



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

KANAWHA INSURANCE COMPANY

AS OF

November 15, 2013

NAIC COMPANY CODE: 65110

NAIC GROUP CODE: 0119

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

PURPOSE AND SCOPE OF EXAMINATION 1

COMPANY OPERATIONS..... 2

LIFE APPLICATION REVIEW 2

COMPLETENESS TEST 3

LIFE POLICY REVIEW 3

REINSURANCE AGREEMENTS REVIEW..... 4

EXAMINATION FINAL REPORT SUBMISSION 4

EXECUTIVE SUMMARY

In June 2006, the Florida Legislature enacted the Freedom to Travel Act, which modified Florida's Unfair Trade Practices Act by placing prohibitions on life insurance limitations upon an individual based solely on the individual's past lawful foreign travel or future lawful travel plans. The Florida Unfair Trade Practices Act also prohibits the refusal to insure, or continue to insure, based on the individual's race, color, creed, marital status, sex, or national origin.

A target market conduct examination of Kanawha Insurance Company was performed to determine compliance with Sections 626.9541(1)(g), 626.9541(1)(x), and 626.9541(1)(dd), Florida Statutes and Rule 69O-125.003, Florida Administrative Code.

Two violations were found during the examination under Section 624.318(2), Florida Statutes, as the Company could not produce two life applications for review.

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of Kanawha Insurance Company pursuant to Section 624.3161, Florida Statutes. The examination was performed by Fatzinger Consulting, Inc. The scope period was June 1, 2011 through May 31, 2013. All life policy applications received during the scope period were reviewed. The examination began July 22, 2013 and ended November 15, 2013.

The purpose of this examination was to review compliance with Sections 626.9541(1)(g), 626.9541(1)(x), and 626.9541(1)(dd), Florida Statutes, and Rule 69O-125.003, Florida Administrative Code.

The examination included the following procedures:

- Review of life policy application files to determine if an application was denied, issued in a manner other than applied for, had benefit changes or was canceled solely on the individual's past lawful foreign travel experiences, or future lawful travel plans, in compliance with Section 626.9541(1)(dd), Florida Statutes and Rule 69O-125.003, Florida Administration Code.
- Review of life policy application files to determine if an application was denied, issued in a manner other than applied for, had benefit changes or was canceled based on national origin in compliance with Section 626.9541(1)(g) and (x), Florida Statutes.
- Review of underwriting files for issued policies that had benefit changes to determine if the benefit change was due to travel plans or national origin.
- Review of underwriting files for issued policies that had been canceled or terminated to determine if the cancellation was due to travel plans or national origin.

- Review reinsurance agreements covering life products to determine if any of the agreements place any limitations as a result of the applicant's past lawful foreign travel experiences, future lawful travel plans or the applicant's place of birth.

In reviewing materials for this report, the examiner relied on records provided by the Company. Procedures and conduct of the examination were in accordance with the *Market Regulation Handbook* produced by the National Association of Insurance Commissioners.

COMPANY OPERATIONS

Kanawha Insurance Company is a domestic Life and Health insurer licensed to conduct business in the State of Florida on August 4, 1988. The Company provides Accident and Health, Life and Group Life and Annuity coverage in the State of Florida.

Total Direct Premiums Written in Florida for Life Insurance was as follows:

Year	Total Written Premium In Florida (Per Schedule T of the Annual Statement)
2008	\$385,347
2009	\$871,786
2010	\$1,334,341
2011	\$1,954,535
2012	\$2,799,701

Humana Inc. purchased KMG America, which owns Kanawha Insurance Company and related entities, as of November 30, 2007. Kanawha currently offers the following Life Insurance products in Florida:

- Term policy to age 25 with an options to convert to a whole life policy at age 25
- Memorial Fund policy with graded benefits/Memorial Fund policy with level benefits
- Life paid up at age 95 non par product
- Whole Life to 100 – par product
- Single Premium whole life par product
- Convertible and Renewable term policy
- Individual whole life policy paid up to 65, 90 or 99
- Group Issue Age term policy
- Individual term life policy
- Group Trust Issue Age term life policy

LIFE APPLICATION REVIEW

A total of 8,541 policies were reviewed. The examiners reviewed information contained in the Company's individual life and group life underwriting files, including but not limited to the application, field underwriting guidelines, telephone interviews, questionnaires, underwriting

notes, correspondence with agents and consumers, medical records, financial information, and the Company's Agent's training materials.

Declined Applications

The examiners reviewed 148 declined applications. There were no violations found.

Not Taken and Withdrawn Applications

The examiners reviewed 897 not taken and withdrawn applications. There were no violations found.

Issued Applications

The examiners reviewed 7,496 issued application files. There were no violations found with respect to underwriting solely due to foreign travel or national origin.

FINDING:

The Company could not produce two applications for policies that were issued and have since lapsed. This resulted in two violations of Section 624.318(2), Florida Statutes, Conduct of Examination or Investigations; access to records.

- a. **COMPANY'S RESPONSE:** The Company agreed with this finding.
- b. **CORRECTIVE ACTION:** The Company should maintain their files to ensure all supporting underwriting documentation, including the applications, are available for review.

COMPLETENESS TEST

Since all applications during the exam scope were reviewed, no completeness test was conducted.

LIFE POLICY REVIEW

The examiners reviewed the underwriting files to determine if issued policies experienced benefit changes or were canceled due to travel plans or national origins.

Benefit Changes

The Company informed the examiners that benefit changes are not made after a policy is issued. The Company provided written certification of this practice.

Cancellations

The Company provided 321 canceled policies. The policies were reviewed to confirm the cancellations were not made for reasons related to travel or national origin. No violations were found.

Rescinded policies

The Company rescinded eight (8) policies during the examination scope period. These policies were reviewed and no violations were found.

REINSURANCE AGREEMENTS REVIEW

The Company provided copies of Schedule S from the 2008 through 2013 annual statements, which show the Company's reinsurers each year. The Company also provided a short guideline for underwriting policies that will be reinsured. No foreign travel or national origin questions appear in the submitted reinsurance materials. The Company provided written confirmation stating their reinsurers do not place underwriting requirements or limitations on the Company.

EXAMINATION FINAL REPORT SUBMISSION

The Office hereby issues this report as the Final Report, which is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company.