



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

LINCOLN BENEFIT LIFE COMPANY

December 30, 2014

NAIC COMPANY CODE: 65595

NAIC GROUP CODE: 0008

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
PURPOSE AND SCOPE OF EXAMINATION	1
COMPANY OPERATIONS	2
LIFE APPLICATION REVIEW	3
LIFE POLICY REVIEW	7
REINSURANCE AGREEMENTS REVIEW	8
ANTI-FRAUD PLAN REVIEW.....	9
EXAMINATION FINAL REPORT SUBMISSION	9

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.

Rule 69D-2, Florida Administrative Code, became effective in October 2006 to implement the provisions of Section 626.9891, Florida Statutes. This rule establishes guidelines and reporting requirements for insurer anti-fraud special investigative units (SIU) and insurer anti-fraud plans.

The following represent general findings, however, specific details are found in each section of the report.

TABLE OF TOTAL VIOLATIONS

Statute/Rule	Description	Files Reviewed	Number of Violations
626.9541(1)(dd)(2), 690-125.003(4)	Self Reported Freedom to Travel violation – declined life application	n/a	1
626.9541(1)(dd)1 & 2, 690-125.003(2)	Self Reported Freedom to Travel violations – rated life application	n/a	5
627.410(1)	Use of an unapproved Foreign Travel and Residence form	75	8
626.9514(1)(g)1	Unfair discrimination in the underwriting of a life application (declined application)	1,039	1
626.9541(1)(dd)1, 690-125.003(3)	Refusal to insure a life application due to past foreign travel (withdrawn application)	2,268	1
626.9541(1)(dd)2, 690-125.003(2)	Making an offer of coverage with rate added based solely on future travel plans (issued other than applied)	2,928	1

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of Lincoln Benefit Life Company (Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Fatzinger Consulting, Inc. The scope period of this examination was January 1, 2013 through December 31, 2013. The examination began March 24, 2014 and ended August 27, 2014.

The purpose of this examination was to review compliance with Sections 626.9541(1)(g), 626.9541(1)(x), 626.9541(1)(dd) and 626.9891, Florida Statutes, and Rules 69O-125.003 and 69D-2, Florida Administrative Code.

The examination included a review of the following:

- Life application underwriting files to determine if an application was denied, issued in a manner other than applied for, or terminated solely on the individual's past or future lawful foreign travel experiences, or on the applicant's national origin.
- Administrative and underwriting files for issued policies to determine if the policy was terminated, canceled or rescinded, or had a benefit change based solely on the individual's past or future lawful foreign travel experiences, or on the insured's national origin.
- Reinsurance agreements to verify if any of the agreements place any limitations as a result of the applicant's past and/or future lawful foreign travel or the applicant's place of birth.
- Anti-Fraud Plans to verify filing and implementation.

In reviewing materials for this final 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

Lincoln Benefit Life Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on December 18, 1984. The Company is authorized to offer Life, Group Life & Annuity, Credit Disability, Variable Life, Credit Life, Variable Annuity and Accident & Health coverage in the State of Florida. On April 1, 2014, Allstate Life Insurance Company finalized the sale of Lincoln Benefit Life Company to Resolution Life Holdings, Inc. Since that time Allstate Life Insurance Company has been administering the Company's block of business on behalf of Resolution Life Holdings, Inc.

During the exam period, the Company marketed and sold universal life, variable universal life, whole life, and term life insurance products in Florida through its proprietary independent contractor distribution channel (Allstate Agencies) and through the Master Brokerage Agencies (MBA) independent agent distribution channel. Beginning in July of 2013, through the end of the year, new business was no longer accepted from the MBA distribution channel. Due to customer contractual rights, independent agents continue to write term conversion policies on Florida residents. Additionally, term insurance was offered directly to consumers from January through June.

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)
2013	\$108,319,066

LIFE APPLICATION REVIEW

APPLICATION FORMS REVIEW

The Company's life insurance applications capture the proposed insured's state or country of birth, as well as permanent resident card or temporary visa information. Applications for non-business owned life insurance also ask if the proposed insured has been in the US continuously for 3 years and if the applicant intends to reside outside of the US in the next two years. The Foreign Residence Questionnaire, which is to be completed by non-US citizens, includes questions relating to travel back to the county of birth.

UDERWRITING MANUAL REVIEW

The Company's Life Underwriting Policy Manual is primarily the Swiss Re Life Guide underwriting manual with Company modifications and addendums. The ¹manual specifically addresses the underwriting of immigrants and temporary US residents. For travel and foreign residence, the Company uses the RGA International Life Underwriting Guide, however, there is a "State Exceptions" disclaimer that lists Florida as one of the states the Company will not take adverse action on with regards to past or present legal travel.

1) The Company's underwriting manual did not include a specific reference to future lawful foreign travel.

a) COMPANY RESPONSE: The Company stated the term "present lawful travel" is understood to include known future travel plans, however, it will amend its manual as follows to more closely align with language found in the applicable statutes:

In compliance with legal requirements in Colorado, Florida, Georgia and Washington State, we will not take any adverse underwriting action on residents of these states based on legal foreign travel, whether such travel occurred in the past or is anticipated in the future.

b) CORRECTIVE ACTION: None, the Company has taken action.

¹ Immigrants must have lived in the US a minimum of six months, intend to become a US citizen and have a permanent resident visa. The visa can be waived if married to a US citizen. Immigrants from Canada and Mexico may be considered without the 6 month residency requirement due to provisions in the North American Free Trade Agreement (NAFTA). For temporary US residents, only the listed visa types listed are acceptable.

FREEDOM TO TRAVEL – SELF REPORTED VIOLATIONS

The Company self-reported five travel violations in its 2013 Freedom to Travel Survey. After the examination was called, the Company discovered a sixth travel violation. One underwriter was responsible for five of the six violations.

- 1) **In 1 instances, the Company declined the application based solely on future lawful foreign travel to Mozambique, in violation of Sections 626.954(1)(dd)2., Florida Statutes, and Rule 69O-125.003 (4), Florida Administrative Code.**
 - a) **COMPANY RESPONSE:** The Company has contacted the writing agent. The applicant has not expressed interest in pursuing coverage.
 - b) **CORRECTIVE ACTION:** The Company should ensure adequate training and controls are established to prevent the underwriting of Florida insured's based on past or future lawful travel.

- 2) **In 5 instances, the Company issued the policy with a flat rate per thousand based solely on the applicants' past and/or future lawful travel to Columbia (2) Venezuela (2), and Nicaragua, in violation of Section 626.9541(1)(dd) 1 and 2, Florida Statutes, and Rule 69O-152.003(2), Florida Administrative Code.**
 - a) **COMPANY RESPONSE:** The Company has contacted the writing agents. None of the applicants has expressed interest in pursuing coverage. The Company issued a refund for the excess premium charged due to travel to the only insured who had taken the policy.
 - b) **CORRECTIVE ACTION:** The Company should ensure adequate training and controls are established to prevent the underwriting of Florida insured's based on past or future lawful travel.

FILE REVIEW

The Company provided a data file of 12,511 applications for life insurance during the scope period. The Company had reported it had received 12,476 applications on its 2013 Freedom to Travel survey. The difference was due to the queries used: for the examination the Company used the date on the application whereas for the survey it used the date the application was added to its administration system.

The examiners reviewed information contained in the life application underwriting files, which could have included but was not limited to, the applications, supplemental application questionnaires, underwriting notes, agent and policyholder communications, medical documentation and other supplemental materials.

- 1) **In at least 8 instances out of 75 files that had foreign travel noted in the underwriting file, the Company used a Foreign Travel and Residence Questionnaire that was not approved for use in Florida, as required by Section 624.410(1), Florida Statutes.**

- a) **COMPANY RESPONSE:** The Company agreed with the finding and stated the form is no longer available for use in Florida.
 - b) **CORRECTIVE ACTION:** The Company should use only forms that have been approved for use in Florida.
- 2) **Life application underwriting files contained older versions of form FAA73PQFL-1 “Application for Life Insurance Part 2” that had not been provided for review as a form in use during the scope period (Form numbers FAA73PQFL (01/11 & FAA73PQFL 04/05v1). These prior versions contained a question that asked if any of the proposed insureds planned to travel outside the US in the next two years.**
- a) **COMPANY REPOSENSE:** Prior to 2013, the Company had made a business decision to utilize only FAA73PQFL-1, the version of the application without a travel question and the one supplied for the examination. The Company, however, had not removed the older versions from online application system. On August 29, 2014, the Company made an informational filing with the OIR confirming its exclusive use of FAA73PQFL-1 effective August 2013.
 - b) **CORRECTIVE ACTION:** The Company should ensure its online application system contains only forms it intends to be utilized, and should supply all forms found to be use, when requested for review.
- 3) **In its 2013 Freedom to Travel response to question 22, which asked for the total number of applications denied or issued in a manner other than applied for where the Florida consumer was born in a foreign country, the Company reported that there were five applications. Review of the underwriting files revealed that 1,078 applications were denied or were issued other than applied had foreign born applicants.**
- a) **COMPANY RESPONSE:** The Company acknowledged it did not provide a full response to question 22 as a result of human error. The Company believed the question was misinterpreted which led to the disclosure of the number of applicants that had adverse action due to foreign travel.
 - b) **CORRECTIVE ACTION:** The Company should provide an accurate response to question 22 on future Freedom to Travel surveys.

Declined Applications

The examiners reviewed 1,039 declined applications.

- 1) **In 1 instance, the Company denied an application due to a specific laboratory test result that fell within the Company’s acceptable range, which is unfair discrimination in the underwriting of a life application, in violation of Section 62639541(1)(g)(1), Florida Statutes. The proposed insured was a refugee from Africa and wife of one of the self-reported violations. The application was underwritten by the same underwriter responsible for five of the self-reported violations.**

- a) **COMPANY RESPONSE:** The Company disagreed with this finding. It agreed that its underwriter failed to adhere to established practices and policies when declining the application based on the result of the medical test without further investigation. It further agreed this failure most likely resulted in an inappropriate denial of the application. The Company, however, does not believe this incident rises to the level of a violation of the cited statute, but is an isolated error by a single underwriter. The Company states that additional coaching and training has been provided to this underwriter.
- b) **CORRECTIVE ACTION:** The Company should follow its underwriting guidelines to ensure that all persons within an actuarial class are treated similarly.

Withdrawn, Incomplete and Pending Applications:

The examiners reviewed 2,268 applications that were withdrawn, incomplete or pending.

- 1) **In 1 instance, an application was withdrawn after the underwriter informed the agent a foreign travel questionnaire needed to be submitted. The applicant had recently returned from six years as missionary in Kenya. The underwriting notes indicated the policy would be a decline based on that information. This is a violation of Section 626.9541(1)(dd)(1), Florida Statutes and Rule 69O-125.003(3), Florida Administrative Code. The application was underwritten by the same underwriter responsible for five of the self-reported violations.**
 - a) **COMPANY RESPONSE:** The Company disagreed with the finding, but admitted the request for the foreign travel questionnaire, which was not the Florida approved Foreign Residence Questionnaire, may have been a factor in the applicant's decision to the withdraw. The Company stated the underwriter's work is receiving a higher level of scrutiny and that it was open to offering the applicant coverage without regard to travel.
 - b) **CORRECTIVE ACTION:** The Company should ensure adequate training and controls are established to prevent the underwriting of Florida insured's due to past or future lawful travel. The Company should contact the agent to determine if the applicant wants to pursue coverage.

Applications Issued Other Than Applied

The examiners reviewed 2,928 applications that were issued other than applied.

- 1) **In 1 instance, the Company's offer of coverage included a flat premium per thousand based solely on the applicant's future travel to Venezuela, in violation of Section 626.9541(1)(dd)2, Florida Statutes, and Rule 69O-125.003(2), Florida Administrative Code. The non-Florida approved Foreign Travel Questionnaire had been used.**
 - a) **COMPANY RESPONSE:** The Company agreed with this finding. The application was initially approved by the underwriter (but not issued) with a \$1 flat extra premium due to foreign travel to Venezuela. Prior to issuance, the agent appealed the flat extra rating. The underwriter requested that the agent send in a foreign travel questionnaire, which was completed upon the applicant's return from Venezuela. The underwriter reviewed the

completed questionnaire and since there was no additional travel indicated, the application was issued at the nonsmoker rate class without the flat extra premium. The application was placed in force on May 13, 2013 at the nonsmoker rate class without the \$1 flat extra premium and lapsed for nonpayment on August 14, 2014.

- b) **CORRECTIVE ACTION:** The Company should ensure adequate training and controls are established to prevent the underwriting of Florida insured's based on past or future lawful foreign travel.

COMPLETENESS AND ACCURACY TEST – LIFE APPLICATIONS

An initial sample of 115 life applications submitted during the scope of the examination was reviewed to verify that declinations and applications issued in a manner other than applied for were included on the respective listings provided by the Company. Thirty-seven errors were found. To generate a revised list, the Company involved underwriting staff to produce a different query, which resulted in the Company providing an additional list of 2,230 applications issued other than applied. These applications are included in the total number of 2,928 applications issued other than applied reported above.

A second sample of 115 was selected to verify the accuracy of revised listing. The results of this test revealed the Company was unable to provide underwriting outcomes for applications containing multiple insureds. This led to a request for 342 applications that contained multiple insureds. In addition, 8 juvenile policies, on which the owner and insured name were identical, and 7 rated policies indicated as issued as applied for were reviewed to confirm coding accuracy. There were no foreign travel or national origin violations.

LIFE POLICY REVIEW

The examiners reviewed the administrative and underwriting files that supported policy benefit changes and policy cancellations and terminations.

Benefit Changes

The Company reported 336 policies had changes during the scope.

The examiners reviewed 199 issued policies that had either a face decrease or a rate/class change. There were no foreign travel or national origin violations.

- 1) **In two instances, the Company discovered a processing error had occurred on the requested files: one policy experienced a base decrease due to the use of the administration system to produce a policy re-projection; the second policy had an incorrect rate applied.**

- a) **COMPANY RESPONSE:** The Company attributed both occurrences to human error and has corrected the policies.

- b) **CORRECTIVE ACTION:** The Company should ensure correct processing of benefit changes.

A sample of 79 of the remaining benefit changes was reviewed to assess accuracy and reliability of coding. No violations were noted.

Policy Terminations and Cancellations

The Company reported there were no policy terminations or cancellations initiated by the Company for underwriting purposes.

A sample of 115 of the 6,201 policies termination and cancellations were reviewed to assess accuracy and reliability of coding. No violations were noted.

REINSURANCE AGREEMENTS REVIEW

The Company's reinsurance agreements in place during the scope of the examination were reviewed to verify if any of the agreements place any limitations as a result of the applicants past and/or future foreign travel or the applicant's place of birth.

The Company has agreements with four reinsurers that include ²attachments specific to the underwriting of applications from immigrants, temporary US residents, and permanent US residents. Foreign travel is also addressed. Three of the four amendments include a note that foreign travel underwriting will continue to follow various state laws and regulations. If the treaty includes a specific amendment, all facultative reinsurance submissions require the underwriting file, which would include the application showing the proposed insured's place of birth, as well as the Company's foreign residence questionnaire, if one was completed.

- 1) **Treaties provided for two of the reinsurers included a copy of an application form for use in submitting a facultative application. The applications contain a box to record the proposed insured's place or country of birth. The Company had responded "no" to Freedom to Survey question 21, asking if the Company had reinsurance agreements in place that required the company to report to the reinsurer(s) that the applicant was born in a foreign country.**

- a) **COMPANY RESPONSE:** The Company attested that, for policies reinsured on a facultative basis, it is not required by its reinsurers to report the place of birth on facultative reinsurance applications, however, it provides reinsurers with copies of all underwriting documents, which may include place of birth.

- b) **CORRECTIVE ACTION:** The Company should provide an accurate response to question 21 on future Freedom to Travel surveys.

² The attachments are essentially the sections from the Company's underwriting manual sections addressing immigrants and temporary U.S. residents

ANTI-FRAUD PLAN REVIEW

The Company has submitted a description of its SIU in form DFS-L1-1689 as required by Rule 69D-2.003, Florida Administrative Code.

The Company reported six cases to its SIU during the scope period; 1 was reported to the Florida Division of Fraud. The examiners reviewed the cases.

There were no violations noted.

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.