

**FLORIDA DEPARTMENT
OF
INSURANCE**

TARGET MARKET CONDUCT REPORT

OF

UNITED TEACHER ASSOCIATES INSURANCE
COMPANY

AS OF

December 31st, 1999

**DIVISION OF INSURER SERVICES
BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY & MARKET CONDUCT
MARKET CONDUCT SECTION**

Robert D. Flege, CIE, CFE, FLMI, ALHC, ASF
Independent Contract Analyst
6888 Glen Arbor Drive
Florence, Ky., 41042

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
Salutation	
Introduction_____	1
Scope of Examination_____	1
Description of Company_____	2
Certificate of Authority_____	4
Policy Form and Rate Filings_____	5
Disability Income Pending or Denied Claims_____	6
Disability Income Paid Claims_____	8
Disability Income Policies in force_____	9
Waiver of Disability Income Premiums_____	10
Disability Income policies cancelled_____	12
Claim Procedures_____	14
Complaint Procedures_____	14
Billing Procedures_____	16
Specific Claim Reviews_____	17
Consumer Recovery_____	20
Conclusion_____	21
Findings and Recommendations_____	22

ROBERT D. FLEGE
CIE, CFE, FLMI, ALHC, ASF*
IMSA Certified Independent Assessor (98-00)
6888 Glen Arbor Drive
Florence, Ky., 41042

Phone No. (606) 283-5366
Fax No. (606) 283-0696

E-Mail: rflege@aol.com

May 10, 2000

Honorable Bill Nelson
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, Florida 32390-0300

Dear Commissioner Nelson:

Pursuant to the provisions of Section 624.3161, Florida Statutes, and in accordance with the Agreement for Market Conduct Services dated February 25th, 2000 a Target Market Conduct Examination has been performed on:

United Teacher Associates Insurance Company
5508 Parkcrest Drive
Austin, Texas 78755-0580

this being the Home Office in Austin, Texas. The report of such examination is herein respectfully submitted.

Sincerely,

Robert D. Flege
CIE, CFE, FLMI, ALHC, ASF
Independent Contract Analyst

***Certified Insurance Examiner (CIE) Certified Fraud Examiner (CFE)**
Fellow Life Management Institute (FLMI) Associate Life & Health Claims (ALHC)
Associate in State Filings (ASF)
Past President – Insurance Regulatory Examiners Society (IRES)

INTRODUCTION

United Teacher Associates Insurance Company, hereinafter is generally referred to as “the Company” when not otherwise qualified.

This Target Market Conduct Examination was conducted by Robert D. Flege, CIE, CFE, FLMI, ALHC, ASF, pursuant to Section 624.3161, Florida Statutes.

This Target Market Conduct Examination commenced on March 6th, 2000, and concluded on May 10th, 2000.

SCOPE OF EXAMINATION

This examination covers various phases of the Company’s operations in the State of Florida from January 1st, 1997 through December 31st, 1999, and subsequent information when required.

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

Procedures and conduct of the examination were in accordance with the Department’s Field Examination Guidelines and the Market Conduct Examiner’s Handbook produced by the National Association of Insurance

Commissioners (NAIC). The handbook standards of a seven percent (7%) error factor for claim resolution procedures and a ten percent (10%) error factor for other procedures were given consideration and applied where applicable.

The examination included, but was not limited to, the following areas of the Company's operation involving Disability Income policies assumed and reinsured under Assumption Reinsurance Agreements with some twenty-nine (29) insurers in the State of Florida:

1. Billing and Waiver of Premiums
2. Notices of Cancellation
3. Claims Handling
4. Complaint Handling
5. Form Filings

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 and improvement.

DESCRIPTION OF COMPANY

History

United Teacher Associates Insurance Company is a Texas corporation chartered to operate as a life, accident, sickness and hospitalization insurer. The original charter was granted on December 15, 1958 to “First of Georgia Credit Life Company” with a principal place of business in Augusta, Georgia. The Charter was subsequently amended, on three occasions, to change the name of the company. The first change was to “First of Georgia Insurance Company”, the second change was to “American Consumers Life Insurance Company”; the final name change was adopted on January 18, 1986.

United Teacher Associates, Inc. is a Texas corporation chartered to operate as a general-purpose corporation. This company is licensed to act as an agent for the insurance company and is responsible for virtually all of the direct marketing of the organization. This company was originally founded in 1981.

Both of these companies are referred to collectively as “United Teacher”. United Teacher is best characterized as a “threshold” company - a company with sales (premium income) in the eighty-five million-dollar range with access to rapid growth through acquisitions and direct market penetration.

The marketing of the company is conducted through direct marketing and by a sales organization that sells only for United Teacher; the product orientation is individual health and is almost exclusively for the senior market. Market penetration relies heavily on the endorsements that the company has received from teacher organizations.

Acquisitions of blocks of policies from other insurance companies are conducted on a national basis. The product orientation of these acquired blocks is individual health with no particular concentration within a certain type of coverage.

Using a combination of direct marketing and acquisitions, the company has grown from an asset base of less than two million dollars to over two hundred million dollars in less than ten years. On October 19, 1999, the Company was acquired by American Annuity Group, Inc. (NYSE: AAG.)

CERTIFICATE OF AUTHORITY

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

Life
Group Life and Annuities
Credit Life/Health
Credit Disability

Accident and Health

Initial certificate No. 91-58-0869673 was issued December 27th, 1965.

POLICY FORM AND RATE FILINGS

A request was forwarded to the Company for a complete copy of its policy form and rate filings bearing the approval stamp of the Department. The Company advised that the form and rate filings bearing the stamp relative to policies issued prior to their administration or assumption of policies written by the other insurers, in some instances, were not transferred to them at the time the business was assumed and therefore are not available.

The Company has assumed policies from fifty-one (51) insurers writing disability income policies, twenty-nine (29) of which had policies providing disability income insurance in force in the State of Florida. The Company was unable to produce the rate and form filings of twenty-one (21) of these companies.

During the time frame of the examination the Company had policies in existence that were originally issued by these twenty-one (21) companies. Failure to retain and have copies of policy forms and note findings bearing the approval stamp of the Department on file for the purpose of examination constitutes a violation of Section 624.318(2), Florida Statutes.

The Company produced the Annual Rate Certification Filings required by Section 627.410(7), Florida Statutes, for the years; 1995, 1996, 1997, 1998 and 1999.

DISABILITY INCOME PENDING OR DENIED CLAIMS

The Company identified a total of twenty-seven (27) claims which were either pending on December 31st, 1999 or had been denied between January 1st, 1997 through December 31st, 1999.

All of these claim files were reviewed and two (2) files were found to have been pending as of December 31st, 1999 for less than thirty (30) days and both were awaiting complete Proof of Loss.

The following data was developed relative to the Disability Income Claims which had been denied.

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 – 30	20	80%
30 – 60	3	12%
Over 60	2	8%
TOTALS	25	100%

The following reasons for denial were noted which were within the policy provisions and in compliance with the Florida Statutes;

Partial Disability – Total Disability Required

Non-Occupational Injury – Policy carried Non-Occ. Rider.

Insured Returned to Work Terminating Benefits

Medical Information not Sufficient to Confirm Disability

Policy Lapsed for NonPayment of Premium

Insured Died Prior to End of Elimination Period

Claim not Reported within Period Specified in Policy

Maximum Benefits Paid for Disability Resulting from Injury

Only one (1) file was found to be in error. The Company failed to acknowledge and act promptly upon communications as required by Section 626.9541(1)(i)(3)(c), Florida Statutes.

The percentage of error did not exceed the standards set forth by the National Association of Insurance Commissioners (NAIC) and handling was found to be acceptable.

DISABILITY INCOME PAID CLAIMS

A random sample of fifty (50) paid Disability Income claims files, from a population of one hundred and twenty-five (125) were reviewed. In the review of these files a total of four hundred and four (404) checks were issued in the payment of monthly Disability Income claims.

The following data was developed relative to the Disability Income Claims paid from January 1st, 1997 through December 31st, 1999. The following data represents the number of days between the date that complete Proof of Loss was received and the first Disability Income payment was made.

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 – 30	47	94%
20 – 60	3	6%
TOTALS	50	100%

In the review of these fifty (50) files and the four hundred and four (404) checks, ten (10) checks were found in six (6) files which were issued late and the Company had failed to include interest in accordance with Section, 627.613, Florida Statutes.

In each instance the Company was instructed to forward a check to the insured in payment of the required interest. These checks totaled two hundred thirty-three dollars and sixty-eight cents (\$233.68).

The unacceptable files, six (6), of fifty (50) reviewed indicate an error ratio of twelve percent (12%) which exceeds the standards set forth by the National Association of Insurance Commissioners (NAIC).

In order to determine if claim checks were promptly issued and delivered to insureds a random selection of fifty (50) cancelled checks was reviewed from the four hundred four (404) checks issued in the paid claim files. The following time study indicates the time between the date on which the check was issued and the date that it was processed in the banking system.

<u>Calendar Days</u>	<u>Number of Checks</u>	<u>Percentage</u>
0 – 30	46	92%
30 – 45	2	4%
Over 45	2	4%
Totals	50	100%

There was no documentation or any trend that would indicate that the checks were not issued promptly and immediately forwarded to the insured.

DISABILITY INCOME POLICIES IN FORCE

During the time frame of the examination the Company had nine thousand nine hundred seventy-four (9,974) policies in force affording Disability Income protection. These policies had been originally written by twenty-nine (29) different companies insuring individuals in the State of Florida.

The Company does not have any group disability income policies in force in Florida.

Six hundred forty-three (643) agents were involved at the time of issuance and were appointed by the individual companies who ceded the business to the Company. The agents who are presently being paid commissions are not presently appointed by the Company and commissions are paid in accordance with the provisions of the Assumption Reinsurance Agreements, as well as the provisions of various agency contracts that were in existence at the time the policies were issued. These agents do not presently solicit new business, accept applications or execute any contracts on behalf of the Company.

A random selection of fifty (50) files was made from the total in force during the time frame of the examination. No discrepancies were noted in the amount of the premium being billed or in the billing procedures.

The Company failed to produce complete files in four (4) instances which constitutes violations of Section 624.318(2), Florida Statutes. The error ratio of eight percent (8%) is acceptable and in accordance with guidelines set forth by the National Association of Insurance Commissioners (NAIC).

WAIVER OF DISABILITY INCOME PREMIUMS

During the course of the examination a total of two hundred fifty-two (252) underwriting and claim files were reviewed. Underwriting and claim files indicated that the appropriate waiver of premium provisions were applied where applicable and premium refunds promptly remitted to the insureds.

There were no instances noted which would indicate that a policy was cancelled for nonpayment of premium during the period when the waiver of premium provisions were applicable.

DISABILITY INCOME POLICIES CANCELLED

During the time frame of the examination, January 1st, 1997 through December 31st, 1999, there were one thousand four hundred and twelve (1,412) policies that were terminated for the following reasons;

- a) Lapsed – Premium was not paid when due or paid during the grace period which extends thirty-one (31) days following the due date.
- b) Terminated – At the request of the Insured.
- c) Expired – Insured reached sixty-five (65) years of age or another age specified in the contract at which time the policy would expire.
- d) Insured Died.

A random selection of fifty (50) files was selected for review with the following errors noted:

1. Violation of Section 627.6043(1), Florida Statutes, inasmuch as the Company failed to provide required notice relative to cancellation for nonpayment of premium. The statute requires, “However, if cancellation is for nonpayment of premium, at least 10 days written notice accompanied by the reason therefore shall be given.” Neither the premium due notice or the past due notice provides sufficient language to indicate compliance with these requirements.

None of the thirty-two (32) files that were cancelled due to nonpayment of premium provided the required notice giving the reason. The Company's failure to provide the required notice of cancellation, including the reason, constitutes a violation of Section 627.6043(1), Florida Statutes.

2. Six (6) of the fifty (50) files were not produced as requested or the Company was unable to produce the complete file.

Failure to produce the six (6) complete files indicates an error rate of twelve percent (12%) relative to production of records for the purpose of the examination which constitute a violation of Section 624.318(2), Florida Statutes. This is in excess of the acceptable error ratio as set forth by the National Association of Insurance Commissioners (NAIC).

CLAIM PROCEDURES

The Company was requested to provide for review their Claims Manual and/or copies of any and all standards adopted and implemented to indicate compliance with Section 626.9541(1)(i)(3)(a), Florida Statutes.

The Company does not at this time have a Claims Manual nor have they presented documentation which would indicate that they adopted or implemented reasonable standards as required by Section 626.9541(1)(i)(3)(a), Florida Statutes.

COMPLAINT PROCEDURES

The Company maintains written complaint handling procedures. Lists of both consumer complaint files and complaints received directly from the Department were provided and fifty-one (51) files were selected for review. Two (2) of twenty-five (25) complaints received during the time frame of the examination from consumers dealt with Disability Income Claims and one (1) of those files handled as a consumer complaint was also handled in response to a Department Complaint.

In the review of these fifty-one (51) files the following violations were noted:

Section 626.9541(3)(j), Florida Statutes – The Company failed to respond to a complaint as required by their Complaint Handling Guidelines – Three (3) violations noted.

Section 624.318(2), Florida Statutes – Files were not provided for review – Two (2) violations noted.

Section 626.9541, Florida Statutes – Insured was denied long term disability income benefits. As a result of this examination, and as directed, the Company has forwarded the insured a check in the amount of twenty six thousand one hundred four dollars and seventy-six cents (\$26,104.76). The insured will be entitled to benefits until March 2002 making her total recovery thirty nine thousand three hundred four dollars and seventy-six cents (\$39,304.76).

Six (6) files were found to be in error that would indicate an error ratio of twelve percent (12%) which is unacceptable pursuant to standards set forth by the National Association of Insurance Commissioners (NAIC).

BILLING PROCEDURES

When the Company acquires blocks of business from various insurers there are a variety of billing procedures in place involving individual insureds, payroll administrators and/or agents.

In order to standardize the billing procedures in accordance with the practices and procedures of the Company, changes are necessary.

The Company direct bills the insured or allows payment through payroll deduction when five (5) or more insured individuals share a common employer.

When changes in the billing occurred, the Company promptly advised its insureds as to the changes and methods of billing and payment.

No instances were noted where there were discrepancies or variations from the standard billing procedures.

SPECIFIC CLAIM REVIEWS

During the course of this Target Market Conduct Examination the examiner was directed to review specific claim files which had been the source of extensive complaints to the Department. The outcome of each review is noted below.

a) Weeks – Claim No. 99000128

Insured filed a claim for benefits and was paid for a period of four (4) months. Insured was advised along with the third check that a medical form was required to be completed and returned within thirty (30) days. Insured was advised along with the fourth check, 3/18/93, that before further benefits could be considered the claim form must be returned. The required information was not submitted and benefits were terminated. Insured requested additional claim form which was forwarded, 3/23/94, and there was no further contact by the Insured until 10/15/99.

No violations were found which would justify consideration to reinstate the policy or consider payment of additional claim benefits. The benefits were terminated due to the failure of the insured to submit required Proof of Loss. The policy lapsed due to nonpayment of premium.

b) Schumacher – Claim No. 99039500

The insured submitted a claim in October 1999. There was a complaint that payments were being delayed which was not justified inasmuch as the required medical information confirming disability had not been received. This information was received on 12/15/99 and first payment was made on 12/16/99. Insured continues to receive monthly benefits.

c) Schumacher – Claim No. 99000294

This is the same insured as above who had two (2) policies. There was a complaint that payments were being delayed that was not justified inasmuch as the required medical information confirming disability had not been received. This information was received on 12/15/99 and first payment was made on 12/17/99. Insured continues to receive monthly benefits.

d) Faulk – Claim No. 99039472

The insured submitted a claim on 8/23/99 relative to an injury that occurred on 1/29/99. Originally the Company denied the claim due to late reporting. Upon appeal they agreed to payment of the benefits for the disability period. Benefits were terminated based on the Attending Physician's Report indicating that the insured returned to "Regular Work" on 5/11/99 with "no" activity restrictions.

e) Thurne – Claim No. 99039469

The Company received report of this claim on 7/26/99. Complete Proof of Loss with verification of the Insured's work status was not received by the Company until 9/21/99 - the same day the first check for benefits was issued. Benefits were paid for a period of disability ending 10/16/99. Benefits were paid thirteen (13) days past the Insured's Return to Work date and therefore overpaid by \$325.00.

CONSUMER RECOVERY

As a result of this Target Market Conduct Examination of United Teacher Associates Insurance Company, payments have been made to residents of the State Florida in the total amount of thirty nine thousand five hundred thirty eight dollars and forty-four cents (\$39,538.44) representing benefits which were wrongfully denied and interest due on late payment of claims. Thirty nine thousand three hundred four dollars and seventy-six cents was due to one (1) insured for payment of disability income benefits wrongfully denied and two hundred thirty-three dollars and sixty-eight cents(\$233.68) was due to insureds in payment of applicable interest not included in the late monthly benefit checks.

CONCLUSION

The customary practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) were followed in performing this Target Market Conduct Examination of United Teacher Associates Insurance Company as of December 31, 1999, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

Robert D. Flege
CIE, CFE, FLMI, ALHC, ASF
Independent Contract Analyst

FINDINGS AND RECOMMENDATIONS

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

- Page 5 & 13 Secure and maintain all policy form and rate filings bearing the dated approval stamp of the DOI and marketing materials for any policies in force in the State of Florida as required by Florida Statute 624.318(2). Maintain record retention systems and data in a manner to assure the availability of any requested documents in accordance with Section 624.318(6), Florida Statutes.
- Page 8 Establish claim handling procedures to assure that interest is paid on all overdue claim payments in accordance with Section 627.613, Florida Statutes.
- Page 8 The Company is directed to review all disability income claim files and monthly claim payments between January 1, 1997 and present to determine all interest due in accordance with Section 627.613. Interest is to be paid to insureds where monthly benefits are paid late. The Company is to provide the DOI with a report including the claim number, policy number, date claim received, date paid, interest due, amount and period of

benefits and amount of interest paid. A copy of any check forwarded as well as a letter of explanation is to be provided along with this report.

Page 13 Provide required notice and reason of cancellation for all Disability Income policies when policies are cancelled/lapsed for nonpayment of premium as required by Section 627.6043(1), Florida Statutes.

Page 14 Comply with the written complaint handling procedures and the instructions of the DOI relative to complaint handling and maintain those procedures in accordance with Florida Statute 626.9541(3)(j).

Page 14 Adopt and implement written standards for the proper investigation of claims in accordance with Section 626.9541(1)(i)(3)(a), Florida Statutes. Acknowledge and act promptly upon all communications with respect to claims in accordance with Section 626.9541(1)(i)(3)(c) and comply with all provisions of Section 626.9541, Unfair Claim Settlement Practices Act.