

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

GREAT CENTRAL LIFE INSURANCE COMPANY

OAKDALE, LOUISIANA

AS OF

DECEMBER 31, 1995

NAIC COMPANY CODE 74470

TABLE OF CONTENTS

<u>SUBJECT</u>	<u>PAGE</u>
Salutation.....	1
Foreword.....	2
Scope of Examination.....	3
Company Overview.....	4
Company History.....	4
Parent, Subsidiaries, and Affiliates.....	4
Prior Examination Reports.....	4
Company Authorizations.....	4
Marketing.....	4
Policy Forms and Filings Review.....	4
Agents' Licensing and Other Procedures.....	4
Policyholder Treatment.....	5
Underwriting Review.....	5
Consumer Complaints.....	5
Industrial Life and Annuity Claims Review.....	6
Credit Life Claims Review.....	6
Credit Accident and Health Claims Review.....	8
Rate Review.....	9
Comments and Recommendations.....	9
Conclusion.....	12



JAMES H. "JIM" BROWN
COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

P.O. Box 94214
BATON ROUGE, LOUISIANA 70804-9214
(504) 342-5900

May 13, 1996

Honorable James H. Brown
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

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

GREAT CENTRAL LIFE INSURANCE COMPANY

at its Home Office at
137 East 6th Avenue
OAKDALE, LOUISIANA 71463

as of December 31, 1995 and the report of examination is herewith submitted.

FOREWORD

This Market Conduct Examination Report reflects the insurance activities of Great Central Life Insurance Company for the period from January 1, 1993 through December 31, 1995.

The Market Conduct Examination is, in general, a report by exception. This means that references in the examination report in regards to procedures and/or files subject to review may be omitted if no improprieties, or errors were noted.

Unless otherwise stated, the NAIC Market Conduct Examiners' Handbook was used as a measure of compliance.

SCOPE OF EXAMINATION

The examination of Great Central Life Insurance Company, hereinafter referred to as GCLIC or Company, was conducted by the Louisiana Department of Insurance (Department) in accordance with the laws of the State of Louisiana and the Louisiana and the guidelines set forth by the National Association of Insurance Commissioners.

This examination covered the period of January 1, 1993 through December 31, 1995. The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations and to determine if the Company's operations were consistent with the public interest.

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

1. Company Overview
2. Policyholder Treatment
3. Policy Form Review
4. Claims Practices
5. Rate Review
6. Agent Review

COMPANY OVERVIEW

COMPANY HISTORY AND OPERATIONS

The Company was incorporated on October 15, 1966, under the name Great Central Life Insurance Company to engage in the business of life and health and accident coverages.

PARENT, SUBSIDIARIES, AND AFFILIATES

The Company owns 64% of Great Central Fire Insurance Company.

PRIOR EXAMINATION REPORTS

There were no prior market conduct examinations of the Company.

COMPANY AUTHORIZATIONS

A review of the Company's certificate of authority revealed that the Company had secured a license to operate in the state of Louisiana for the years under examination.

MARKETING

POLICY FORMS AND FILINGS

A review of policy forms used by the Company during the period under examination was performed with exception.

AGENTS' LICENSING AND OTHER PROCEDURES

A review of the Company's agents' records revealed that one agent was not properly licensed and appointed with the Company. The Company advised the finance company on May 9, 1996, that the agent in question was not to transact any business for the Company until properly licensed and appointed.

The Company has an agreement with most of its creditor/agents

whereby the creditor/agent reimburses the Company for any credit life and accident and health losses paid by the Company on business written by the creditor/agent. This reimbursement by the creditor/agent is treated by the Company as a reduction of commissions paid or a "chargeback" of commissions paid to the creditor/agent.

The Company's practice of charging back commissions to its agents based on claims experience results in the Company's agents receiving a variable commission rate.

POLICYHOLDER TREATMENT

UNDERWRITING REVIEW

The Company relies on the finance companies and other lenders to perform any field underwriting.

CONSUMER COMPLAINTS

The NAIC defines a complaint as a written communication primarily expressing a grievance. Louisiana Revised Statute 22:1213 (17) states "complaint" shall mean any written communication received by the insurer from the Department of Insurance.

A review was made of 11 complaints representing most of the complaints received by the Company for the period under examination.

Most of the Company's complaints involved settlement of claims. There were no indications of policyholder abuse and the Company settled claims in accordance with policy provision.

The Company had few complaints based on the volume of claims processed.

The Company did not maintain a complaint register as required by LSA-R.S. 22:1214 (17) and its complaint files were not maintained with adequate documentation.

INDUSTRIAL LIFE AND ANNUITY CLAIMS REVIEW

A random sampling of industrial life and annuity claims was selected for review. This review revealed that the Company paid these claims timely and according to policy provisions.

CREDIT LIFE CLAIMS REVIEW

A random sampling of thirty-six credit life claims were selected for the three year period under examination. This sampling represented approximately twenty percent (20%) of the claims for the period under examination.

The Company has an agreement with most finance companies or other lenders that in the event of a death claim, the lender (creditor/agent) will adjudicate the claim.

The creditor/agent issues a check to the Company for the amount of the claim based on its determination of the loss. This check is booked by the Company as a credit to its commission expense account. The Company then issues a claim check or checks equal to the amount of the creditor's check back to the creditor and debtor/insured. The creditor/agent is agreeable to reimbursing the Company for its claims losses because the creditor/agent generally receives a ninety percent (90%)

"Failure to maintain marketing and performance records. Failure of an insurer to maintain its books, records, documents, and other business records in such an order that data regarding complaints, claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance commissioner. Data for at least the current calendar year and the two preceding years shall be maintained."

It is the Company's usual practice to send claim checks payable to the second beneficiary back to the lender for delivery. During this review it was noted that a number of these claim checks were still outstanding since 1995.

CREDIT ACCIDENT AND HEALTH CLAIMS REVIEW

A random sampling of twenty-four credit accident and health (A&H) claims were selected for review.

The lenders (creditor/agents) adjudicate A&H claims under the same agreement which was explained under the review of credit life claims.

The following is a summary of the review of the Company's A&H claim files.

Original sampling	24
Files not provided	<u>- 2</u>
Number of files available for review	22

Of the twenty-two claim files reviewed the following was detected. Three claims were clear cases of a preexisting condition while three others suggested a possible preexisting condition. Four claims were pregnancy related which is clearly excluded from the Company's policy. One claim was the result of a fight in which the insured suffered a broken nose and jaw.

These claims were paid based on the attending physician's statement without any additional investigation of medical records by the Company.

RATE REVIEW

A review of the premiums the Company charges for credit life, credit accident and sickness, and accidental death and dismemberment was performed. This review detected a number of premium charges for accidental death and dismemberment (AD&D) coverage which greatly exceeded the allowable premium charge.

The Company has no computer or manual checks to verify the premiums charged by its creditor/agents so consequently any over or undercharges would not be detected by the Company.

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company establish procedures which will insure that the finance companies or other lenders have at least two properly licensed and appointed agents per location representing the Company. See AGENTS' LICENSING AND OTHER PROCEDURES, page 4.

It is recommended that the Company revise its agreement with its creditor/agents so that the Company will be responsible for all claim functions. During the review of credit life and accident and health claims it was apparent that the Company is being subjected to adverse selection of risks.

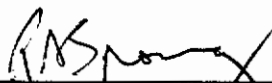
In addition, claim files should be maintained in a manner which will be in compliance with LSA-R.S. 22:1214 (16). See

CONCLUSION

Acknowledgment is made of the courteous cooperation of the Officers and Employees of the Company during the examination.

I, the undersigned, hereby certify that a Market Conduct Examination has been made of Great Central Life Insurance Company and the preceding report of examination results are true to the best of my ability.

Respectfully submitted,



Richard A. Spong, CFE, AIE
Department of Insurance
State of Louisiana

**STATE OF LOUISIANA
PARISH OF EAST BATON ROUGE**

BEFORE ME, the undersigned authority, personally came and appeared Richard A. Spong, who after being first duly sworn according to law, deposes and says that he is an examiner for the Commissioner of Insurance of the State of Louisiana and that as such he was assigned to make an examination of the affairs and condition of the

**GREAT CENTRAL LIFE INSURANCE COMPANY
OAKDALE, LOUISIANA**

That he made such examination and the above and foregoing is a true and correct copy of such Company and the same is true and correct to the best of his knowledge, information and belief.



RICHARD A. SPONG, CFE, AIE
EXAMINER

_____, NOTARY PUBLIC
(PRINT NAME)

in and for the State of Louisiana

My commission expires_____.