

# FLORIDA DEPARTMENT OF INSURANCE

## MARKET CONDUCT REPORT OF EXAMINATION

OF

*LIFE INSURANCE COMPANY OF NORTH AMERICA*

*AS OF 12/31/96*

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**DIVISION OF INSURER SERVICES**

**BUREAU OF LIFE AND HEALTH  
INSURER SOLVENCY & MARKET CONDUCT**

**MARKET CONDUCT SECTION**

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August 14, 1997

Honorable Bill Nelson  
Treasurer and Insurance Commissioner  
State of Florida  
The Capitol, Plaza Level Eleven  
Tallahassee, Florida 32399-0300

Dear Commissioner Nelson:

Pursuant to the provisions of Section 624.316, Florida Statutes, and in accordance with your Letter of Authority and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), a Market Conduct Examination has been performed on:

Life Insurance Company of North America  
2 Liberty Place, 1601 Chestnut Street  
Philadelphia, Pennsylvania 19192

at its Home Office in Philadelphia, Pennsylvania. The report of such examination is herein respectfully submitted.

## INTRODUCTION

Life Insurance Company of North America, hereinafter is generally referred to as "the Company" when not otherwise qualified. This is the first Market Conduct Examination conducted by the Florida Department of Insurance, hereinafter generally referred to as "the Department" as of December 31, 1996.

This Market Conduct Examination commenced on May 16, 1997, and concluded on August 14, 1997.

## SCOPE OF EXAMINATION

This examination covers the period of the Company's operation in the State of Florida from January 1, 1994, through December 31, 1996; and where considered appropriate, transactions and affairs subsequent to the examination period.

The purpose of this Market Conduct Examination was to determine if the Company's practices and procedures conform with the Florida Statutes and the Florida Administrative Code.

Statistical information is included in this examination report. The National Association of Insurance Commissioners' Examination Handbook standards of 7% error ratio for claim resolution procedures and 10% error ratio for other procedures are applied. Any error appearing to be a pattern or a general business practice has been included in this examination report.

The examination included, but was not limited to, the following areas of the Company's operation:

1. Sales Brochures and Advertisements

2. Appointment and Termination of Agents
3. Policy Forms, Rates and Underwriting
4. Claims and Complaints Handling Procedures

Files were examined on the basis of file content at the time of examination. Comments and recommendations were made in those areas in need of correction or improvement.

#### DESCRIPTION OF COMPANY

##### History

Life Insurance Company of North America is domiciled in the State of Pennsylvania and is a stock life insurance company that is a wholly-owned subsidiary of Connecticut General Corporation. The Company was licensed to transact insurance business in the State of Florida on October 1, 1957.

##### Certificate of Authority

The Company was authorized to write the following lines of business in the State of Florida, subject to compliance with all applicable laws and regulations of Florida:

Code 400-Life	Code 405-Variable Annuities
Code 410-Group Life and Annuities	Code 440-Credit Life
Code 441-Credit Disability	Code 450-Accident and Health

##### Organizational Chart

The Company's organizational charts are shown on the following pages.











### TERRITORY AND PLAN OF OPERATION

Life Insurance Company of North America is authorized to transact business in all states, except New York.

The Company markets and services their products through the use of branch or service offices and accepts business from brokers, independent agents and personal producing general agents.

During the period under review, the lines written were:

1. Group Life
2. Group Health

The Company withdrew from writing small group insurance properly notifying the Department as required by Section 624.430, Florida Statutes.

The Company did not write any lines of insurance business during the period under review for which they were not authorized on their Certificate of Authority, as required by Section 624.401 (2), Florida Statutes.

### SALES AND ADVERTISEMENTS

Marketing materials utilized by the Company were examined to determine conformity with Rule 4-150, Florida Administrative Code. No discrepancies were noted.

The Company maintains an advertising file in accordance with Rules 4-150.018 (1) and 4-150.119 (1), Florida Administrative Code.

The Company filed Certificates of Compliance for Advertising with its Annual Statement for 1994, 1995, and 1996 as required by Rules 4-150.018 (2) and 4-150.119 (2), Florida Administrative Code.

#### AGENT APPOINTMENT, RENEWAL AND TERMINATION

When the Company receives the renewal list of agents from the Bureau of Agent and Agency Licensing, additions and deletions are made as necessary. The renewal list of agents is returned to the Department with a Company check in compliance with instructions from the Bureau of Agent and Agency Licensing.

When an agent is terminated, Florida Department of Insurance Form DI4-39 is completed by the Company and forwarded to the Department for cancellation of the agent's appointment in compliance with Section 626.511 (2), Florida Statutes, and Bureau of Agent and Agency Licensing's instructions.

Twenty-five (25) terminated agents' personnel files were examined to determine proper reporting by the Company. No discrepancies were noted.

Discrepancies regarding appointments were noted and are detailed in the Application Review Section of this report.

#### POLICY FORM AND RATE FILINGS

The Company maintains a file containing copies of policies, rates, riders, endorsements and correspondence appropriate thereto of all forms filed and approved by the Florida Department of Insurance.

All Company filings made by the Company in 1994, 1995, and 1996 were reviewed to determine if policy forms being used by the Company had been stamped "filed" or "approved" by the Department as required by Sections 627.410, Florida Statutes.

Discrepancies regarding unfiled application forms were noted and are detailed in the Application Review Section of this report.

#### APPLICATION REVIEW

Applications for Group insurance were surveyed to determine:

- (1) If the applications were being signed by a properly licensed and appointed Florida agent as required by Section 624.112, Florida Statutes.
- (2) If the applicant's signature was present on this form.

A random sample of ninety-two (92) underwriting files containing applications for 1994, 1995, and 1996, was requested for review.

A total of eighteen (18) out of ninety-two (92) underwriting files requested could not be located by the Company. In this regard, records were not adequately maintained by the Company, nor by its Third Party Administrators in violation of Section 624.318 (2), Florida Statutes.

Seventy-four (74) underwriting files were reviewed to determine if agents were appointed and licensed as required by Section 626.112, Florida Statutes, when business was accepted from a licensed agent who was not previously appointed by the Company. Fourteen (14) agents were not appointed at the time the application was taken.

Three (3) of the fourteen (14) agents were not licensed as required by Section 626.112, Florida Statutes.

The Company also violated Section 626.342, Florida Statutes by furnishing supplies to the three (3) unlicensed agents. The Company also paid commissions to unlicensed persons in violation of Section 626.341, Florida Statutes.

Fifty-eight (58) applications were reviewed to determine if the applications and related forms contained in the file were stamped "filed" or "approved" by the Department as required by Section 627.410, Florida Statutes. Nine (9) applications were not filed and one application was disapproved by the Department, but used by the Company.

A random sample of fifty-eight (58) applications was reviewed to determine if the applications contained a Fraud Statement as required by Section 817.234(1)(b), Florida Statutes. Thirteen (13) discrepancies were noted wherein "third degree felony" language was not included in the Fraud Statement.

All applications reviewed contained the insurer's name on the first page of the form as required by Section 627.4085, Florida Statutes.

Fifty eight (58) applications were reviewed to determine if the applications contained a legible agent's name, identification number, and date as required by Section 627.4085, Florida Statutes. Twenty eight (28) applications did not contain the agents' name. Eighteen (18) applications contained illegible agents' names, which were unable to be determined by the examiner or the Company. Fifty-eight (58) (100%) of the applications did not contain agents' identification numbers. Sixteen (16) underwriting files did not contain copies of the applications

needed to make complete compliance determinations on specific items noted above because the company was unable to locate the applicable documents. This results in an additional failure to maintain adequate records violation provided by Section 624.318(2), Florida Statutes.

Also, it was noted that applications were not consistently date stamped upon receipt to ensure compliance with timely delivery of policy requirement prescribed in Section 627.421, Florida Statutes.

#### CANCELLATIONS AND NONRENEWALS

A random sample of three (3) group health cancellations and nonrenewals from a total population of three (3) was reviewed. The policyholders were given at least 45 days advance written notice of cancellation, nonrenewal or change in rates as required by Section 627.6645 (1), Florida Statutes.

In the event of cancellation, policyholders were promptly returned the unearned portion of any premium paid as required by Section 627.6645 (4), Florida Statutes.

#### CLAIMS ADMINISTRATION

The Company has established a claims settlement procedure which maintains control of all claims from the time of receipt to the time of final payment. Claims are reported to and handled in the claim offices in Dallas, Pittsburgh, and Rochester, and in the office of multiple Third Party Administrators.

During the examination, it was noted that the Company had

contracted with Third Part Administrators that were not licensed

in Florida. These unlicensed Third Party Administrator issues have been resolved in separate market conduct investigations of such practices by Life Insurance Company of North America via Consent Order filed on September 1, 1999.

The Company's Claims Managers and Third Party Administrator Claims Managers have certified that they have read and understand Section 626.9541(1)(i), Florida Statutes, relating to unfair claims settlement practices.

The Company is aware of Section 627.647, Florida Statutes and is using the standard health claim form HCFA 1500.

#### TIME STUDY FOR PAID AND DENIED CLAIMS

Claims were randomly selected and reviewed for compliance with:

1. Contract provisions
2. Timeliness and accuracy of payments
3. Supporting documentation
4. Unfair claim settlement practices

A time study for paid and denied claims was conducted to determine the "calendar days" required to process a claim after receiving proper proof of loss.

The term "calendar days" included Saturday, Sunday and holidays. Cycle time used in the analysis was for the following groups of days: 1-45, 46-120, 121 and over.

The population of processed paid and denied claims for the examination period reviewed is as follows:

**Group Life Claims-Paid**

1994	13,110 Claims for	\$ 71,383,771
1995	16,602 Claims for	\$ 91,803,844
1996	<u>18,984</u> Claims for	<u>\$170,088,672</u>
Total	48,696 Claims for	\$333,276,287

**Group Life Claims-Denied**

There were no claims denied for years under examination.

**Group Health Claims-Paid**

1994	47,107 Claims for	\$21,021,205
1995	49,945 Claims for	\$24,307,706
1996	<u>55,038</u> Claims for	<u>\$24,406,607</u>
Total	152,090 Claims for	\$69,735,518

**Group Health Claims-Denied**

1994	1,184	Claims
1995	1,341	Claims
1996	<u>1,536</u>	Claims
Total	4,061	Claims

CALENDAR DAYS/PERCENTAGE OF CLAIMS

**Group Life Claims-Paid**

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentages</u>
1 - 45	100	100%
46 - 120	0	0%
121 - and over	<u>0</u>	<u>0%</u>
Total	100	100%

The average time required to process a claim was seven (7) days.

**Group Life Claims-Denied**

No claims denied for years under examination.

**Group Health Claims-Paid**

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentages</u>
1 - 45	100	100%
46 - 120	0	0%
121 - and over	<u>0</u>	<u>0%</u>
Total	100	100%

The average time required to process a claim was seven (7) days.

**Group Health Claims-Denied**

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentages</u>
1 - 45	50	100%
46 - 120	0	0%
121 - and over	<u>0</u>	<u>0%</u>
Total	50	100%

The average time required to process a denied claim was thirteen (13) days.

An analysis of the claim study revealed the following:

1. A random sample of 200 paid claim files from a total population of 200,786 was reviewed to determine if benefits were being allowed according to the policy contract as required by Section 626.877, Florida Statutes. No discrepancies were noted.
2. A random sample of 250 claim files from a total population of 204,847 was reviewed to determine if they had been processed in a timely manner as required by Sections 627.613 and 627.657(2), Florida Statutes. No discrepancies were noted.
3. A random sample of 250 claim files from a total population of 204,847 was reviewed to determine if a Fraud Statement was included on the claim forms and if so, that it was in compliance as required by Section 817.234 (1)(b), Florida Statutes. From the 250 claim files reviewed, it was determined that twenty-one (21) claim forms were used. Twenty-one (21) out of twenty-one (21) forms failed to

include the "Third Degree Felony" verbiage in the statement.

#### CLAIMS LITIGATION

During the period under examination, the Company had no litigated claims.

#### COMPLAINTS

The Company maintains complaint-handling procedures as required by Section 626.9541(1) (j), Florida Statutes.

The Company maintains a complete record of all complaints received during the period under review as required by Section 626.9541(1) (j), Florida Statutes.

Twenty five (25) complaints (43%), from a total population of fifty eight (58), for 1994, 1995, and 1996 were reviewed to determine the number of calendar days taken to resolve a complaint from the time of receipt to the final disposition. Calendar days included workdays, weekends and holidays.

The results of the review are as follows:

<u>Calendar Days</u>	<u>Number of Complaints</u>	<u>Percentage</u>
1-15	18	72%
16-30	5	20%
31 and over	<u>2</u>	<u>8%</u>
Total	25	100%

The average number of days to handle a complaint for the entire review period was fifteen (15).

CONCLUSION

The customary practices and procedures promulgated by the National Association of Insurance Commissioners have been followed in performing the Market Conduct Examination of Life Insurance Company of North America as of December 31, 1996, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

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Jorge Rodriguez  
Insurance Analyst II  
Florida Insurance Department

FINDINGS AND RECOMMENDATION

The following comments and recommendations were made in the preceding pages of this report. The Company is directed to:

- Page 10 Comply with Section 624.318(2), Florida Statutes, and maintain complete underwriting records.
- Page 10 Comply with Section 626.112, Florida Statutes, and appoint agents as required.
- Page 11 Comply with Section 624.112, Florida Statutes, and utilize only licensed agents.
- Page 11 Comply with Section 626.342, Florida Statutes, and furnish supplies only to licensed agents.
- Page 11 Comply with Section 626.341, Florida Statutes, and pay commissions only to licensed agents.
- Page 11 Comply with Section 627.410(1), Florida Statutes and have all application forms approved by the Department before use.
- Page 11 Comply with Section 627.410(3), Florida Statutes and use only approved forms.
- Page 11 Comply with Section 817.234(1)(b), Florida Statutes and include a reference to "third degree felony" in the Fraud Statement on all applications and claim forms.
- Page 11 Comply with Section 627.4085, Florida Statutes and require the agent's name appear on all applications.
- Page 11 Comply with Section 627.4085, Florida Statutes and require the agent's name to be legible on all applications.
- Page 11 Comply with Sections 627.4085, Florida Statutes and require agent's identification number on all applications.
- Page 11 Comply with Section 624.318(2), Florida Statutes and maintain copies of all applications.