



THE STATE OF FLORIDA

OFFICE OF INSURANCE REGULATION

MARKET INVESTIGATIONS

TARGET MARKET CONDUCT EXAMINATION FINAL REPORT

OF THE

PRINCIPAL NATIONAL LIFE INSURANCE COMPANY

Issued On

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EXECUTIVE SUMMARY

A target market conduct examination of the Principal National Insurance Company was performed to determine insurer compliance with Market Conduct Annual Statement (MCAS) reporting of the company's transactions and affairs. MCAS reporting provides participating MCAS states with a uniform method of collecting key data elements from insurers. MCAS data is provided and maintained under confidentiality agreements. The examination determined the Company made 9 report line errors in the filing of the 2011 MCAS Life Report and 6 report line errors in the filing of the 2012 MCAS Life Report. Errors found during the examination process are detailed within this report of examination.

PURPOSE AND SCOPE OF EXAMINATION

The Office of Insurance Regulation (Office), Market Investigations, conducted a target market conduct examination of the Principal National Life Insurance Company (herein after Principal National or the Company) pursuant to Section 624.3161, Florida Statutes. The examination was performed by Global Insurance Enterprises, Inc. The scope period of the examination was January 1, 2011 through December 31, 2012. The field examination began on June 3, 2014, and ended on June 6, 2014; off-site analysis continued through April 3, 2015.

Examination procedures included reconciling policy data to the 2011 and 2012 MCAS Life Reports, reviewing samples of contracts and claims file attributes, the insurer Anti-Fraud Plan and Special Investigations Unit (SIU) description filings and, consumer complaints.

This final report is based upon information obtained during the examination, research conducted by the Office, and additional information 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 (NAIC).

Company Background

Principal National Life Insurance Company is a foreign life and health insurer licensed in 49 U.S. States and in the District of Columbia. The Company is a wholly owned subsidiary of Principal Financial Services, Inc., and a member of the Principal Financial Group, Inc., insurance company holding system. The Company was granted a Certificate of Authority to transact life insurance business in the State of Florida on August 28, 2009. Life premiums in Florida account for 7.6%, 7.5%, 8.6%, and 8.7% of the Company total direct written premiums produced in years 2014 through 2011, respectively. The Company markets Universal Life products through a network of independent agents, brokers, and registered representatives.

Total 2011 through 2014 Florida Written Life Insurance Premiums

Direct Written Premiums (Per Annual Statement Schedule T)			
Year	Florida Direct Written Premiums	Total Direct Written Premiums	Florida Percentage of Total
2014	\$ 35,411,196	\$ 460,105,322	7.6%
2013	\$ 36,212,400	\$ 479,458,252	7.5%
2012	\$ 48,736,466	\$ 562,806,865	8.6%
2011	\$ 40,461,809	\$ 460,478,833	8.7%

File Review

File reviews consisted of sample testing of select reporting lines and the reconciliation of the company data sets to filed MCAS reports. The examiners reviewed information contained in the policy and claims administration system and complaint logs. The company confirmed all life insurance products are maintained in a single policy administration system.

MCAS Reporting

This examination reviewed the insurer's MCAS processes and procedures for collecting, aggregating, and extracting data used in the filing of the 2011 and 2012 MCAS Life Reports. Each MCAS contains interrogatories, and those interrogatories for 2011 and 2012 are provided in the appendices of this report of examination. Instructions for completing reports are made available to insurers each year through the National Association of Insurance Commissioners (NAIC). All reports are attested to the completeness and accuracy of the submission. Such reports are filed in accordance with the requirements of Section 626.424, Florida Statutes.

Exam Procedures

The Company was asked to provide complete data sets utilized in the 2011 and 2012 MCAS Life Reports and for samples of selected reporting lines. Procedures for evaluating each report and line examined included the reconciliation of information filed against the universe of files provided, analysis to determine accuracy of information reported and of the applicable contracts, and verification that data and files are maintained and reported in accordance with the Florida Insurance Code.

2011 MCAS LIFE REPORT

MCAS Life Reporting for calendar year 2011 consisted of the responses to 29 interrogatories. The examiners selected 14 responses for sampling review and 20 responses for reconciliation review to the Company data sets. The examination identified 9 reporting line errors were made in the filing of the 2011 MCAS Life Report. The Company agrees with the findings except where noted. Findings are reported on exception basis.

Number of Replacement Policies Issued during the Period

The examiners selected for testing a sample of 20 Life with Cash Value [LCV] policies and 20 Life without Cash Value [LWOCV] policies from Line 9- the Number of Replacement Policies Issued during the Period; Line 10- the Number of Internal Replacement Policies Issued during the Period; Line 11- the Number of External Replacements Issued during the Period; Line 12- the Number of Policies Replaced Where Age of Insured at Replacement was Under Age 65; and, Line 13- the Number of Policies Replaced Where Age of Insured at Replacement was Age 65 and Over.

The examiner's analysis of the LCV Report identified an error on Line 9 reporting the Number of Replacement Policies Issued during the Period, an error on Line 11 reporting the Number of External Replacements Issued during the Period and, an error on Line 13 reporting the Number of Policies Replaced Where the Age of the Insured at Replacement was Age 65 and Over.

Company Response

The Company disagrees with the finding responding: "The policy was issued in 2011 and back-dated to 2010 and is properly accounted for."

The examination acknowledges and agrees with the Company processes. Analysis of the data sets provided by the Company however, identifies the policy was reported in 2011 rather than 2010.

Policies In-Force, Amount of Insurance Issued, and Face Amount of Insurance

The examination reviewed the Line 21- the Number of Policies In-Force at the End of the Period; Line 23- the Amount of Insurance Issued during the Period; and, Line 24- the Face Amount of Insurance In-Force at the End of the Period.

The examiner's review identified an error on Line 21 reporting the Number of Policies In-Force at the End of the Period, an error on Line 23 reporting the Amount of Insurance Issued during the Period and, an error on Line 24 reporting the Face Amount of Insurance In-Force at the End of the Period.

Company Response

The Company disagrees with the findings responding: "The totals for the above lines were re-created at contract level detail by using an administrative system that identifies the primary owner. Because of [our] purge process, as of April 2014, the client data only goes back to March 31, 2012. Using March 31, 2012 as our ending date to create contact level detail means that if a client moved into or out of Florida between January and March 2012, the data will not be correct. However, totals based on the March 31, 2012 date appear to be within 1% of the production data. The original reported Cash Value (+) Non-Cash Value amounts are correct and will match production sources."

The Company's records do not provide all the data utilized in the filed report. The information provided does not reconcile to amounts reported.

Recommendation

It is recommended the Company adopt policies and procedures to improve reporting accuracy and retention of records throughout periods subject to review.

2012 MCAS LIFE REPORT

MCAS Life Reporting for calendar year 2012 consisted of the responses to 31 interrogatories. The examiners selected 10 responses for sampling review and 23 responses for reconciliation review to the Company data sets. The examination identified 6 errors were made in the filing of the 2012 MCAS Life Report. Findings are reported on exception basis.

Face Amount of Insurance In-Force, Number of Death Claims Closed, and Number of Death Claims Received

The examination reviewed Line 26- the Face Amount of Insurance In-Force at the End of the Period; Line 28- the Number of Death Claims Closed with Payment, during the Period, Within 60 Days from the date of Due Proof of Loss (include only claims where the final decision was payment in full); and, Line 31- the Number of Death Claims Received during the Period.

The examiners identified an error on the LCV Report, Line 26 reporting the Face Amount of Insurance In-Force at the End of the Period; an error on the LCV and LWOCV reports, Line 28 reporting the Number of Death Claims Closed with Payment during the Period, within 60 Days from the Date of Due Proof of Loss and an error on Line 31 reporting the Number of Death Claims Received during the Period.

Company Response

The Company agrees with the findings responding, in part: “The reported 2012 in-force total amounts balance to the State Business page, but cash value and non-cash value amounts were reported incorrectly in MCAS.”

Recommendation

It is recommended the Company adopt policies and procedures to improve reporting accuracy.

COMPLAINT REGISTERS

The examiners reconciled the 2011 through 2012 Florida Department of Financial Services, Division of Consumer Services (FLDFS) complaint logs to the Company register of complaints received directly from consumers. The examiners determined the Company register of complaints agrees with the FLDFS complaint logs.

ANTI-FRAUD PLAN

The Company files an Anti-Fraud Plan with the Florida Department of Financial Services, Division of Insurance Fraud (Division). Special Investigation Unit (SIU) description filings are made to the Division electronically. The Company Anti-Fraud Plan and SIU description filings for the examination period through the current date were reviewed. The examiners determined the Company records appear to comply with Section 626.9891(3), Florida Statutes and Rule 69D-2, Florida Administrative Code.

EXAMINATION FINAL REPORT SUBMISSION

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

FORM 118

FINANCIAL SERVICES COMMISSION OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS

I hereby certify that I am the officer in charge of the Florida business of:

Principal National Life Insurance Company, Inc.

I have read the report of the Market Conduct examination as of

February 26, 2016

filed with the Office of Insurance Regulation. Any recommendations contained in the report will be considered within a reasonable time.

This form is hereby executed in compliance with Section 624.319(5), Florida Statutes.

Deanna D. Strable-Saethout
Name

President
Title

Deanna D Strable-Saethout
Signature

2/29/16
Date

Sworn to and subscribed before me this 29th

day of February, 2016



NOTARY PUBLIC

Tori Lynn Rohde
Signature

My commission expires 9/5/18

This form is to be completed, notarized and returned to: Keith Nault, Market Investigations, 200 East Gaines St., Larson Building, Tallahassee, Florida 32399-4210, within 30 days from receipt. If Form 118 is not returned to the Office within 30 days of the date of signature on the return receipt card, this matter will be forwarded to our Legal Division for appropriate legal action.

Appendix A

Line	2011 Interrogatories MCAS Life Report
01	Life Cash Value - Does the company have data to report for this product type?
02	Individual Life Non-Cash Value - Does the company have data to report for this product type?
03/04	Is there a reason that the reported Individual Life Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc)?
05/06	Is there a reason that the reported Individual Life Non-Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc)?
07	Additional state specific Individual Life Cash Value comments (optional):
08	Additional state specific Individual Life Non-Cash Value comments (optional):
09	Number of replacement policies issued during the period.
10	Number of internal replacements issued during the period.
11	Number of external replacements issued during the period.
12	Number of policies replaced where age of insured at replacement was Under Age 65.
13	Number of policies replaced where age of insured at replacement was age 65 and over.
14	Number of policies surrendered under 2 years from policy issue.
15	Number of policies surrendered between 2 years and 5 years from policy issue.
16	Number of policies surrendered between 6 years and 10 years from policy issue.
17	Number of policies surrendered during the period.
18	Number of new policies issued during the period where age of insured at issue was Under Age 65.
19	Number of new policies issued during the period where age of insured at issue was age 65 and over.
20	Number of new policies issued during the period.
21	Number of policies in force at the end of the period.
22	Dollar amount of direct written premium during the period.
23	Face amount of insurance issued during the period.
24	Face amount of insurance in force at the end of the period.
25	Number of complaints received directly from consumers.
26	Number of death claims closed with payment, during the period, within 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
27	Number of death claims closed with payment, during the period, beyond 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
28	Number of death claims denied, resisted or compromised during the period.
29	Number of death claims received during the period.

Appendix B

Line	2012 Interrogatories MCAS Life Report
1	Individual Life Cash Value - Does the company have data to report for this product type?
2	Individual Life Non-Cash Value – Does the company have data to report for this product type?
03/04	Is there a reason that the reported Individual Life Cash Value information may identify the Company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)? If yes, explain:
05/06	Is there a reason that the reported Individual Life Non-Cash Value information may identify the company as an outlier or be substantially different from previously reported data (such as assuming blocks of business; shifting market strategies; underwriting changes, etc.)? If yes, explain:
7	Additional state specific Individual Life Cash Value comments (optional):
8	Additional state specific Individual Life Non-Cash Value comments (optional):
9	Number of replacement policies issued during the period.
10	Number of internal replacements issued during the period.
11	Number of external replacements issued during the period.
12	Number of policies replaced where age of insured at replacement was Under Age 65.
13	Number of policies replaced where age of insured at replacement was age 65 and over.
14	Number of policies surrendered under 2 years from policy issue.
15	Number of policies surrendered between 2 years and 5 years from policy issue.
16	Number of policies surrendered between 6 years and 10 years from policy issue.
17	Number of policies surrendered during the period.
18	Number of new policies issued during the period where age of insured at issue was Under Age 65.
19	Number of new policies issued during the period where age of insured at issue was age 65 and over.
20	Number of new policies issued during the period.
21	Number of policies applied for during the period.
22	Number of free looks during the period.
23	Number of policies in force at the end of the period.
24	Dollar amount of direct written premium during the period.
25	Face amount of insurance issued during the period.
26	Face amount of insurance in force at the end of the period.
27	Number of complaints received directly from consumers.
28	Number of death claims closed with payment, during the period, within 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
29	Number of death claims closed with payment, during the period, beyond 60 days from the date of due proof of loss (include only claims where the final decision was payment in full.)
30	Number of death claims denied, resisted or compromised during the period.
31	Number of death claims received during the period.