

REPORT OF EXAMINATION
OF THE
MARKET CONDUCT AFFAIRS
OF
BENTON LIFE INSURANCE COMPANY, INC.

SHREVEPORT, LOUISIANA

AS OF

December 31, 2001

NAIC CODE 60231

NAIC ETS EXAM NO. LA071-M15

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December 13, 2002

Honorable J. Robert Wooley
Acting Commissioner of Insurance
P O Box 94214
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Sir:

Pursuant to statutory provisions and in compliance with your instructions, a targeted market conduct examination has been made of the affairs of

BENTON LIFE INSURANCE COMPANY, INC.

1220 NORTH HEARNE

SHREVEPORT, LOUISIANA 71107

as of November 30, 2002 and the report of examination is herewith submitted.

FOREWORD

In accordance with **LSA-R.S. 22:1301D** a market conduct examination was conducted on the activities of Benton Life Insurance Company, Inc. from January 1, 2001 through November 30, 2001. The examination was performed by test and all tests applied are included in this report.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of Benton Life Insurance Company, hereinafter referred to as ("Benton Life") or ("Company"), was a "limited targeted" market conduct examination authorized by the Louisiana Department of Insurance ("DOI") or ("Department"). The examination was limited in that, not all examination procedures recommended by the National Association of Insurance Commissioners were performed and not all areas of the Company's operation were reviewed.

The examination included, but was not limited to, the following areas of the Company's operation:

- Company Overview,
- Complaint and Grievance Review,
- Underwriting and Rating Review and
- Claims Review.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of

Insurance Commissioners ("NAIC") Guidelines where applicable. The NAIC Guidelines set the standard of conduct for a health insurer and promote a program of fair treatment of policyholders. The *NAIC Market Conduct Examiner's Handbook, Volume II* was used as a measure of compliance.

COMPANY OVERVIEW

COMPANY HISTORY

The Company was organized as a domestic service insurer on June 19, 1953 under the provision of the laws of the State of Louisiana relative to the organization of domestic service companies, **LRS 22:291 through 295**.

Acquisition of the Company by the present sole shareholder was made in 1995 when Benton Funeral Home was acquired. This acquisition was approved by the Department on June 25, 1997.

In September 1997, the Company converted to an industrial stock insurance company and officially changed their domicile from Benton, Louisiana (Bossier Parish) to Shreveport, Louisiana (Caddo Parish). At the same time the Company's name was changed from Benton Colored Burial Service Association to Benton Life Insurance Company, Inc., hereinafter referred to as ("Benton Life") or ("Company").

The first industrial life insurance policy was written November 1, 1997.

The Company was organized as a Louisiana corporation, which as of November 30, 2002, has one stockholder. Pursuant to **LRS 22:1002 (5)**, the Company is considered to be a part of a holding company system.

The Company's place in this holding company system is as follows with ownership denoted by indenture:

Leroy Patterson, an individual
Benton Life Insurance Company
Patterson Funeral Homes

The only office maintained by the Company is the home office, located at 1220 North Hearne Avenue in Shreveport, Louisiana. The Company conducts all of the operations of the insurance company from this location, including sales and premium collections. Patterson Funeral Home resides in the same building.

The Company primarily markets its business to the Caddo/Bossier Parish Area. Three products are marketed: a Graded Death Benefit Whole Life, a Graded Death Benefit 20 Pay Life and a Single Premium Increasing Death Benefit.

COMPLAINT REVIEW

In June 2002, a complaint was filed with the Louisiana Department of Insurance (#CA-02-3202) due to the claimant's dissatisfaction with Benton Life's handling of the death benefit of \$750 on Policy PB194 on the life of Reverend Mannie Allen, Sr. on April 16, 2001. Mr. Allen, Sr. died on June 8, 2002.

In this complaint, Allen's policy was referred to as a pre-need policy. Also, thirteen (13) Certificates of Coverage were provided that represented the thirteen (13) payments made by the insured that totaled \$750. This examiner informed Mrs. Patterson that these *unusual events* triggered this examination.

When Benton Life responded to the Department concerning the complaint, one (1) Certificate of Coverage was provided for \$750, along with a copy of a Twelve Month

Lien Endorsement, (Form SPLIEN-2002). It should be noted that that the Twelve Month Lien Endorsement Form was not approved by the Department until October 1, 2002.

During this examination, Mrs. Patterson was asked to respond to the unusual manner in which the policy was issued. She stated that Reverend Mannie Allen, Sr. wanted to secure life insurance coverage of \$2,500 but did not want to deal with the contestable period in the policy. It was his intent to make monthly installments until he had accumulated \$2,500 so he could buy a Single Premium Policy that would not have a contestable period and would be in full benefit at the date of issue. According to the Company, Rev. Allen, Sr., who was 79 at that time, was adamant about how he wanted to pay for his policy.

Apparently, in an effort to satisfy the insured's request, Mrs. Patterson agreed to collect premium payments from Mannie Allen, Sr. and issue a Certificate of Coverage for each payment along with a separate receipt for each payment. Mrs. Patterson provided copies of the receipts during this examination. There is no evidence that an application was completed on Mannie Allen, Sr.

Although Mrs. Patterson attempted to use the *function* of the Twelve Month Lien Form for Allen's coverage in 2001, the Department, until 2002 did not approve this policy form. In addition, the Company did not follow the language in this instrument. The form clearly states, "If the entire gross single premium is not paid during the first policy year, the policy will become paid up at the end of the first policy year for a reduced initial insurance amount based upon the pro-rata portion of the premiums paid to the gross single premium." During the first policy year, the Company collected \$600 and at that time a reduced paid up policy should have been issued to Reverend Allen, Sr.

It should be noted that Benton Life did pay \$750 as a death benefit, which according to the Company's records, was the exact amount that was paid by the insured. During this examination, Mrs. Patterson was informed that it was a violation for the Company to use a policy form that had not been approved by the Department.

Mrs. Patterson was provided with a memo as to my review of the issuance of the policy on Rev. Allen, Sr. with emphasis on the use of the Twelve Month Lien Form. She was requested to provide a copy of this memo to Mr. Ernest Huval, the company's actuary.

Mrs. Patterson stated that no other policies had been issued in this manner and the issuance of Policy PB194 was done solely in an effort to satisfy Rev. Allen, Sr. She also stated she would not offer such an arrangement again because of the confusion that had occurred.

CLAIM REVIEW

The Company provided a claim register for 2001 and a 2002 register through November 16, 2002, containing approximately sixty (60) death claims. A general review was made of these registers and the supporting sixty (60) death claim files. Claims were paid timely and claim files were well documented. No exceptions were detected during this review.

UNDERWRITING AND RATING REVIEW

The Company provided new business registers for 2001 and 2002 through November 15, 2002, containing approximately three hundred (300) new business policies. A general review was performed on the registers and a random sampling of thirteen (13) new business cases was selected in order to review the applications, timely issuance of policies, rates charged and status of the writing producer.

The sampling indicated the applications were complete and the policies were issued timely, usually within 30 days or less. Rates charged from the policy sampling were verified without exception. The sampling only contained two (2) writing producers. The Company provided documentation indicating that these producers were properly appointed with the Department. The Company stated that it currently has only these two (2) producers.

COMMENTS AND RECOMMENDATIONS

In an attempt to satisfy an applicant's wish, the Company agreed to accept money to be applied toward a policy to be effective at a future date. To accomplish this, the provisions of a Twelve Month Lien Endorsement Form (SPLIEN-2002), which wasn't approved by the Department until a later date, were utilized. The use of this form, which was provided with the Company's response to the Department relating to the Allen Complaint, is a violation of **LSA-22: 620 A. (1)**, which states as follows:

"No basic insurance policy form, other than surety bond forms, or application form where written application is required and is to be attached to the policy, or be a part of the contract or printed life or health and accident rider or endorsement form shall be issued, delivered, or used unless it has been filed with and approved by the commissioner of insurance."

It is recommended that the Company issue policies only on forms approved by the Department.

During this review, it was determined that Patterson Funeral Home in Shreveport, Louisiana does have a pre-need arrangement with Kilpatrick Life Insurance Company of Shreveport, Louisiana.

CONCLUSION

I, Richard A. Spong, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct an examination of the market conduct activities of

BENTON LIFE INSURANCE COMPANY, INC.

SHREVEPORT, LOUISIANA

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

The undersigned wishes to acknowledge the courteous cooperation of the Company's Officers during this examination.

Respectfully submitted,



Richard A. Spong, CIE, CFE
Louisiana Department of Insurance