FLORIDA DEPARTMENT OF INSURANCE

MARKET CONDUCT REPORT OF EXAMINATION

of

J. C. Penney Life Insurance Company

as of

December 31, 1996

DIVISION OF INSURER SERVICES

BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY & MARKET CONDUCT

MARKET CONDUCT SECTION

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January 14, 1998

Honorable Bill Nelson
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, Florida 32301

Dear Commissioner Nelson:

Pursuant to the provisions of Section 627.3161, 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:

J. C. Penney Life Insurance Company
2700 West Plano Parkway
Plano, TX 75075-8200

The report of such examination is herein respectfully submitted.

INTRODUCTION

J. C. Penney Life Insurance Company, hereinafter is generally referred to as "the Company" when not otherwise qualified. This is the first Market Conduct Examination by the Florida Department of Insurance, hereinafter generally referred to as "the Department".

This Market Conduct Examination commenced on October 9, 1997, and concluded on January 14, 1998.

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

J. C. Penney Life Insurance Company is domiciled in the State of Vermont and is a stock life company that is a wholly-owned subsidiary of J.C. Penney Insurance Group, Inc. The Company was licensed to transact insurance business in the State of Florida on July 31, 1969.

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

Organizational Chart

The Company's organizational chart is shown on the following page.

TERRITORY AND PLAN OF OPERATION

J. C. Penney Life Insurance Company is authorized to transact insurance business in fifty (50) states.

The Company markets and services their products through the use of direct mail and outbound telemarketing. The Company contracts with six (6) external telemarketing agencies.

During the period under review, the lines written were:

1. Life
2. Health
3. Credit Life
4. Credit Disability
5. Group Life
6. Group Health

During the period under review, the Company did not write any lines of insurance business 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.
All advertisements reviewed that were produced in quantity contained a form number or other identifying means as required by Rules 4-150.002 (3) and 4-150.102 (3), Florida Administrative Code.

Statistical data used in the advertisements reviewed identified the source in compliance with Rules 4-150.009 and 4-150.111, Florida Administrative Code.

All representations of a commercial rating system about the Company clearly indicated the purpose of the recommendation and the limitations of the scope and extent of the recommendation as outlined in Rules 4-150.016 and 4-150.117, 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.

It was noted during the examination that the Company contracts with telemarketing firms to solicit the sale of its products by phone. The calls are "two tiered." That is, the calls are initiated by unlicensed and unappointed telemarketers who identify the insurance product and determine if the party called is interested. All sales are "closed" by properly licensed and appointed agents.

EXCESS OR REJECTED LIFE OR HEALTH INSURANCE

The Company does not accept excess or rejected life and health insurance business from non-contracted agents, as defined by Sections 626.793 and 626.837, Florida Statutes.

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 Department.

Company filings for 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, 627.6785 and 627.682, Florida Statutes and Rule 4-163, Florida Administrative Code.

No discrepancies were noted.

UNDERWRITING AND RATE SURVEY

The underwriting and rate survey included an analysis of the following Company procedures:

1. Basic underwriting guidelines
2. Proper issuance of forms, riders and endorsements
3. Proper use of rates
4. Correspondence during the policy issue process
5. Unfair discrimination

APPLICATION REVIEW

Applications for Credit Life, Group Life, and Group Health insurance were surveyed.

A random sample of four hundred (400) files, from a total population of one thousand eight hundred ninety (1,890) for 1994, 1995 and 1996, was reviewed.

The files reviewed revealed the agents were appointed as required by Sections 626.112 and 627.683, Florida Statutes. Applications and related forms used were those filed and approved by the Department as required by Section 627.682, Florida Statutes.

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

All applications reviewed contain the agent's name as required by Section 627.4085, Florida Statutes.

All applications reviewed contain the license identification number as required by Section 627.4085, Florida Statutes, with the exception of Credit Life and Credit Disability applications which are exempt from this requirement.

INSURED'S RIGHT TO RETURN POLICY

A sample of sixty-four (64) files, from a total population of sixty-four (64), for 1994, 1995 and 1996, was reviewed.

The review indicated that the Company complied with Rule 4-154.003, Florida Administrative Code and Section 626.99 (4)(a), Florida Statutes and refunds were handled in a timely manner.

REPLACEMENT OF INSURANCE

The Company does not replace life or health insurance in Florida.

NON-FORFEITURE OPTIONS AND AUTOMATIC PREMIUM LOANS

A random sample of one hundred thirty (130) non-forfeiture option files, from a total population of six thousand two hundred ninety-eight (6,298) Extended Term, Paid-Up Insurance and Automatic Premium Loans was

reviewed. All cases indicated the values and terms were correctly calculated and were processed in a timely manner.

A random sample of twenty-five (25) files from a total population of nine hundred seventy-seven (977) was reviewed to determine if the interest charged was appropriate and within the statutory limits established by Sections 627.458 and 627.4585, Florida Statutes. No discrepancies were noted.

A random sample of twenty-five (25) cash surrender files from a total population of two thousand two hundred sixty (2,260) was reviewed to determine if interest was paid after thirty (30) days in compliance with Section 627.482, Florida Statutes. No discrepancies were noted

In the event of non-payment of premium, automatic premium loan provisions were applied.

These procedures do comply with the requirements of Section 627.476, Florida Statues, Standard Non-Forfeiture Law for Life Insurance.

CANCELLATIONS AND NON-RENEWALS

In the event of cancellation, the policyholders were promptly returned the unearned portion of any premium paid as required by Sections 627.6043 (2) and 627.6645, Florida Statutes.

A random sample of one hundred (100) credit life and credit disability files, from a population of four hundred seventy-three (473) was reviewed. All files reviewed were canceled and refunded as required by the various parts of Rule 4-163.003, Florida Administrative Code.

CLAIMS ADMINISTRATION

The Company has established an effective 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 Administrative Office of the Company.

The Claims Managers have certified that they have read and understand Section 626.9541 (1)(i), Florida Statutes, relating to unfair claim settlement practices.

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:

Individual Life Claims - Paid

1994	677	Claims for	$ 1,779,872
1995	678	Claims for	$ 1,908,120
1996	718	Claims for	$ 2,033,854
Total	1,462	Claims for	$ 5,721,846

Individual Life Claims - Denied

1994	3	Claims
1995	8	Claims
1996	0	Claims
Total	11	Claims

Group Life Claims - Paid

1994	431	Claims for	$ 1,184,217
1995	413	Claims for	$ 1,142,362
1996	453	Claims for	$ 1,349,757
Total	1,297	Claims for	$ 3,676,336

Group Life Claims - Denied

1994	3	Claims

1995	2	Claims
1996	3	Claims
Total	8	Claims

Individual Health Claims - Paid

1994	793	Claims for	$ 327,446
1995	777	Claims for	$ 347,054
1996	727	Claims for	$ 343,167
Total	2,297	Claims for	$ 1,017,667

Individual Health Claims - Denied

1994	160	Claims
1995	153	Claims
1996	103	Claims
Total	416	Claims

Group Health Claims - Paid

1994	905	Claims for	$ 415,678
1995	985	Claims for	$ 428,349
1996	887	Claims for	$ 393,923
Total	2,277	Claims for	$ 1,237,950

Group Health Claims - Denied

1994	355	Claims
1995	321	Claims
1996	234	Claims
Total	910	Claims

Credit Life Claims-Paid

1994	430	Claims for	$ 365,449
1995	459	Claims for	$ 533,554
1996	481	Claims for	$ 545,081
Total	1,370	Claims for	$ 1,444,084

Credit Life Claims-Denied

1994	39	Claims
1995	40	Claims
1996	50	Claims
Total	129	Claims

Credit Health Claims-Paid

1994	5,766	Claims for	$ 456,900
1995	5,805	Claims for	$ 475,106
1996	6,525	Claims for	$ 540,911
Total	18,096	Claims for	$ 1,472,917

Credit Health Claims-Denied

1994	166	Claims
1995	204	Claims
1996	203	Claims
Total	573	Claims

Eight hundred fifty-nine (859) claim files from the above-listed population were reviewed. The results of the review are as follows:

CALENDAR DAYS/PERCENTAGE OF CLAIMS

Individual Life Claims - Paid

Calendar Days	Number of Claims	Percentage
1-45	100	100%
Total	100	100%

The average time required to process a claim was five (5) days.

Individual Life Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	9	100%
Total	9	100%

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

Individual Health Claims-Paid

Calendar Days	Number of Claims	Percentage
1-45	100	100%
Total	100	100%

The average time required to process a claim was three (3) days.

Individual Health Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	50	100%
Total	50	100%

The average time required to process a denied claim was five (5) days.

Group Life Claims-Paid

Calendar Days	Number of Claims	Percentage
1-45	100	100%
Total	100	100%

The average time required to process a claim was three (3) days.

Group Life Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	48	96%
Unable to determine	2	4%
Total	50	100%

The average time required to process a denied claim was five (5) days.

Group Health Claims-Paid

Calendar Days	Number of Claims	Percentage
1-45	98	98%
Unable to determine	2	2%
Total	100	100%

The average time required to process a claim was five (5) days.

Group Health Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	6	96%
Unable to determine	2	4%
Total	8	100%

The average time required to process a denied claim was five (5) days.

Credit Life Claims-Paid

Calendar Days	Number of Claims	Percentage
1-45	100	100%

Total	100	100%

The average time required to process a claim was five (5) days.

Credit Life Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	50	100%
Total	50	100%

The average time required to process a denied claim was three (3) days.

Credit Health Claims-Paid

Calendar Days	Number of Claims	Percentage
1-45	100	100%
Total	100	100%

The average time required to process a claim was ten (10) days.

Credit Health Claims-Denied

Calendar Days	Number of Claims	Percentage
1-45	50	100%
Total	50	100%

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

An analysis of the claim study revealed the following:

1. A random sample of six hundred (600) paid claim files from a total population of twenty seven thousand, two hundred ninety-nine (27,299) 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 eight hundred fifty-nine (859) claim files from a total population of twenty seven thousand, two hundred ninety-nine (27,299) was reviewed to determine if claims had been

processed in a timely manner as required by Sections 627.613 and 627.657(2), Florida Statutes. Of the eight hundred fifty-nine (859) claim files reviewed, timely processing could not be determined on six (6) claim files. Four (4) claim files did not have a receipt date stamped on the claim form or indicated in the file. Two (2) claim files could not be located.

3. A random sample of one hundred (100) individual life claims from a total population of one thousand, four hundred sixty-two (1,462) was reviewed to determine if the 11% interest, or interest at an annual rate equal to or greater than the Moody's Corporate Bond Yield Average-Monthly Average Corporate as to the day the claims were received and not less than 8% on claims after January 1, 1993 was paid in accordance with Section 627.4615, Florida Statutes. No discrepancies were noted.

4. A random sample of one hundred (100) individual health claims from a total population of two thousand, two hundred ninety-seven (2,297) was reviewed to determine if the 10% interest due on certain claims was paid as required by Section 627.613(6), Florida Statutes. No discrepancies were noted.

5. A random sample of eight hundred fifty-nine (859) claim files from a total population of twenty seven thousand, two hundred ninety-nine (27,299) was reviewed to determine if the required Fraud Statement was included on the claim forms as required by Section 817.234 (1)(b), Florida Statutes. Claim forms used by the Company failed to include the required reference to "third degree" felony in their Fraud Statements.

CLAIMS LITIGATION

During the period under examination, the Company had nine (9) litigated claims.

INSURER EXPERIENCE REPORTING

The Company did not file experience reports as to policies of individual health insurance and is in compliance with Section 627.9175, Florida Statutes, as no individual health business was written.

The Company filed Experience Reports, Forms DI4-272, DI4-273, DI4-274, DI4-275 and DI4-276, as required by Rule 4-163.012, Florida Administrative Code, regarding Credit Life and Disability Insurance.

The reports were filed on a timely basis as required by Subsection (2) (a), Florida Statutes.

COMPLAINTS

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

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

Ninety-four (94) complaints (100%), from a total population of ninety-four (94), 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:

Calendar Days	Number of Complaints	Percentage
1-15	74	79%
16-30	14	15%
31 and over	6	6%
Total	94	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 were followed in performing the Market Conduct Examination of J. C. Penney Life Insurance Company as of December 31, 1996, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

_____
Jorge Rodriguez
Insurance Analyst II
Florida Insurance Department

FINDINGS AND RECOMMENDATIONS

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

Page 6 Comply with Section 626.112, Florida Statutes and utilize only properly licensed and appointed agents to effectuate insurance coverage for Florida residents.

Page 19 To insure future timely payment compliance determination with Sections 627.613 and 627.657 (2), Florida Statutes, it is recommended that the Company maintain complete claim file information.

Page 20 Comply with Section 817.234 (1)(b), Florida Statutes and include the third degree felony Fraud Statement language on all claim forms.

It is noted that in 1997, the Company revised its claim forms to include the "third degree" felony language.