or in any other of the terms and conditions of the contracts it makes. An insurer, its agent, or an insurance broker may not make a contract of insurance or agreement as to a contract other than as plainly expressed in the policy issued. An insurer or its officer, agent, solicitor, or representative or an insurance broker may not pay, allow, or give or offer to pay, allow, or give, directly or indirectly, as inducement to the taking of insurance any rebate of premium payable on the policy, any special favor or advantage in the dividends or other benefits to accrue from the policy, any paid employment or contract for services of any kind, or any valuable consideration or inducement not specified in the policy contract of insurance, or give, sell, or purchase or offer to give, sell, or purchase, as inducement to the taking of insurance or in connection therewith, any stocks, bonds, or other

securities of an insurer or other corporation, association, or partnership, any dividends or profits to accrue from them, or anything of value not specified in the policy;”

3. S.C. Code Ann. § 38-57-120 (2) (1989) which provides:

“No person may make or permit any unfair discrimination between individuals of the same class and of essentially the same hazard in the amount of premium, policy fees, or rates charged for any policy or contract of disability insurance or in the benefits payable thereunder or in any other manner;”

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Note (3) – 75 Day Notification Not Provided to Insured:

In mid-1999, the Insurer instituted a practice of sending a notification letter to insureds seventy five (75) days prior to the termination of the complimentary period and the transition to premium-paying status. Even though there is no statutory requirement to provide this notification, the Insurer determined that it was appropriate to do so. The script disclosed to insureds that they would be receiving this notification. The examiners reviewed twenty one hundred (2100) files. This review indicated that in some cases insureds were not provided the full seventy-five (75) day notification as indicated in the script. It appeared that CBSI, who was responsible for mailing the notification, in a large number of those cases where notification was late, mailed the notification within ten (10) days of the seventy-five day target.

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Note (4) – Telemarketers Not Licensed by Insurer:

Reference should be made to Section D. Summary and Analysis – 1. Marketing and Sales for further detail on the use of telemarketers. The Insurer acknowledged that it generally did not require the telemarketers to be licensed, but takes the position that licensing was not required.

Since it appears from the scripts that the telemarketers conducted the actual enrollments and a licensed agent confirmed that the consumer had been enrolled, the Insurer appears to be in non-compliance with:

1. S.C. Code Ann. § 38-43-10 (1989), et seq., which provides the following definition of an agent/producer:

“A person who:

- (a) solicits insurance in behalf of an insurer,
- (b) takes or transmits other than for himself an application for insurance or a policy of insurance to or from an insurer,
- (c) advertises or otherwise gives notice that he will receive or transmit insurance applications or policies,
- (d) receives or delivers a policy of insurance of an insurer,
- (e) receives, collects, or transmits any premium of insurance, or
- (f) performs any other act in the making of an insurance contract for or with an insurer, other than for himself,

whether these acts are done by an employee of an insurer or at the instance or request of an insurer, must be a licensed agent of the insurer for which the act is done or the risk is taken unless provided otherwise in § 38-43-20;”

The Insurer notes that licensing laws vary by state. Some states have exemptions that provide that someone enrolling individuals in group plans like the Complimentary Accidental Death product need not be licensed, at least as long as no commissions are paid. The Insurer explained in the states that did not have such an exemption – “one tier” states- calls to potential participants were not made unless a licensed agent participated in the call. The Insurer noted that

it did ensure that the actual final enrollment and confirmation of each participant was made by a licensed agent. The Insurer also states that while its' understanding was that an unlicensed agent could conduct the entire enrollment; procedures were put in place to ensure that every telephone enrollment was concluded by a licensed agent. The Insurer also stated that it verbally explained to a number of Departments the procedures that would be put in place and received no notification that the procedures were not correct. As stated above, South Carolina does require that a licensed agent solicit insurance.

S.C. Code Ann. § 38-43-20 (D) (2) (as amended effective January 31, 2003). Producer's license required; exceptions. provides,

D. "A license as an insurance producer is not required of the following:

- (2) a person who secures and furnishes information for the purpose of group life insurance, group property and casualty insurance, group annuities, group or blanket accident and health insurance; or for the purpose of enrolling individuals under plans; issuing certificates under plans or otherwise assisting in administering plans; or performs administrative services related to mass marketed property and casualty insurance; where no commission is paid to the person for the service."

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Note (5) – Files Provided Did Not Contain a Fraud Statement:

The State of Pennsylvania has a requirement that each insured receive a statement informing the insured that fraud in applying for insurance or making a claim for benefits that is not justified is a punishable offense. For the files sampled there was no evidence that a fraud statement was delivered to the insureds.

The Insurer states that the fraud statement was part of the direct mail package that was to be sent prior to telephone contact. A copy of the direct mail package was provided to examiners for their review. The fraud statement was intended to be part of that package. However, as previously noted, the direct initial mailing did not always occur prior to telephone solicitation.

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

Miscellaneous Exceptions Noted:

1. Three (3) Remittances Collected After Insured Canceled Coverage:

While not indicating that a pattern of errors exist, the Insurer is reminded that premium should not have been collected after cancellation of coverage. The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

2. Cash on Hand Held by CBSI:

While not indicating that a pattern of errors exist, the Insurer is reminded that all monies received should be timely accounted for or refunded in a timely manner. The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

3. Incomplete Files, Taped Confirmations Not Provided and Invalid Receipts (Provided Incorrect Database of Files to Sample):

The Insurer is reminded that records retention guidelines of the states should be followed regarding maintenance of records to ensure compliance with:

- a. S.C. Code Ann. § 38-51-60 (as amended) which provides:

“Every administrator shall maintain at its principal administrative office for the duration of the written agreement referred to in § 38-51-40 and five years thereafter adequate books and records of all transactions among the administrator, insurers, and insured persons. The books and records must be maintained in accordance with prudent standards of insurance record keeping. The director or his designee shall have access to the books and records for the purpose of examination, audit, and inspection, and information from the records must be furnished to the director or his designee on demand. Any trade secrets contained therein, including, but not limited to, the identity and addresses of policyholders and certificates holders, are confidential, except that the director or his designee may use the information in any proceedings instituted against the administrator. The insurer shall retain the right to continuing access to the books and records of the administrator sufficient to permit the insurer to fulfill all of its contractual obligations to insured persons, subject to any restrictions in the written agreement between the insurer and administrator on the proprietary rights of the parties in such books and records.”

General reference should also be made to:

1. S.C. Code Ann. § 38-55-40 (as amended) which provides:

“No insurer may issue in this State, nor permit its agents, officers, and employees to issue in this State, agency company stock or other stock or securities or any special or advisory bond or other contract of any kind promising returns and profits, as an inducement to the taking of insurance. No insurer is authorized to do business in this State which issues or permits its agents, officers, or employees to issue in any state or territory agency company stock or securities or any special or advisory bond or other contract of any kind, promising returns and profits as an inducement to the taking of insurance. No corporation or stock company, acting as agent of an insurer, nor any of its agents, officers, and employees, is permitted to sell or give, agree to sell or give, or offer to sell or give, directly or indirectly, in any manner whatsoever, any share of stock, security, bond, or agreement of any form or nature promising returns and profits as an inducement to the taking of insurance or in connection therewith. The director or his designee, upon being satisfied that any insurer or its agent has violated this section, shall impose the penalties provided in § 38-2-10. This section does not apply to marine insurers or their agents if the agents write only marine insurance;”

2. S.C. Code Ann. § 38-57-130 (3) (1989) which provides:

“No person may pay, allow, or give or offer to pay, allow, or give, directly or indirectly, as inducement to the purchase or the renewal of an insurance contract, any rebate of premiums payable on the contract, any special favor or advantage in any benefits payable thereon, or any valuable consideration or inducement that is not specified in the contract;”

The marketing of the Complimentary Accidental Death Program was discontinued approximately April 2003 and does not appear to be a continuing issue. CBSI continues to administer this product on a run-off basis.

E. COMPLAINT HANDLING

A review of the Insurer's complaint register for complimentary accidental death complaints was made to:

1. determine if any pattern or specific type of complaint was evident;
2. determine the final disposition of the complaint; and
3. determine the promptness of the Insurer's responses to complaints and inquiries.

The Insurer maintained a complaints' register showing a total of four hundred thirty four (434) complaints received from various state insurance departments and two hundred sixty five (265) complaints received directly from other parties for the period under review – 1998 through 2002. The following provides the detail of the complaints for the complimentary accidental death insurance product for the six (6) states whose records were reviewed for the period of examination:

California:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	42	41	83
Claims Handling	10		10
Customer Service	06	01	07
Underwriting	03	02	05
Status of Policy	01		01
Cancellation Request	<u>11</u>	<u>05</u>	<u>16</u>
Total	<u>73</u>	<u>49</u>	<u>122</u>

Florida:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	28	22	50
Claims Handling	08	01	09
Customer Service	01	02	03
Underwriting	<u>01</u>	<u>01</u>	<u>02</u>
Total	<u>38</u>	<u>26</u>	<u>64</u>

Illinois:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	27	28	55
Claims Handling	04		04
Customer Service	05	03	08
Underwriting	02	01	03
Cancellation Request		<u>01</u>	<u>01</u>
Total	<u>38</u>	<u>33</u>	<u>71</u>

Pennsylvania:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	13	10	23
Claims Handling	02		02
Customer Service	<u>02</u>		<u>02</u>
Total	<u>17</u>	<u>10</u>	<u>27</u>

South Carolina:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	04	07	11
Claims Handling	01		01
Customer Service		01	01
Total	05	08	13

Texas:

<u>Type of Complaint</u>	<u>Received by Insurance Department</u>	<u>Complaint made Directly to Insurer</u>	<u>Total Number of Complaints</u>
Marketing/Sales	24	12	36
Claims Handling	03		03
Customer Service	02	02	04
Underwriting	01		01
Status of Policy	01		01
Cancellation Request	03	01	04
Total	34	15	49

The total of the complaints for the states shown above represents a population of three hundred and forty six (346) complaints: two hundred and five (205) complaints received by the various insurance departments and one hundred and forty one (141) received directly from the consumer.

A sample of fifty (50) complaints was selected from this database of two hundred and five (205) complaints received by the insurance departments utilizing ACL software. These complaint files were reviewed utilizing recommended Standards from the NAIC Market Conduct Examiners Handbook. The complaint files appeared to be handled adequately and within an appropriate time frame. No exceptions were noted in the Insurer's complaints' handling procedures.

F. CLAIMS HANDLING

The Insurer's complimentary accidental death claims for the period under review were reviewed to determine compliance with rules and regulations and policy provisions. The review encompassed paid claims, open claims, denied claims and litigated claims from the following states:

California
Florida
Illinois
Pennsylvania
South Carolina
Texas

There were two (2) litigated claims reported by the Insurer for the period under review. These litigated claims were reviewed. No significant exceptions were noted.

Samples for open, paid and denied claim files reviewed for the period January 1, 1998 to December 31, 2002, were obtained from various claims listings provided by the Insurer from the following areas utilizing ACL software:

1. Paid Claims:

A sample of fifty (50) claims files from a listing of three hundred twenty two (322) was chosen for detail analysis. The total population for all states was eight hundred thirty three (833);

The sample of fifty (50) paid claims generated by ACL software was reviewed for timely payment of the claim and adequate documentation within the claim file to ensure an audit trail exists to determine that appropriate action was taken by the Insurer. There appeared to be no significant discrepancies in the handling of these claims.

<u>Time Lapse-Days</u>	<u>Number of Claims Reviewed</u>	<u>Percentage</u>
0 – 10	33	66%
11 – 20	7	14%
21 – 30	3	6%
> 31	<u>7</u>	<u>14% *</u>
	<u>50</u>	<u>100%</u>

* There appeared to be justifiable reasons for the delay in the payment of the claims (ex. beneficiary in prison).

2. Open Claims:

A sample of fifty (50) claims files from a listing of one hundred twelve (112) was chosen for detail analysis. The total population for all states was two hundred seventy five (275); and

The sample of fifty (50) claims generated by ACL software was reviewed to determine if the reasons the claims were open were justified or if the claim had been paid or closed without payment and if the file contained adequate documentation. There appeared to be no significant discrepancies in the handling of these items. It was noted that delays in subsequently closing claims were supported by documentation in the claim files with one (1) exception. This exception represents a two percent (2%) error ratio and does not indicate a pattern of errors exists. Four (4) claims reviewed should not have been open at December 31, 2002.

3. Denied Claims:

A sample of one hundred (100) claim files from a listing of two thousand one hundred seventy four (2,174) were chosen for detail analysis. The total population for all states was five thousand forty three (5,043).

The sample of one hundred (100) claims closed without payment generated by ACL software was reviewed to determine the reasons for payment denial and adequate documentation. There appeared no significant discrepancies in the handling of these items.

The Insurer stated that it did not maintain a claims' procedure manual for its complimentary accidental death program.

G. CONSIDERATION OF OTHER STATES' STATUTES

In addition to the various South Carolina statutes previously indicated within the Report, the following statutes were reviewed during the course of the examination:

Illinois:

Payment of Premium Taxes – 215ILCS 5/409

Producer Licensing – 215 ILCS 5/500-15

Payment of Commissions – 215 ILCS 5/500-80

Rebating – 215 ILCS 5/151

Penalty for Rebating – 215 ILCS 5/152

Pennsylvania:

Unfair Insurance Practices Act – 40 P.S. 1171.4

Agent Appointments – 40 P.S. 235

Unlicensed Brokers – 40 P.S. 253

Rebates and Inducements – 40 P.S. 471

Premium Tax Payment – 72 P.S. Section 7901, et seq.

H. CONCLUSION

Examination procedures as developed for this multi-state target market conduct examination by the Department and various states have been followed in connection with the review of the accounts and records of the Insurer and the comments addressed within this Report.

The following actively participated on this examination:

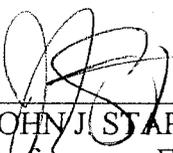
Respectfully submitted,


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