REPORT OF
MARKET CONDUCT EXAMINATION
OF

COMBINED INSURANCE COMPANY
OF AMERICA
Chicago, Illinois

AS OF
January 10, 2005

COMMONWEALTH OF PENNSYLVANIA

INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION

Issued: March 14, 2005

COMBINED INSURANCE COMPANY OF AMERICA

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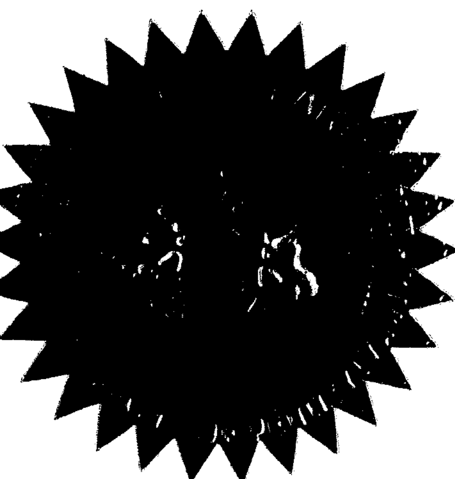
BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 29 day of April, 2002, in accordance with Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921, P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy Insurance Commissioner, to consider and review all documents relating to the market conduct examination of any company and person who is the subject of a market conduct examination and to have all powers set forth in said statute including the power to enter an Order based on the review of said documents. This designation of authority shall continue in effect until otherwise terminated by a later Order of the Insurance Commissioner.



M. Diane Koken
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:	:	VIOLATIONS:
COMBINED INSURANCE COMPANY OF AMERICA 5050 North Broadway Chicago, IL 60640-3060	:	Sections 605, 606 and 903(a) of the Insurance Department Act, Act of May 17, 1921, P.L. 789, No. 285 (40 P.S. §§ 235, 236 and 323.3)
	:	Sections 404-A, 406-A, 408-A(a)(1), 408-A(e)(2)(iii), 411B and 633 of the Insurance Company Law, Act of May 17, 1921, P.L. 682, No. 284 (40 P.S. §§ 625-4, 625-6, 625-8, 511B and 1571-1575)
	:	Title 31, Pennsylvania Code, Sections 81.6(a)(1), 83.3, 83.4a and b, 83.55, 83.55a and b, 88.101, 88.102, 88.181, 89.99, 146.3, 146.5 and 146.6
	:	Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
Respondent.	:	Docket No. MC05-02-012

CONSENT ORDER

AND NOW, this 14th day of MARCH, 2005, this Order is hereby issued by the Deputy Insurance Commissioner of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Deputy Insurance Commissioner finds true and correct each of the following Findings of Fact:

(a) Respondent is Combined Insurance Company of America, and maintains its business address at 5050 North Broadway, Chicago, Illinois 60640-3060.

(b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2002 through June 30, 2003.

(c) On January 10, 2005, the Insurance Department issued a Market Conduct Examination Report to Respondent.

(d) A response to the Examination Report was provided by Respondent on February 9, 2005.

(e) After consideration of the February 9, 2005 response, the Insurance Department has modified the Examination Report as attached.

(f) The Examination Report notes violations of the following:

(i) Section 605 of the Insurance Department Act, No. 285 (40 P.S. § 235), which requires that no agent shall do business on behalf of any entity without written appointment from that entity;

(ii) Section 606 of the Insurance Department Act, No. 285 (40 P.S. § 236), which requires all entities to report to the Department all appointments and terminations of appointments in the format and time frame required by the Department's regulations;

(iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order

that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

(iv) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

(v) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. §625-6), prohibits alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent;

(vi) Section 408-A(a)(1) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within 60 days of the effective date of this section. For life insurance policy forms approved by the department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing;

(vii) Section 408-A(e)(2)(iii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), requires the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer;

(viii) Section 411B of the Insurance Company Law, No. 284 (40 P.S. § 511b), which states that life insurance death benefits not paid within 30 days after satisfactory proof of death submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than 180 days after the death of the insured, and the death benefits are not paid within 30 days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid. This applies to all life insurance policies except variable insurance policies;

(ix) Section 633 of the Insurance Company Law, No. 284 (40 P.S. § 1571-1575), requires a health insurance policy which is delivered, issued for delivery, renewed, extended or modified in this Commonwealth by a health care insurer shall provide that health insurance benefits applicable under the policy include coverage for periodic health maintenance to include: Annual gynecological examination, including a pelvic examination and clinical breast examination. Routine pap smears in accordance with the recommendations of the American College of Obstetricians and Gynecologists. Benefits are exempt from any deductible of dollar limit provisions;

(x) Title 31, Pennsylvania Code, Section 81.6(a)(1), which requires an insurer that uses an agent or broker in a life insurance or annuity sale shall require with or as part of a completed application for life insurance or annuity, a statement signed by the agent or broker regarding whether the broker knows replacement is or may be involved in the transaction;

(xi) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;

(xii) Title 31, Pennsylvania Code, Section 83.4a and 83.4b, which requires (a) the agent to submit to the insurer with or as part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant, and (b) the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;

(xiii) Title 31, Pennsylvania Code, Section 83.55, which states the surrender comparison index disclosure shall be given as a separate document upon

delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible. A disclosure that is minimally satisfactory to the Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter prior to use is adequate notification to the Department for review prior to use;

(xiv) Title 31, Pennsylvania Code, Sections 83.55a and 83.55b, which (a) require the agent to submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant; and (b) the insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the files of the insurer shall constitute *prima facie* evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;

(xv) Title 31, Pennsylvania Code, Section 88.101, which requires application forms shall contain a question to elicit information as to whether the insurance to be issued is to replace any other accident and health insurance presently in force. A supplementary application or other form to be signed by the applicant containing such a question may be used;

(xvi) Title 31, Pennsylvania Code, Section 88.102, which requires an insurer, upon determining that a sale will involve replacement, to furnish the applicant at the time of completing the application, a notice described in Section 88.103. One copy of this notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer;

(xvii) Title 31, Pennsylvania Code, Section 88.181, which prohibits a policy from being delivered or issued for delivery in the Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time application is made;

(xviii) Title 31, Pennsylvania Code, Section 89.99, which states a provision excluding, limiting or coordinating benefits by reason of other insurance shall be set forth clearly in the policy, be accurately summarized in a certificate or brochure used in lieu of a certificate and in advertising material, and not be applied to the first $100 of any one claim;

(xix) Title 31, Pennsylvania Code, Section 146.3, which requires the claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers

pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed;

(xx) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;

(xxi) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected; and

(xxii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties."

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Deputy Insurance Commissioner makes the following Conclusions of Law:

(a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.

(b) Violations of Sections 605 and 606 of the Insurance Department Act (40 P.S. §§ 235 and 236) are punishable by the following, under Section 639 of the Insurance Department Act (40 P.S. § 279):

(i) suspension, revocation or refusal to issue the certificate of qualification or license;

(ii) imposition of a civil penalty not to exceed five thousand dollars ($5,000.00) for every violation of the Act.

(iii) issue an order to cease and desist.

(iv) impose such other conditions as the department may deem appropriate.

(c) Respondent's violations of Sections 404-A, 406-A, 408-A and 411B of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6, 625-8 and

511b) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than $5,000 per violation.

(d) Respondent's violations of Title 31, Pennsylvania Code, Section 81.6(a)(1) are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);

(e) Respondent's violations of Title 31, Pennsylvania Code, Sections 83.3 are punishable under Title 31, Pennsylvania Code, Section 83.6:

(i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under 40 P.S. § 475, for violations of 40 P.S. §§ 472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

(f) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5 and 146.6 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

(i) cease and desist from engaging in the prohibited activity;

(ii) suspension or revocation of the license(s) of Respondent.

(g) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

(i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars ($5,000.00);

(ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars ($1,000.00).

ORDER

5. In accord with the above Findings of Fact and Conclusions of Law, the Deputy Insurance Commissioner orders and Respondent consents to the following:

(a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.

(b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.

(c) Respondent shall comply with all recommendations contained in the attached Report.

(d) Respondent shall pay Fifty Thousand Dollars ($50,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.

(e) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Harbert,

Administrative Assistant, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

6. In the event the Deputy Insurance Commissioner finds that there has been a breach of any of the provisions of this Order, based upon the Findings of Fact and Conclusions of Law contained herein may pursue any and all legal remedies available, including but not limited to the following: The Deputy Insurance Commissioner may enforce the provisions of this Order in the Commonwealth Court of Pennsylvania or in any other court of law or equity having jurisdiction; or the Deputy Insurance Commissioner may enforce the provisions of this Order in an administrative action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

7. Alternatively, in the event the Deputy Commissioner finds that there has been a breach of any of the provisions of this Order, the Deputy Commissioner may declare this Order to be null and void and, thereupon, reopen the entire matter for appropriate action pursuant to the Administrative Agency Law, supra, or other relevant provision of law.

8. In any such enforcement proceeding, Respondent may contest whether a breach of the provisions of this Order has occurred but may not contest the Findings of Fact and Conclusions of Law contained herein.

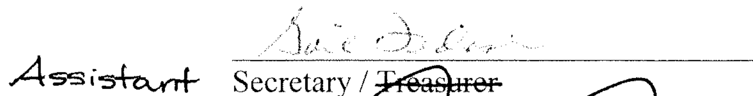
9. Respondent hereby expressly waives any relevant statute of limitations and application of the doctrine of laches for purposes of any enforcement of this Order.

10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

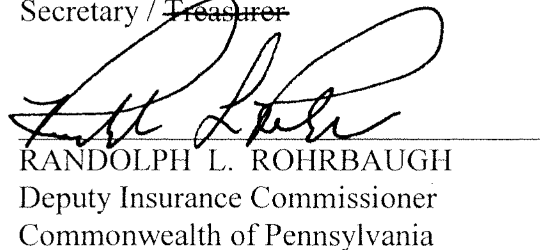
11. This Order shall be final upon execution by the Deputy Insurance Commissioner. Only the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized Deputy Insurance Commissioner.

BY: COMBINED INSURANCE COMPANY OF AMERICA, Respondent

~~President~~ / Vice President



Secretary / ~~Treasurer~~



RANDOLPH L. ROHRBAUGH
Deputy Insurance Commissioner
Commonwealth of Pennsylvania

I. INTRODUCTION

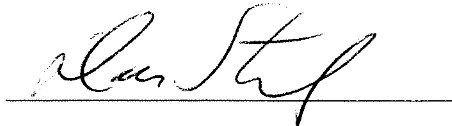
The Market Conduct Examination was conducted on Combined Life Insurance Company of America; hereafter referred to as "Company," at the Company's offices located in Chicago, Illinois, February 9, 2004 through March 19, 2004. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

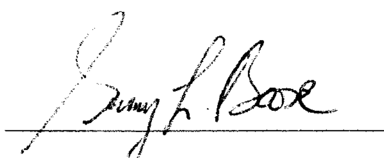
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

The undersigned participated in the Examination and in the preparation of this Report.



Dan Stemcosky, AIE, FLMI
Market Conduct Division Chief

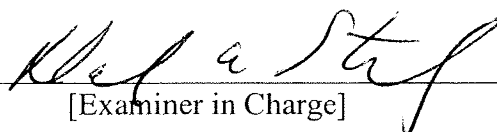


Gary Boose
Market Conduct Examiner

Deborah Lee
Market Conduct Examiner

Verification

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).

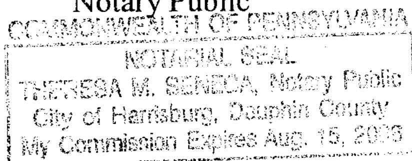


[Examiner in Charge]

Sworn to and Subscribed Before me

This 10 Day of January , 2005

Notary Public



II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2002, through June 30, 2003, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Agent/Broker Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

Combined Insurance Company of America commenced business on January 1, 1922, and was incorporated in the State of Illinois on October 11, 1949. The Company received its certificate of authority to operate in the Commonwealth of Pennsylvania on November 30, 1949. The Company is authorized to do business in 49 states and the District of Columbia.

Effective on January 3, 1995, Globe Life Insurance Company merged into Combined Insurance Company of America. The Company is now a subsidiary of AON Corporation.

The Company offers a variety of supplemental insurance coverage including accident, health, life, disability, cancer, medicare supplement, long-term care and critical illness insurance.

As of their 2002 annual statement for Pennsylvania, the Company reported direct premium for ordinary and group life insurance in the amount of $6,553,100; and direct premium for accident and health insurance in the amount of $33,900,756.

IV. ADVERTISING

Title 31, Pennsylvania Code, Section 51.2(c) provides that "Any advertisements, whether or not actually filed or required to be filed with the Department under the provisions of this Regulation may be reviewed at any time at the discretion of the Department." The Department, in exercising its discretionary authority for reviewing advertising, requested the Company to provide copies of all advertising materials used for solicitation and sales during the experience period.

The Company provided 14 pieces of advertising utilized in the Commonwealth during the experience period. The advertising consisted of: Brochures, Presentations, Marketing Script, Web Page, Product Guides and Manuals. The advertising materials and the Company's web site were reviewed to ascertain compliance with Act 205, Section 5 (40 P.S. §1171.5), Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and Title 31, Pennsylvania Code, Chapter 51 and Chapter 89.
No violations were noted.

V. FORMS

The Company was requested to provide a list and copies of all policy and/or member forms, conversion contracts, applications, riders, amendments and endorsements used during the experience period. The forms provided and forms reviewed in various underwriting sections of the exam were reviewed to ensure compliance with Insurance Company Law, Section 354 and Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), Fraud notice. The following violations were noted:

20 Violations – Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)
All applications for insurance and all claim forms shall contain or have attached thereto the following notice: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties." The following application forms did not contain or have attached the required fraud statement. The application form description and frequency of use is listed in the table below.

Form Number	Description	Number of Files
SLMA69050 0201	Stop-Loss BP Group Application	5
VN MA63007 0801	Group Vision Application	15

1 Violation – Insurance Company Law, Section 633 (40 P.S. §1571-1575) Coverage for Annual Gynecological Examinations and Routine Pap Smears

(d) A health insurance policy which is delivered, issued for delivery, renewed, extended or modified in this Commonwealth by a health care insurer shall provide that health insurance benefits applicable under the policy include coverage for periodic health maintenance to include: Annual gynecological examination, including a pelvic examination and clinical breast examination. Routine pap smears in accordance with the recommendations of the American College of Obstetricians and Gynecologists. Benefits are exempt from any deductible of dollar limit provisions. The university health master group contract (CUH 200187) did not contain the provision for annual gynecological examinations.

3 Violations - Title 31, Pennsylvania Code, Section 89.99 Student Accident and Sickness Insurance

(e) A provision excluding, limiting or coordinating benefits by reason of other insurance shall be set forth clearly in the policy, be accurately summarized in a certificate or brochure used in lieu of a certificate and in advertising material, and not be applied to the first $100 of any one claim. The coverage brochure (2002-2003) for 3 university health groups did not contain the required provision of Section 89.99(e).

VI. AGENT/BROKER LICENSING

The Company was requested to provide a list of all agents/brokers active and terminated during the experience period. The Company provided a list of 368 active agents and 497 agents terminated during the experience period. A random sample of 200 active agents, and 100 terminated agents were compared to departmental records of agents and brokers to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam. The following violations were noted:

1 Violation – Insurance Department Act, Section 606 (40 P.S. §236)
All entities shall report to the Insurance Department all appointments and terminations of appointments in the format and time frame required by the Insurance Department's regulations. The Company failed to report all agent appointments and terminations to the Insurance Department.

2 Violations – Insurance Department Act, Section 605(c)(d), (40 P.S. §235)
No agent shall do business on behalf of any entity without a written appointment from that entity.
All appointments shall be obtained by procedures established by the Insurance Department's regulations.
Insurance entities authorized to do business in this Commonwealth shall, from time to time as determined by the Insurance Department, certify to the Insurance Department the names of all agents appointed by them.
Each appointment fee, both new and renewal shall be paid in full by the entity appointing the agent.

The Company failed to certify and submit appointment fees to the Insurance Department for the following agents, or agencies. The company listed the following 2 agents as active; however, department records did not indicate their appointment.

AGENT	TYPE
Gacha, Marjorie	Agent
Smith, Richard	AGENT

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 1999, 2000, 2001, and 2002. The Company identified 177 written consumer complaints received during the experience period. The Department listed 22 complaints forwarded from the Department during the experience period. A sampling of 25 consumer complaints and the 22 complaints forwarded from the Department were requested for review. The 25 consumer complaints were received and 20 of the Department forwarded complaints were received. The company also provided complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log. The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No 205 (40 P.S. §1171). Section 5(a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, PA Code, Section 146.5(b) and 146.5(c), Unfair claims Settlement Practices. No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in nine general segments.

A.	Underwriting Guidelines
B.	Group BAP Policies Issued
C.	University Group Health Policies Issued
D.	Stop-Loss Group BP Policies Issued
E.	Group Vision Policies Issued
F.	Group Vision Certificates Issued
G.	Group BAP Policies Terminated
H.	Group Vision Policies Terminated
I.	Group Stop-Loss BP Policies Terminated
J.	Group Conversions
K.	Disability Income Policies Issued
L.	Life Policies Issued
M.	Accident and Health Policies Issued
N.	Disability Income Policies Not-Taken
O.	Life Policies Not-Taken
P.	Accident and Health Policies Not-Taken
Q.	Disability Income Policies Terminated
R.	Life Policies Terminated
S.	Accident and Health Policies Terminated
T.	Globe Policies Terminated
U.	LGL Policies Terminated
V.	Accident and Health Replacement Policies Issued
W.	Accident and Health Policies Declined
X.	Term Conversions

Each segment was reviewed for compliance with underwriting practices and included forms identification and agent identification. Issues relating to forms or licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines and manuals utilized during the experience period. The manuals were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following Guidelines were reviewed:

1. Family Assurance Program Rates Manual Professional Division Portfolio
2. Field Underwriting Guidelines and Rates Manual Adult Division Portfolio
3. Field Underwriting Guidelines and Rates Manual Senior Division Portfolio
4. Group Term Life Insurance Information
5. Combined Select Programs, Underwriting Guidelines
6. Medical Conditions Guide Life/Health Division Portfolio (PA)
7. Underwriting Medicare Supplement
8. Combined Seniors Underwriting and Medical Conditions Manual
9. Medical Conditions Guide Professional Division Portfolio 11/18/02

B. Group BAP Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The company identified 4 group BAP policies issued. All 4 group policy files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. No violations were noted.

C. University Group Health Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The Company provided a list of 7 groups issued student accident and health coverage. All 7 group files were requested, received and reviewed. The files were reviewed for underwriting and forms compliance. Forms violations are addressed in the Forms section of the Report. No other violations were noted.

D. Stop-Loss Group BP Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The company identified 5 Stop-Loss BP group policies issued. All 5 group policy files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. Forms violations are addressed in the Forms section of the Report. No other violations were noted.

E. Group Vision Policies Issued

The Company was requested to provide a list of all group policies issued during the experience period. The company identified 15 group vision policies issued. All 15 group policy files were requested, received, and reviewed. The policy files were reviewed to determine compliance to issuance statutes and regulations. Forms violations are addressed in the Forms section of the Report. No other violations were noted.

F. Group Vision Certificates Issued

The Company was requested to provide a list of all certificate holders enrolled during the experience period. The Company provided a universe of 6,807 group vision certificate holders enrolled . A random sample of 25 certificate holders enrolled was selected received and reviewed. The files were reviewed to ensure compliance with Pennsylvania Consolidated Statutes, Section 4117(k). No violations were noted.

G. Group BAP Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience period. The Company provided a list of 5 group policies terminated. All 5 group policies were requested, received and reviewed. Of the 5 policies listed, 4 were policies issued to 4 different departments of the same group. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

H. Group Vision Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience period. The Company provided a list of 4 group policies terminated. All 4 group policy files were requested, received and reviewed. Of the 4 policies listed as terminated, 2 were terminated by the group and 2 were terminated as the result of a change to another plan. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

I. Group Stop-Loss BP Policies Terminated

The Company was requested to provide a list of all group policies terminated during the experience period. The Company provided a list of 2 group stop-loss BP policies terminated. Both group terminated policy files were requested, received and reviewed. The 2 policies were terminated as a result of the group's request. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

J. Group Conversions

The Company was requested to provide a list of all individuals converting their group coverage to individual coverage during the experience period. The Company identified a universe of 3 Accidental Death and Dismemberment conversion policies. All 3 conversion files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

K. Disability Income Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a universe of 4,387 disability income policies issued. A random sample of 75 disability income issued policies was selected, received and reviewed. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.
The following violations were noted:

18 Violations - Title 31, Pennsylvania Code, Section 88.181
No policy may be delivered or issued for delivery in this commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time the application is made. The delivery of the outline of coverage could not be verified in the 18 files noted

L. Life Policies Issued

The Company identified a total universe of 1,927 life policies issued during the experience period. A random sampling of 100 files was requested, received and reviewed. Life issued policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

7 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's statement regarding replacement was not completed in the 7 files noted.

76 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. The 76 files noted did not contain a disclosure form.

76 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The 76 files noted did not contain a copy of the required agent's certification of disclosure.

56 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. The 56 files noted did not include the Cost Surrender Comparison Index Disclosure.

56 Violations - Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

a) The agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant.

b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance. The agent's certification of the surrender comparison index disclosure delivery was not evident in the 56 files noted.

91 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the

insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of policy delivery could not be established in the 91 files noted.

6 Violations - Insurance Company Law, Section 406-A (40 P.S. §625-6)
No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The 6 files noted contained alterations without the applicants consent.

45 Violations – Insurance Company Law, Section 408-A(a)(1) (40 P.S. §625-8)
Each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within sixty (60) days of the effective date of this section. For life insurance policy forms approved by the department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing. The following life insurance policy forms were marketed before the effective date of the illustration statute (July 1, 1997). The required notification of illustration usage for 2 policy forms (33074-PA and 37058-PA), utilized in 45 files, was not provided to the Department.

5 Violations – Insurance Company Law, Section 408-A(e)(2)(iii) (40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer. Files were identified as "worksite policies" that were illustrated with a computer screen. The 5 policy files noted did not contain the signed certification and acknowledgement of the delivery of an illustration.

M. Accident and Health Policies Issued

The Company was requested to provide a list of all accident and health policies issued during the experience period. The Company provided a list of 22,318 accident and health policies issued. A random sample of 150 accident and health policies was selected and received. Of the 150 files received, 1 file was issued in the State of New York. The other 149 files, were reviewed to determine compliance to issuance, replacement and underwriting statutes and regulations. The following violations were noted:

17 Violations - Title 31, Pennsylvania Code, Section 88.181

No policy may be delivered or issued for delivery in this commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time the application is made. The delivery of the outline of coverage could not be verified in the 17 files noted.

The following table is a synopsis of the 149 accident and health policies reviewed.

Number	Policy Description	Percent
85	Hospital Indemnity	57%
36	Accident Only	24%
22	Missing Applications & Files	15%
5	Cancer	3%
1	Accidental Death & Dismemberment	1%
149	**Total**	**100%**

N. Disability Income Policies Not-Taken

The Company was requested to identify all individual policies not-taken during the experience period. The Company identified a total of 205 individual disability policies not-taken. A random sampling of 50 policies was requested, received and reviewed. A not-taken policy is a contract that was issued by the Company, but the insured decides to decline the contract. The files were reviewed to ensure compliance with contract provisions, proper return of any unearned premium, and to ensure compliance with the free-look provisions of the contract. No violations were noted.

O. Life Policies Not-Taken

The Company was requested to identify all individual policies not-taken during the experience period. The Company identified a total of 70 individual life policies not-taken. A random sampling of 25 policies was requested, received, and reviewed. A not-taken policy is a contract that was issued by the Company, but the insured decides to decline the contract. The files were reviewed to ensure compliance with contract provisions, proper return of any unearned premium, and to ensure compliance with the free look provisions of the contract. No violations were noted.

P. Accident and Health Policies Not-Taken

The Company was requested to identify all individual policies not-taken during the experience period. The Company identified a total of 2,667 individual accident and health policies not-taken. A random sampling of 75 policies was requested, received and reviewed. A not-taken policy is a contract that was issued by the Company, but the insured decides to decline the contract. The files were reviewed to ensure compliance with contract provisions, proper return of any unearned premium, and to ensure compliance with the free look provisions of the contract. No violations were noted.

Q. Disability Income Policies Terminated

The Company was requested to identify all disability income policies terminated during the experience period. The Company identified a universe of 3,337 policies terminated. A random sample of 75 terminated files was requested, received and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

The following table is a synopsis of the 75 files reviewed.

Number	Reason Terminated	Percent
2	Death	3%
20	Insured Request	27%
51	Lapsed/Cancellation	68%
1	Insured requested Free Look	1%
1	Declined Medically	1%
75	**Total**	**100%**

R. Life Policies Terminated

The Company was requested to provide a list of all life policies that were terminated during the experience period. The Company provided a universe of 1,524 life policies terminated. A random sample of 75 terminated files was requested, received and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. There were no violations noted.

The following table is a synopsis of the 75 files reviewed.

Number	Termination Reason	Percent
38	Policy Lapsed Without (Cash or Paid-Up) Value	51%
15	Policyholder Cash Surrendered	21%
13	Death	17%
7	Policyholder Cancelled	9%
1	Reduced Paid-Up	1%
1	Change of Policy Ownership	1%
75	**Totals**	**100%**

S. Accident and Health Policies Terminated

The Company was requested to provide a list of all accident and health policies that were terminated during the experience period. The Company provided a universe of 39,040 accident and health policies terminated. A random sample of 100 terminated files was requested, received and reviewed. The files were reviewed to determine compliance to issuance, replacement and underwriting statutes and regulations. There were no violations noted.

The following table is a synopsis of the 100 files reviewed.

Number	Termination Reason	Percent
60	Lapse	60%
31	Policyholder Request	31%
5	No Documentation of Termination in File	5%
2	Death	2%
2	File Missing	2%

T. Globe Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company provided a list of 17 Globe policies terminated. All 17 policy files were requested, received and reviewed. The Globe policies were Life insurance policies assumed by the Company after their merger with Globe Life Insurance Company. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. The following violation was noted:

1 Violation - Insurance Department Act, Section 903 (40 P.S. § 323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. Verification of the terminated data was missing in the file noted.

The following table is a synopsis of the 14 files reviewed.

Number	Termination Reason	Percent
11	Death	79%
3	Cash Surrender	21%

U. LGL Policies Terminated

The Company was requested to provide a list of all policies terminated during the experience period. The Company provided a list of 542 LGL (Little Giant Life) policies terminated. A random sample of 25 policy files was requested, received and reviewed. The files were reviewed to ensure that terminations were not the result of any discriminatory underwriting practice. No violations were noted.

The following table is a synopsis of the 25 files reviewed.

Number	Termination Reason	Percent
14	Death	56%
11	Cash Surrender	44%

V. Accident and Health Replacement Policies Issued

The Company was requested to provide a list of all replacement policies issued during the experience period. The Company provided a universe of 63 policies issued as replacements. All 63 policies were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation – Title 31, Pennsylvania Code, Section 88.101 Application Forms

Application forms shall contain a question to elicit information as to whether the insurance to be issued is to replace any other accident and health insurance presently in force. A supplementary application or other form to be signed by the applicant containing such a question may be used. The question concerning whether a replacement of existing insurance was involved, was not answered in the file noted.

2 Violations – Title 31, Pennsylvania Code, Section 88.102

Upon determining that a sale will involve replacement, an insurer, other than a direct response insurer or its agent, shall furnish the applicant at the time of completing the application, the notice described in § 88.103 of this title (relating to notice form). One copy of such notice shall be furnished to the applicant and an additional copy signed by the applicant shall be retained by the insurer. No replacement form was evident in the 2 files noted.

W. Accident and Health Policies Declined

The Company was requested to provide a list of all the individuals declined coverage during the experience period. The Company identified 6 individuals declined Accident and Health coverage. All 6 declined files were requested, received and reviewed. The files were reviewed to ensure declinations were not the result of any discriminatory underwriting practice. All 6 policies were declined for medical reasons. No violations were noted.

X. Term Conversions

The Company was requested to provide a list of all individuals converting their term life coverage to permanent life coverage during the experience period. The Company identified one conversion policy. The conversion file was requested, received and reviewed. The conversion file received was not a term conversion. The file reviewed was determined to be a policy change transaction from a juvenile policy to a whole life contract with an increased face amount. The file was reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. No violations were noted.

IX. Internal Audits and Compliance Procedures

The Company was requested to provide copies of their internal audit and compliance procedures. The audits and procedures were reviewed to ensure compliance with Insurance Company Law, Section 405-A (40 P.S. §625-5). Section 405-A provides for the establishment and maintenance of internal audit and compliance procedures, which provides for the evaluation of compliance with all statutes and regulations dealing with sales methods, advertising, and filing and approval requirements for life insurance and annuities. The procedures shall also provide for the following:

Periodic reviews of consumer complaints in order to determine patterns of improper practices.

Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.

The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence used for processing claims during the experience period. The Company provided a comprehensive reference manual consisting of the plan descriptions, claim descriptions, claim content descriptions, system processing guides, correspondence formats (form letters), and summaries of standards for Life and Health insurance claims. The claim procedures and manuals were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of the following 11 areas:

A. Accident and Health Claims
B. Group Life JRW BAP Claims
C. Life Claims
D. Long Term Disability Claims
E. Student University Health Claims
F. Stop-Loss BP Claims
G. Vision Claims
H. GE Claims and GE Amoco Claims
I. Medicare Supplement Claims Paid
J. Medicare Supplement Claims Denied
K. Medicare Supplement Claims Pended

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were

reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Act 68, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Accident and Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 27,631 individual accident and health claims received. A random sample of 150 accident and health claims was requested for review. Of the 150 files requested, 1 claim file was for a New York resident and not included in this review. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the claim noted within 10 working days.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay

and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the claim noted.

B. Group Life JRW BAP Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 140 group life claims received. A random sample of 25 group life claims was selected and received for review. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

4 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 4 claims noted within 10 working days.

3 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 3 claims noted.

2 Violations - Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b)

(a) Life insurance death benefits not paid within thirty days after satisfactory proof of death was submitted to the insurer shall bear interest at the rate of interest payable on death benefits left on deposit by the beneficiary with the insurer. This interest shall accrue from the date of death of the insured to the date benefits are paid to the beneficiary. In cases where satisfactory proof of death is submitted more than one hundred eighty days after the death of the insured, and the death benefits are not paid within thirty days after the satisfactory proof of death was submitted to the insurer, interest shall accrue from the date on which satisfactory proof was submitted to the date on which the benefits of the policy are paid.

(b) Notwithstanding section 6 of the act of May 11, 1949 (P.L. 1210, No. 367), referred to as the Group Life Insurance Policy Law, this section shall apply to all life insurance policies except variable insurance policies.

(c) The term "left on deposit" shall mean a specific settlement option provided within the life insurance policy under which the death benefit proceeds are retained by the insurer for the beneficiary and are credited with a specific rate of interest.

The required interest was not paid on the 2 claims noted.

C. Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 345 individual life claims received. A random sample of 50 individual life claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The 2 claim files noted were missing the disposition status.

5 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 5 claims noted within 10 working days.

1 Violation - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay

and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the claim noted.

D. Long-Term Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 53 long-term disability claims. A random sample of 25 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. No violations were noted.

E. Student University Health Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 408 student university health claims. A random sample of 50 claims was requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

32 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 32 claims noted within 10 working days.

18 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide a timely status letter for the 18 claims noted.

F. Stop-Loss BP Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 12 group stop-loss medical claims. All 12 stop-loss claims were requested, received and reviewed. The stop-loss group medical plan is coverage offered to employees for claim expenses exceeding employee primary medical coverage. This policy is a self-funded employer group health plan. No violations were noted.

G. Vision Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 3,320 vision claims. A random sample of 50 claims was requested. Of the 50 claim files requested, received and reviewed. Claims submitted by providers were reviewed for compliance with Act 68, Prompt Payment of Claims. Claims submitted by the insured were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violation was noted:

1 Violation – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The claim file noted was missing resolution details.

H. GE Claims and GE Amoco Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 2937 GE claims and a universe of 547 GE Amoco claims. Random samples of 50 GE claims and 25 GE Amoco claims were requested for review. . Of the 50 GE claim files requested, 44 were received and reviewed. The 25 GE Amoco claims requested, were received and reviewed. The claims submitted by providers were reviewed for compliance with Act 68, Prompt Payment of Claims. The claims submitted by the insured were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

6 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The 6 claim files noted were not provided for review.

I. Medicare Supplement Claims Paid

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 54,536 Medicare supplemental claims paid from July 2002 through December 2002 and 48,305 Medicare supplemental claims paid from January 2003 through June 2003. A random sample of 75 claims was requested, received and reviewed from each universe identified. The claims submitted by providers were reviewed for compliance with Act 68, Prompt Payment of Claims. The claims submitted by the insured were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. Of the 150 total claims reviewed, providers submitted 148 and 2 were submitted by the subscriber. No violations were noted.

J. Medicare Supplement Claims Denied

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 14,457 Medicare supplemental claims denied during the experience period. A random sample of 100 denied claims was requested, received, and reviewed. The claims submitted by providers were reviewed for compliance with Act 68, Prompt Payment of Claims. The claims submitted by the insured were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. Of the 100 claims reviewed, the providers submitted 95 and 5 claims were submitted by subscribers. No violations were noted.

The following is a synopsis of the 100 denied claims.

Number	Reason Denied	% of Claims
71	Medicare Denied	71%
23	Duplicate Claim	23%
6	Past Policy Coverage	6%

K. Medicare Supplement Claims Pended

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 38 Medicare supplemental claims pended during the experience period. All 38 claim files were requested and received for review. A pended claim is a claim that is placed in a temporary status until pertinent data, required to adjudicate the claim, is received. Once the data is received, the claim is removed from a pended status and either paid or denied. The claims submitted by providers were reviewed for compliance with Act 68, Prompt Payment of Claims. The claims submitted by the insured were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. Of the 38 pended claims, providers submitted 34 and 4 claims were submitted by subscribers. The following violations were noted:

2 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. The following claim files were missing file data for specific date ranges.

The following is a synopsis of the 38 pended claim reviewed.

# of Claims	Reason Pended	% of Claims
20	Government Claims (VA)	52%
10	Delinquent Policies	26%
4	Possible Duplicate Claims	11%
3	Special Needs Subscriber	9%
1	Large Dollar Amount	2%
38	**Totals**	**100%**

XI. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).

2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.

3. The Company must review and revise internal control procedures to ensure compliance with the interest payment requirements of Section 411B of the Insurance Company Law of 1921 (40 P.S. §511b).

4. The Company must review the 2 life claims noted in the Report that were due interest, calculate the interest, and make disbursement to the named beneficiaries. Proof of disbursement is to be sent to the Insurance Department within 60 days of issuance of this report.

5. The Company must review and revise Licensing procedures to ensure compliance with Section 605 and Section 606 of the Insurance Department Act of 1921 (40 P.S. §§235 and 236).

6. The Company must review and implement procedures to ensure all required mandated benefits are included in applicable certificates of coverage and policy contracts as provided by the following law.
    - A. Section 633 of the Insurance Company Law of 1921 (40 P.S. §1571-1575) Coverage for Annual Gynecological Examinations and Routine Pap Smears.

7. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).

8. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Section 81.

9. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

10. The Company must review internal control procedures to ensure compliance with replacement requirements of Title 31, Pennsylvania Code, Chapter 88.

11. The Company must review internal control procedures to ensure compliance with application and outline of coverage requirements of Title 31, Pennsylvania Code, Chapter 88.

12. The Company must review and revise internal control procedures to ensure compliance with the coverage requirements of Title 31, Pennsylvania Code, Chapter 89.99

13. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).

14. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).

15. The Company must review internal control procedures to ensure compliance with illustration notification, certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).

XII. COMPANY RESPONSE

February 9, 2005

VIA FACSIMILE (717) 772-4334 AND FEDERAL EXPRESS

Daniel A. Stemcosky, AIE, FLMI
Market Conduct Division Chief
Commonwealth of Pennsylvania
Insurance Department
Bureau of Enforcement
1321 Strawberry Square
Harrisburg, PA 17120

Re: Examination Warrant Number: 03-M12-019

Dear Mr. Stemcosky:

We received the Pennsylvania Insurance Department's Report of Examination of Combined Insurance Company of America covering the period beginning July 1, 2002, through June 30, 2003.

We would like to take this opportunity to respond to the violations cited in the Examination Report, and when necessary, propose remedial measures that can be taken to ensure that affected consumers are protected in accordance with all applicable laws and regulations.

Our responses will generally follow the format of the Examination Report. As you will discover, we do not fully agree with many of the findings in the Examination Report. However, our disagreement with any of the Examination Report findings should not be construed as a blanket denial to the violations of law or regulation noted therein. Our responses should similarly not be considered a challenge to the Department's authority to enforce the Pennsylvania Insurance Code (or related regulations) We look forward to working with the Department to resolve its concerns and we remain committed to conducting business in accordance with the Commonwealth's regulatory requirements.

Feel free to contact me at (847) 953-1512 if you have any questions or concerns.

Respectfully,

Richard M. Goodwin
Counsel
Combined Insurance Company of America

RMG: cem

Enclosure

(Sections) I-IV

Since no violations were cited in these Sections, no response to the findings in these sections will be provided by Combined.

(Section) V. FORMS

20 Violations – Title 18, Pennsylvania Consolidated Statutes, Section 4117 (k)
The Stop-Loss BP Group Application (Form # SLMA69050 0201) and the Group Vision Application (Form # VN MA63007 0801) were recently revised to include the required fraud notice. Combined will review all group applications used in Pennsylvania to ensure compliance with Section 4117 (k). If the Department deems it necessary, we will also issue a separate notice to each employer whose group application did not contain the fraud notice.

1 Violation – Insurance Company Law, Section 633 (40 P.S. §§1571-1575)
Coverage for Annual Gynecological Examinations and Routine Pap Smears
University Health Master Group Contract (CUH 200187) has been revised to include coverage for an annual gynecological examination, an annual clinical breast examination and routine pap smears, in accordance with the previously noted statute. In addition, Combined has instructed its third party administrator to review all University Health claims, identify claims involving these preventive health services, and readjudicate as necessary.

3 Violations – Title 31, Pennsylvania Code, Section 89.99 Student Accident and Sickness Insurance
The 2005-2006 versions of the Student Accident and Sickness Coverage Brochure have been revised include the entire coordination of benefits provisions. These brochures now contain the provision required pursuant to Section 89.99 (e) of the regulation.

(Section) VI – AGENT/BROKER LICENSING

1 Violation Insurance Department Act, Section 606 (40 P.S. §236)
Since the Examination Report did not give specific information about the noted violation, Combined cannot confirm whether it actually occurred. Please provide specific details.

2 Violations – Insurance Department Act, Section 606(c)(d), (40 P.S. §235)
It is Combined's policy and procedure to submit written appointment forms for all of its captive agents before allowing them to enter the field. In addition, each prospective agent is required to complete a lengthy training course (which includes preparation for state insurance producer license examinations). We are unable to explain why the appointment documentation, along with the required fees, for Ms. Gacha or Mr. Smith was never received by the Department.

(Section) VII. CONSUMER COMPLAINTS

Since no violations were noted in this Section, no response to the findings therein will be provided by Combined.

(Section) VIII. UNDERWRITING

Since no violations were noted in Segments A-J of this Section, no response the findings therein will be provided by Combined.

(Segment) K. Disability Income Policies Issued

18 Violations – Title 31, Pennsylvania Code, Section 88.181
Combined's practice is to deliver an outline of coverage along with each issued disability income policy. These items are part of an "issue package", which is essentially a folder that includes other forms such as a welcome letter, claim information, etc. Combined is unable to determine why the 18 files noted in the

Examination Report did not contain copies of the appropriate outlines or proof of their delivery. We have reviewed our issue instructions and found no errors. We will retrain all staff members responsible for assembling "issue packages" and keep all required file documentation to prevent similar failures in the future. We will also resend outlines to each of the 18 policyholders whose file did not contain copies of the outline.

7 Violations – Title 31, Pennsylvania Code, Section 81.6 (a)(1)
Combined does not allow its agents to replace life insurance from other carriers with Combined policies. On our life insurance policy applications, agents must affirmatively certify that the applicant is not replacing an existing life policy. However, it appears that the agent certification statement may not be sufficient to meet the requirements of the above-noted regulation. Combined will reconfirm that none of the policies issued based on the 7 applications in question involve replacement. We will also review the application form for this policy and make any necessary changes. In addition, we will retrain all agents who sell these policies on the proper completion of applications.

76 Violations – Title 31, Pennsylvania Code, Sections 83.3, 83.4a and 83.4b
Since each of these violations concerns the provision of a disclosure statement, we believe a consolidated response will effectively address the Examine Report findings. For these reasons and those noted below, we respectfully suggest that the violations noted in the Examination Report be similarly consolidated.

As we communicated to the examiner(s), Combined followed the NAIC Life Insurance Disclosure Model Regulation disclosure requirements. Under the NAIC Model, disclosure statements may be given at policy issuance with any life policy containing a "free look" period of at least 10 days. Pennsylvania's life insurance disclosure regulations differ substantially from the NAIC model, requiring that disclosures be provided at point-of-sale, and that their distribution be documented by an agent's certification statement.

Combined will analyze the current life insurance disclosure practices in light of the above-noted regulations. Existing forms will be revised if necessary. New certification forms will be developed. All agents in Pennsylvania selling life insurance will receive instruction on proper disclosure practices. We will reissue new disclosures to each of the 76 policyholders whose policy files did not contain a copy of the disclosure or the required agent certification. While we believe that none of these policyholders purchased their coverage based on misrepresentation, unfair comparison, or deceptive or misleading sales methods, Combined will conduct an investigation to ensure that none of these occurred. If any such activities did occur, cancellation, along with a full refund of premiums will be offered to the policy owner.

56 Violations – Title 31, Pennsylvania Code, Sections 83.55, 83.55a and 83.55b
Since each of these violations concerns the provisions of the surrender comparison index disclosure, we are again providing a consolidated response. We repeat our suggestion to likewise consolidate the violations noted in the Examination Report.

As indicated above, Combined followed the NAIC Life Insurance Disclosure Model Regulation requirements. A separate surrender comparison index disclosure statement was not used for non-illustrated life policies in Pennsylvania.

Combined proposes to develop a surrender comparison index disclosure statement that will meet the guidelines established in Section 83.55. We also propose to deliver the disclosure along with each life policies issued. We will also mail a disclosure statement to each of 56 policyholders who did not previously receive one. While we do not believe Combined's failure to provide this disclosure statement impeded any of our policyholders' ability to compare the costs of our policies with the costs of other insurers' coverage, we will conduct an investigation to ensure that none of our policyholders felt prevented from doing so.

91 Violations – Insurance Company Law, Section 404-A (40 P.S. §625-4)
Most of Combined's life insurance policies are underwritten at its home office. They are generally not "field issued" by our agents. As a result, policies and other introductory materials are delivered directly to the policyholder through the mail.

Acceptable means of verifying policy delivery were discussed with the examiners. We were told that if we provided a self-addressed, stamped post card (acknowledging receipt of the policy) along with our "issue package", we would be in substantial compliance with the statute. We also propose using a similar verification method for each of the 91 policyholders whose files did not contain the required receipt or proof of policy delivery.

6 Violations – Insurance Company Law, Section 406-A (40 P.S. §625-6)
In each of the 6 noted violations, it appears that mistakes were made during the completion of the application. Combined trains its agents extensively on the proper methods for assisting in the completion of policy applications. Our agents are prohibited from altering or revising any application without the applicant's documented consent (signature, initials or the like). In all but one instance, the agent essentially "scratched out" a piece of information on the application upon discovering that it was unnecessary or incorrect. None of the changes on the applications in question materially affected the policy. However, because we do not have a record of each policyholder's consent to any alterations in the applications, we cannot be certain that they agreed to such alterations.

Combined will contact each policyholder whose application was altered without his or her consent. We will confirm whether their submitted applications were correct and whether any alterations were made with their consent. Should we uncover any discrepancies, we will offer the affected policyholder either a full refund of all premiums paid or an appropriate adjustment to coverage. Our agents in the Commonwealth will also be required to attend training sessions on sales practices requirements.

45/46/46 Violations – Insurance Company Law, Section 408A(c)(4)(i) and (ii), and Section 408A(e)(1)(i), (40 P.S. §625-8)
Since each of these violations concerns the provision of a policy illustration, we would like to present a consolidated response.

All of the above-noted violations were based upon marketing and sale of two of Combined's life insurance policy forms. Forms 37058-PA (whole life insurance) and 33074-PA (level term life insurance) are life insurance policies that are offered to individuals. Each form was submitted to, and approved by the Department. Combined intended to market each form without illustrations. In the submission package for each form, we should have disclosed our intent to market them without illustrations. In subsequent submissions to revise these forms, it appears that we may not have correctly identified the original policy form numbers or disclosed that the (re)submitted forms were intended to be marketed without illustrations. We believe that these omissions caused confusion among our staff and incorrectly led the examiners to believe that the policies should have been accompanied by illustrations. Because the policies were not intended to be accompanied by illustrations, we do not believe that Combined violated the illustration delivery and certification requirements of these statutes.

5 Violations – Insurance Company Law, Section 408-A(e)(2)(iii) (40 P.S. §625-8)
As we indicated in our response to immediately preceding violations, Combined intended to market policy form 33074-PA without an illustration. Because the policy is not accompanied by an illustration, we do not believe that Combined violated the certification statement requirement of this statute. However, we will revise our "worksite policy" underwriting process so that life policies will not be issued if applications are not accompanied by the proper agent certification (408-A (e)(2)(i)).

(Segment) M. Accident and Health Policies Issued

18 Violations – Title 31, Pennsylvania Code, Section 88.181
During the examination, it was brought to our attention that only 4 files did not contain copies of the outline of coverage or proof of their delivery. We do not know how the Department concluded that 18 violations occurred and we request additional information on each. Combined's practice is to deliver an outline of coverage along with each issued accident and/or sickness policy. These items are part of an "issue package", which is essentially a folder that includes other forms such as a welcome letter, claim information, etc. Combined is unable to determine why the 18 files noted in the Examination Report did

not contain copies of the appropriate outlines. We have reviewed our issue instructions and found no errors. We will retrain all staff members responsible for assembling "issue packages" and keep all required file documentation to prevent similar failures in the future. We will also resend outlines to each policyholder whose file did not contain copies of the outline.

(Segments) N-S

Since no violations were noted in Segment N-S of this Section, no response to the findings therein will be provided by Combined.

(Segment) T. Globe Policies Terminated

1 Violation – Insurance Department Act, Section 903 (40 P.S. §323.3)
In one instance, Combined could not produce a copy of a cash surrender check for a terminated policy (which was assumed by the Company from Globe Life). Subsequent to the examination, we have located the cash surrender check copy and have added it to the appropriate file. We believe that the policy file now contains all required documentation. To protect our (former) customers' personal information, we will provide the Department with a copy of the check under a separate cover.

(Segment) U. LGL Policies Terminated

1 Violation – Insurance Department Act, Section 903 (40 P.S. §323.3)
Please note that Combined's Little Grant Life Insurance policies were issued directly by the Company. "Little Grant Life" or "LGL" refers to a brand name for the policies. They were not issued as a result of any merger with, or assumption of business by Combined. The Company discontinued offering its LGL policies in 1988.

Before receiving the Examination Report, Combined was unaware of any violations related to the termination of its LGL policies. The final exit summary of the examination (dated September 9, 2004) made no mention of any violations. According to our records, 24 policy files were reviewed and no violations were noted. We would like the opportunity to respond to this violation. We ask the Department to provide the LGL policy number for the violation it discovered so that we may address its concerns.

(Segment) V. Accident and Health Replacement Policies Issued

1 Violation – Title 31, Pennsylvania Code, Section 88.101 (Application Forms)
Combined does not disagree with noted violation. We will, however, review other applications submitted by the agent who submitted the deficient application to determine if any retraining is necessary.

2 Violations – Title 31, Pennsylvania Code, Section 88.102
Again, Combined does not disagree with the noted violation. We will review other applications submitted by agent(s) who submitted the deficient application "package" to determine if any retraining is necessary.

(Segments) W&X

Since no violations were noted in Segments W and X of this Section, no response to the findings therein will be provided by Combined.

(Section) <u>IX. INTERNAL AUDITS AND COMPLIANCE PROCEDURES</u>

Since no violations were cited in this Section, no response to the findings therein will be provided by Combined.

(Section) <u>X. CLAIMS</u>

(Segment) <u>A. Accident and Health Claims</u>

1 Violation – Title 31, Pennsylvania Code, Section 146.5
Combined does not disagree with the noted violation. We would like to point out that Combined's accident and sickness insurance policies are generally marketed as supplements to medical insurance and they are designed to protect consumers from costs that medical insurance plans usually do not cover. Unfortunately, much of the documentation required to process our accident and sickness claims is given to us only after the "primary" medical coverage payor has processed them.

1 Violation – Title 31, Pennsylvania Code, Section 146.6
Combined does not disagree with the noted violation.

(Segment) B. Group Life JRW BAP Claims

4 Violations – Title 31, Pennsylvania Code, Section 146.5
Combined does not disagree with the noted violations.

3 Violations – Title 31, Pennsylvania Code, Section 146.6
Combined does not disagree with the noted violations.

2 Violations – Insurance Company Law, Section 411B, Payment of Benefits (40 P.S. §511b)
Combined does not disagree with the noted violations. Interest for claim number 25132502, in the amount of $424.11, and for claim number 25122502, in the amount of $146.30, was paid by Combined on April 6, 2004.

(Segment) C. Life Claims

2 Violations – Title 31, Pennsylvania Code, Section 146.3
Combined does not disagree with the noted violations. However, as we previously communicated to the examiner(s), some of our life claim files were opened as a result of telephone requests or conversations with prospective beneficiaries. We believe that our eagerness to serve our customers (by opening claim files without sufficient notice of claim) may have caused us the inadvertently violate Sections 146.3, 146.5 and 146.6.

5 Violations – Title 31, Pennsylvania Code, Section 146.3
Combined does not disagree with the noted violations, but calls the Department's attention to the immediately preceding response.

1 Violation – Title 31, Pennsylvania Code, Section 146.6
Combined does not disagree with the noted violation, but calls the Department's attention the initial response of this Segment.

(Segment) D. Long-Term Disability Claims
Since no violations were noted in this Segment, no response to the findings therein will be provided by Combined.

(Segment) E. Student University Health Claims

32 Violations – Title 31, Pennsylvania Code, Section 146.5
Combined does not disagree with the noted violations. As you know, Combined's student accident and sickness business is administered by third parties. To ensure compliance with the cited regulation, Combined will audit all administrators that process claims for its student accident and sickness business. We anticipate completing this audit prior to end of the year.

18 Violations – Title 31, Pennsylvania Code, Section 146.6
Combined does not disagree with the noted violations and calls the Department's attention to the immediately preceding response.

(Segment) F. Stop-loss BP Claims

Since no violations were noted in this Segment, no response to the findings therein will be provided by Combined.

(Segment) G. Vision Claims

1 Violation – Title 31, Pennsylvania Code, Section 146.3
Combined does not disagree with the noted violations.

(Segment) H. GE Claims and GE Amoco Claims

6 Violations – Title 31, Pennsylvania Code, Section 146.3
Combined does not disagree with the noted violations and we have not been able to locate the 6 requested files.

(Segments) I & J

Since no violations were noted in the Segments, no response to the findings therein will be provided by Combined.

(Segment) K. Medicare Supplement Claims Pended

2 Violations – Title 31, Pennsylvania Code, Section 146.3
Combined does not disagree with the noted violations.

(Section) XI. RECOMMENDATIONS

Combined generally agrees with the recommendations made in the Examination Report and, as a result, we will establish or revise our (internal control) procedures accordingly. We respectfully submit that none of the noted violations, except for those involving life insurance disclosures, are significant of any effort by Combined to either ignore or knowingly violate Pennsylvania's insurance laws and regulations.

In our responses above, Combined has also proposed taking remedial measures in response to several of the noted violations, especially those involving life insurance disclosures. We ask for the Department's review and approval of these measures.

However, Combined does not agree with the recommendation requiring that the Company review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A the Insurance Company Law of 1921 (#15). As we indicated above, Combined did not intend to market its life insurance policies with illustrations.