



# **THE STATE OF FLORIDA**

## **OFFICE OF INSURANCE REGULATION MARKET INVESTIGATIONS**

### **TARGET MARKET CONDUCT FINAL EXAMINATION REPORT OF THE SECURITY BENEFIT LIFE INSURANCE COMPANY**

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## **EXECUTIVE SUMMARY**

A target market conduct examination of the Security Benefit Life 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 12 report line errors in the filing of the 2011 MCAS Annuities Report and 11 report line errors in the filing of the 2012 MCAS Annuities 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 Security Benefit Life Insurance Company (herein after SBLIC 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 April 14, 2014, and ended on April 18, 2014; off-site analysis continued through April 3, 2015.

Examination procedures included reconciling policy data to the 2011 and 2012 MCAS Annuities 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 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**

Security Benefit Life Insurance Company is a foreign life and health insurer licensed in 49 U.S. States, the District of Columbia, and Guam and as an authorized reinsurer in the state of New York. SBLIC is a subsidiary of Guggenheim SBC Holdings, LLC. The Company was granted a Certificate of authority to transact life insurance business in the State of Florida on July 19, 1956. Life premiums in Florida accounted for 3.0% of the Company total business written in Florida in 2013 and 2014, and 4.1%, and 1.0% in 2012 and 2011, respectively.

## Florida Written Life Insurance Premiums and Annuities Years 2011 through 2014

| Direct Written Premiums<br>(Per Annual Statement Schedule T) |               |                        |  |
|--|---------------|------------------------|--|
| Year   | Life Premiums | Annuity Considerations | Florida Percentage<br>of Company Total |
| 2014   | \$ 1,946,905  | \$ 629,459,902         | 3.0%                                   |
| 2013   | \$ 1,971,830  | \$ 654,704,235         | 3.0%                                   |
| 2012   | \$ 2,073,389  | \$ 49,087,269          | 4.1%                                   |
| 2011   | \$ 2,196,185  | \$ 219,362,309         | 1.0%                                   |

### **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.

### **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 Annuities 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 requested to provide complete data sets for 2011 and 2012 MCAS reports and for samples from selected reporting lines. Procedures for evaluating each MCAS report and the 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. Findings are reported on exception basis.

## **2011 MCAS ANNUITY REPORT**

MCAS Annuity Reporting for calendar year 2011 consisted of responses to 26 interrogatories. The examiners selected 15 responses for sampling review and 20 responses for reconciliation review to the Company data sets. The examination identified 12 reporting line errors were made in the filing of the 2011 MCAS Annuity Report. The Company agrees with the findings except where noted.

### **REPLACEMENT CONTRACTS**

The examiners selected for testing a sample of 20 Fixed Annuity Contracts and 16 Variable Annuity Replacement Contracts from Line 9- the Number of Replacement Contracts Issued during the Period. The examination reviewed Line 10- the Number of Internal Replacement Contracts Issued during the Period, Line 11- the Number of External Replacement Contracts Issued during the Period, Line 12- the Number of Contracts Replaced Where Age of Annuitant at Replacement is Under 65,

Line 13- the Number of Contracts Replaced Where Age of Annuitant at Replacement is 65 to 80 and, Line 14- the Number of Contracts Replaced Where Age of Annuitant at Replacement is Over 80.

The examiner's analysis of the fixed annuities contracts identified an error on Line 9 reporting the Number of Replacement Contracts Issued during the Period. The examination identified an error on Line 11 reporting the Number of External Replacement Contracts Issued during the Period and an error on Line 13 reporting the Number of Contracts Replaced Where Age of Annuitant at Replacement is 65 to 80. The review of the variable annuity contracts identified an error on Line 10 reporting the Number of Internal Replacement Contracts Issued during the Period and an error on Line 11 reporting the Number of External Replacement Contracts Issued during the Period.

The Company disagrees with the findings, responding: "Certain inaccuracies should not be counted as errors on more than one line. If an item is incorrect on one line it stands to reason that the corresponding total line would also be affected by this same error."

The examination reports errors discovered during the review of the data and information provided by the Company. Accordingly, corresponding total lines will also be affected and are reported here.

### **DEFERRED ANNUITIES**

The examiners selected for testing a sample of 20 Fixed New Deferred Annuity Contracts and 10 Variable New Deferred Annuity Contracts from Line 19- the Number of New Deferred Contracts Issued during the Period. The examination reviewed Line 16- the Number of New Deferred Contracts Issued during the Period Where Age of Annuitant is Under 65, Line 17- the Number of New Deferred Contracts Issued during the Period Where Age of Annuitant is 65 to 80, Line 18- the Number of New Deferred Contracts Issued during the Period Where Age of Annuitant is Over 80 and, Line 19.

The examiner's review of the variable annuities contracts identified an error on Line 16 reporting the Number Of New Deferred Contracts Issued during the Period Where the Age of the Annuitant is Under 65, an error on Line 17 reporting the Number of New Deferred Contracts Issued during the Period Where Age of the Annuitant is 65 to 80 and, an error on Line 18 reporting the Number of New Deferred Contracts Issued during the Period Where the Age of Annuitant is Over 80. The examiner's analysis identified an error on Line 19 reporting the Number of New Deferred Contracts Issued during the Period.

The Company disagrees with the findings responding: "...the error is a rounding issue. The system pulling the data is rounding up to account for all portions of a year; therefore, 5.3 became 6. We are unaware of any clear direction in the MCAS instructions with regard to accounting for a portion of a contract year. Further, the methodology to round up is consistently applied in all counts and would appear to be immaterial to the overall reporting of the data. We respectfully request that this item be removed from the findings...[the error] when brought to the company's attention during the examiner's onsite visit immediately took steps to account for these rounding variances...."

The examiners considered the Company's policies and procedures as to rounding. The errors identified do not align with MCAS instructions. The Company reports it has amended its systems to accurately report these contracts in the future.

### **SURRENDERED CONTRACTS**

The examiners selected for testing a sample of 10 Fixed Annuity and 20 Variable Annuity Contracts from Line 23- the Number of Contracts Surrendered during the Period. The examination reviewed Line 20- the Number of Contracts Surrendered Less Than 2 Years from Policy Issue, Line 21- the Number of Contracts Surrendered between 2 Years and 5 Years from Policy Issue, Line 22- the Number of Contracts Surrendered between 6 Years and 10 Years from Policy Issue and, Line 23.

The examination identified an error on Line 22 reporting the Number of Contracts Surrendered between 6 Years and 10 Years from Policy Issue. The examiner's analysis identified an error on Line 23 reporting the Number of Contracts Surrendered during the Period.

The Company disagrees with the findings, responding: "...[the] contract was not surrendered by the customer...the account value dropped...and closed after assessment of contract anniversary fees."

Treatment of surrendered policies and contracts are addressed in MCAS instructions and specify "systematic withdrawals (the withdrawal of a certain amount on a predetermined periodic basis for deferred annuities) and partial withdrawals should not be reported as 'surrenders.'"

### **COMPLAINTS**

The examiners selected a sample of 4 Variable Annuity Contract Complaints from Line 26- the Number of Complaints Received Directly from Consumers. The examiners analysis identified an error on Line 26 reporting the Number of Complaints Received Directly from Consumers.

### **RECOMMENDATION**

The Office recommends the Company adopt policies and procedures to improve reporting accuracy.

## **2012 MCAS ANNUITY REPORT**

MCAS Annuity Reporting for calendar year 2012 consisted of responses to 28 interrogatories. The examiners selected 16 responses for sampling review and 20 responses for reconciliation review. The examination identified 11 errors were made in the filing of the 2012 MCAS Annuity Report. The Company agrees with the findings except where noted.

### **REPLACEMENT CONTRACTS**

The examiners selected for testing a sample of 20 Fixed Annuity and 24 Variable Annuity Replacement Contracts from Line 9- the Number of Replacement Contracts Issued during the Period. The examination reviewed Line 10- the Number of Internal Replacement Contracts Issued during the Period, Line 11- the Number of External Replacement Contracts Issued during the Period, Line 12- the Number of Contracts Replaced Where Age of Annuitant at Replacement is Under 65, Line 13- the Number of Contracts Replaced Where Age of Annuitant at Replacement is 65 to 80, Line 14- the Number of contracts replaced where age of annuitant at replacement is 65 to 80.

The examiner's review of the fixed annuities contracts identified an error on Line 9 reporting the Number of Replacement Contracts Issued during the Period, an error on Line 11 reporting the Number of External Replacement Contracts Issued during the Period, an error on Line 12 reporting the Number of Contracts Replaced Where the Age of Annuitant at Replacement is under 65, an error on Line 13 reporting the Number of Contracts Replaced Where the Age of the Annuitant at

Replacement is 65 to 80 and, an error on Line 14 reporting the Number of Contracts Replaced Where the Age of the Annuitant at Replacement is Over 80.

The Company disagrees with the findings, responding: “It appears that these items are attributable to rounding issues as previously discussed. We are unaware of any clear direction in the MCAS instructions with regard to account for a portion of a contract year.”

The examiners considered the Company’s policies and procedures as to rounding. The errors identified do not align with MCAS instructions. The Company reports it has amended its systems to accurately report these contracts in the future.

### **DEFERRED CONTRACTS**

The examiners selected for testing a sample of 20 Fixed New Annuity and 20 Variable New Deferred Annuity Contracts from Line 17- the Number of New Deferred Contracts Issued during the Period. The examination reviewed Line 16- the Number of New Deferred Contracts Issued during the Period Where the Age of Annuitant is Under 65, Line 17- the Number of New Deferred Contracts Issued during the Period Where Age of Annuitant is 65 to 80, Line 18- the Number of New Deferred Contracts Issued during the Period Where Age of Annuitant is Over 80 and, Line 19- the Number of New Deferred Contracts Issued during the Period.

The examiner’s review of the variable annuities contracts identified an error on Line 17 reporting the Number of New Deferred Contracts Issued during the Period Where the Age of Annuitant Is 65 to 80.

### **SURRENDERED CONTRACTS**

The examiners selected for testing a sample of 10 Fixed Annuity and 20 Variable Annuity Contracts from Line 23- the Number of Contracts Surrendered during the Period. The examination reviewed Line 20- the Number of Contracts Surrendered Under 2 Years from Policy Issue, Line 21- the Number of Contracts Surrendered between 2 Years and 5 Years from Policy Issue, Line 22- the Number of Contracts Surrendered between 6 Years and 10 Years from Policy Issue and, Line 23. The examiners fixed annuities and variable annuities contracts review identified an error on Line 22 reporting the Number of Contracts Surrendered between 6 Years and 10 Years from Policy Issue. The examiner’s variable annuities contracts analysis identified an error on Line 23 reporting the Number of Contracts Surrendered during the Period.

The Company disagrees with the findings identified on Line 22 reporting the Number of Contracts Surrendered between 6 Years and 10 Years from Policy Issue, responding: “It appears that these items are attributable to rounding issues as previously discussed. We are unaware of any clear direction in the MCAS instructions with regard to account for a portion of a contract year.” With regards to Line 23 of the Variable Annuity Report, the Company disagrees with the finding, responding: “this contract [was] making systematic withdrawals until it [was] completely surrendered. It is not annuitized.”

The examiners considered the Company’s policies and procedures as to rounding. The errors identified do not align with MCAS instructions. Treatment of surrendered policies and contracts are addressed in MCAS instructions and specify, “Systematic withdrawals (the withdrawal of a certain amount on a predetermined periodic basis for deferred annuities) and partial withdrawals should not be reported as ‘surrenders.’”

The Company reports it has amended its systems to accurately report these contracts in the future.

### **CONTRACTS IN-FORCE**

The examiners selected for review Line 26- the Number of Contracts In-Force at the End of the Period. The examiners identified an error on Line 26 reporting the Number of Contracts In-Force at the End of the Period.

The Company disagrees with the findings, responding: “The 2012 MCAS number reported matched the Florida Annual Statement reporting...prior and current year data submitted matches supporting backup data. We will review the data extract procedures to determine what additional reconciliation measures can be incorporated to mitigate these non-routine variances.”

### **RECOMMENDATION**

The Office recommends the Company adopt policies and procedures to improve reporting accuracy.

## **COMPLAINT REGISTERS**

The examiners reconciled the 2010 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 did not agree with the FLDFS logs of complaints.

The Company disagrees with the finding, responding: “We believe this is a complaint/inquiry on business that is ceded [to another insurer] and we do not have a record of the complaint.”

### **RECOMMENDATION**

The Office recommends that all complaints received from the FLDFS be recorded and uniformly maintained according to complaint handling procedures.

## **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:

**Security Benefit Life Insurance Company, Inc.**

I have read the report of the **Target Market Conduct** examination issued on

**July 1, 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.

Douglas Wolff  
Name

President  
Title

[Signature]  
Signature

7/1/16  
Date

Sworn to and subscribed before me this 7<sup>th</sup>

 **SHELLEY R. GOWER**  
Notary Public  
State of Kansas  
My Appt. Expires 4-7-18

day of July, 2016

(SEAL)

NOTARY PUBLIC [Signature]  
Signature

My commission expires 4-7-18

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<br>MCAS Annuity Report  |
|-------|--|
| 01    | Individual Fixed Annuities- Does the company have data to report for this product type?  |
| 02    | Individual Variable Annuities- Does the Company have data to report for this product type?   |
| 03/04 | Is there a reason that the reported Individual Fixed Annuities 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 Variable Annuities 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: |
| 07    | Additional state specific Individual Fixed Annuities comments (optional):  |
| 08    | Additional state specific Individual Variable Annuities comments (optional):   |
| 09    | Number of replacement contracts issued during the period.  |
| 10    | Number of internal replacement contracts issued during the period.   |
| 11    | Number of external replacement contracts issued during the period.   |
| 12    | Number of contracts replaced where age of annuitant at replacement is under 65   |
| 13    | Number of contracts replaced where age of annuitant at replacement is 65 to 80.  |
| 14    | Number of contracts replaced where age of annuitant at replacement is over 80  |
| 15    | Number of new immediate contracts issued during the period.  |
| 16    | Number of new deferred contracts issued during the period where age of annuitant is under 65.  |
| 17    | Number of new deferred contracts issued during the period where age of annuitant is 65 to 80.  |
| 18    | Number of new deferred contracts issued during the period where age of annuitant is over 80.   |
| 19    | Number of new deferred contracts issued during the period.   |
| 20    | Number of contracts surrendered under 2 years from policy issue.   |
| 21    | Number of contracts surrendered between 2 years and 5 years from policy issue.   |
| 22    | Number of contracts surrendered between 6 years and 10 years from policy issue.  |
| 23    | Number of contracts surrendered during the period.   |
| 24    | Number of contracts in force at the end of the period.   |
| 25    | Dollar amount of annuity considerations during the period.   |
| 26    | Number of complaints received directly from consumers.   |

## Appendix B

| Line  | 2012 Interrogatories<br>MCAS Annuity Report  |
|-------|--|
| 01    | Individual Fixed Annuities- Does the Company have data to report for this product type?  |
| 02    | Individual Variable Annuities- Does the Company have data to report for this product type?   |
| 03/04 | Is there a reason that the reported Individual Fixed Annuities 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 Variable Annuities 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: |
| 07    | Additional state specific Individual Fixed Annuities comments (optional):  |
| 08    | Additional state specific Individual Variable Annuities comments (optional):   |
| 09    | Number of replacement contracts issued during the period.  |
| 10    | Number of internal replacement contracts issued during the period.   |
| 11    | Number of external replacement contracts issued during the period.   |
| 12    | Number of contracts replaced where age of annuitant at replacement is under 65.  |
| 13    | Number of contracts replaced where age of annuitant at replacement is 65 to 80.  |
| 14    | Number of contracts replaced where age of annuitant at replacement is over 80.   |
| 15    | Number of new immediate contracts issued during the period.  |
| 16    | Number of new deferred contracts issued during the period where age of annuitant is under 65.  |
| 17    | Number of new deferred contracts issued during the period where age of annuitant is 65 to 80.  |
| 18    | Number of new deferred contracts issued during the period where age of annuitant is over 80.   |
| 19    | Number of new deferred contracts issued during the period.   |
| 20    | Number of contracts surrendered under 2 years from policy issue.   |
| 21    | Number of contracts surrendered between 2 years and 5 years from policy issue.   |
| 22    | Number of contracts surrendered between 6 years and 10 years from policy issue.  |
| 23    | Number of contracts surrendered during the period.   |
| 24    | Number of contracts applied for during the period.   |
| 25    | Number of free looks during the period.  |
| 26    | Number of contracts in force at the end of the period.   |
| 27    | Dollar amount of annuity considerations during the period.   |
| 28    | Number of complaints received directly from consumers.   |