

**REPORT OF EXAMINATION**

**OF THE**

**MARKET CONDUCT AFFAIRS**

**OF**

**KILPATRICK LIFE INSURANCE COMPANY**

**SHREVEPORT, LOUISIANA**

**AS OF**

**December 31, 2002**

**NAIC CODE 74918**

**NAIC ETS EXAM NO. LA071-M16**

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April 11, 2003

Honorable J. Robert Wooley  
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 limited market conduct examination has been made of the affairs of

**KILPATRICK LIFE INSURANCE CO.**

at its Home Office

1818 Marshall Street

Shreveport, Louisiana, 71101

as of December 31, 2002, and the report of examination is herewith submitted.

## **FOREWORD**

In accordance with **LSA-R.S. 22:1301 D.**, a market conduct examination was conducted on the activities of Kilpatrick Life Insurance Company from January 1, 2000 through December 31, 2002. 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 Kilpatrick Life Insurance Company, hereinafter referred to as ("KLIC") or ("Company"), was a limited routine market conduct examination authorized by the Louisiana Department of Insurance ("LDOI") or ("Department"). The examination was limited, in that not all examination procedures recommended by the National Association of Insurance Commissioners ("NAIC") were performed.

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

- Company Overview,
- Complaints,
- Producer Appointments,
- Marketing and Sales,
- Underwriting and Rating and
- Claims.

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

NAIC Guidelines. The NAIC Guidelines set the standard of conduct for a health insurer and promote a program of fair treatment of policyholders. Certain portions of the NAIC Market Conduct Examiner's Handbook, Volume II were used as a measure of compliance.

An Audit Command Language Program ("ACL"), a data manipulation program provided by the Department, was utilized in this examination. Samplings were utilized to test the Company's records and procedures for statutory compliance. The ACL Program was used, when possible, to automatically generate a random sampling of data records. "Random" is a theoretical concept meaning that all items in a population or file (before selection) have an equal chance of appearing in the sampling. In instances in which ACL was not used, a systematic (sequential) sampling or a judgmental sampling of certain company record listings was performed.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples. Based on a review of the sampling's error rate, additional samplings may be required.

## **COMPANY OVERVIEW**

### **COMPANY HISTORY**

The Company was organized as an industrial life insurer under the laws of Louisiana on August 14, 1936 as Kilpatrick Life Insurance Company of Louisiana. By charter amendment (changing the purpose of the corporation) effective January 3, 1980, the Company converted from an industrial life insurer to an ordinary life insurer. The

Company is licensed to write ordinary life and accident and health insurance in the states of Louisiana, Texas, Mississippi and Arkansas.

In 1989, the Company purchased a Texas corporate charter and renamed it Kilpatrick Life Insurance Company. Effective July 21, 1989, the Company executed an assumption reinsurance agreement with Kilpatrick Life Insurance Company, located in Longview, Texas, whereby this Texas subsidiary assumed one hundred percent (100%) of the policies insuring Texas residents that had been issued by the Company.

By charter amendment recorded August 22, 1991, the Company name was changed from Kilpatrick Life Insurance Company of Louisiana to Kilpatrick Life Insurance Company.

Effective December 31, 1991, the Company's wholly owned subsidiary, Kilpatrick life Insurance Company, located in Longview, Texas, was dissolved and all of its assets and liabilities were assumed by the Company. The Texas Commissioner of Insurance approved this transaction on April 6, 1992.

Effective December 31, 1992, the Company purchased and assumed all of the policies of life insurance and accident and health insurance issued by Kilpatrick Life Insurance Company located in Longview, Texas. This agreement was approved by the Texas Commissioner of Insurance on July 13, 1992 and recorded by the Louisiana Commissioner of Insurance on July 30, 1992.

On September 20, 1982, the Company purchased Central State Life Insurance Company of Alexandria, Louisiana. On June 30, 1994, the Company assumed all of the operations, assets and liabilities of Central State Life Insurance Company. This assumption/dissolution agreement was approved by the Department.

In 2001, the Company purchased 49.5% (forty-nine and a half percent) of State National Fire Insurance Company, a Louisiana domestic property and casualty insurer located in Alexandria, Louisiana.

### ***TERRITORY AND PLAN OF OPERATIONS***

As of December 31, 2002, the Company had certificates of authority to transact life and health and accident insurance in Louisiana, Texas, Arkansas and Mississippi. Business is acquired by the Company's captive producers who work out of branch offices located in the following Louisiana locations: Coushatta, Mansfield, Jena, Oakdale and Marksville. In addition, the Company has one branch office in Longview, Texas.

As of the examination date, the Company had contracted with approximately one hundred and twenty-five (125) producers and seventeen (17) part-time producers.

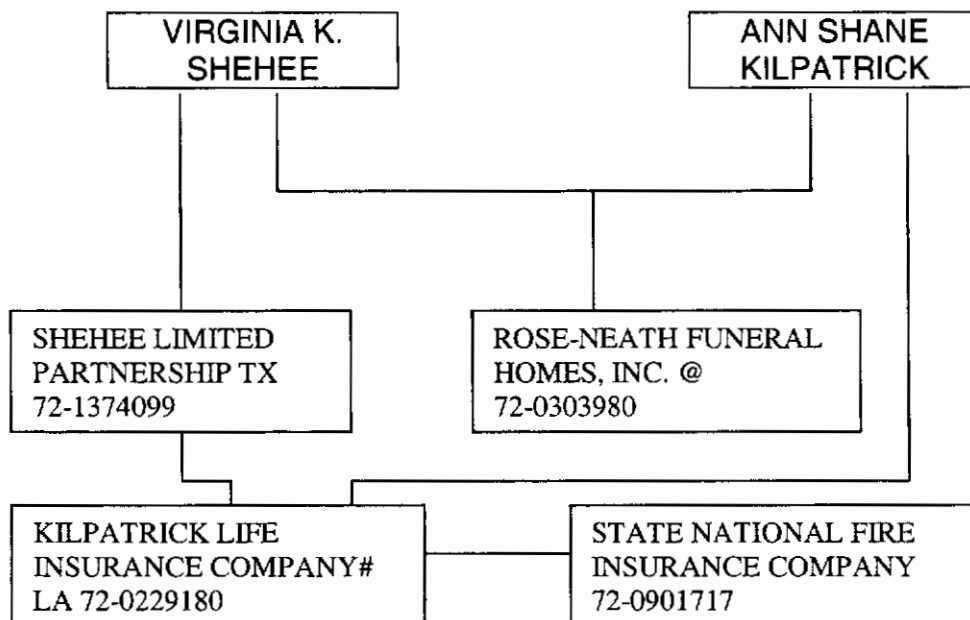
For the period under examination, the Company's annual statements reflected the following Louisiana premium and annuity considerations for the period under examination:

<u>YEAR</u>	<u>PREMIUM VOLUME</u>
2000	\$ 16,874,587
2001	17,094,394
2002	17,069,557

### ***PARENT, SUBSIDIARIES AND AFFILIATES***

# KILPATRICK COMPANIES ORGANIZATION CHART

DECEMBER 31, 2002



@ 48.59% ANN SHANE KILPATRICK, 51.41% SHEHEE GROUP, SEE NOTE 1  
 # 44.13% ANN SHANE KILPATRICK, 55.87% SHEHEE GROUP, SEE NOTE 2

NOTE 1 (Shehee Group) – Shehee Limited Partnership 34.80%  
 Virginia Kilpatrick Shehee and William Peyton Shehee, Jr.  
 Trustees for Voting Trust 16.61%  
51.41%

NOTE 2 (Shehee Group) – Virginia Kilpatrick Shehee and  
 William Peyton Shehee, Jr.  
 Trustees for Voting Trust 55.87%

## ***ANTIFRAUD POLICY***

During this examination, the Company was reminded of the **LDOI Bulletin #99-01** dated June 1, 1999, referencing "Consent for Prohibited Person to engage in Insurance Business". This Bulletin was a notification to all persons and entities engaged in or contemplating being engaged in the business of insurance in this state, that the Louisiana Department of Insurance has enacted guidelines and requirements for granting written consent to engage in the business of insurance for individuals who are considered "prohibited persons" under The Violent Crime Control and Law Enforcement Act of 1994, Title 18 U.S. Code, Sections 1033 and 1034. The Company's procedures for hiring employees appear to be in compliance with **Bulletin #99-01**.

## ***RECOMMENDATIONS FROM PRIOR EXAMINATION REPORTS***

The previous Louisiana Financial Examination Report as of December 31, 1997 did not contain any recommendations relating to market conduct activities.

## ***COMPLAINTS REVIEW***

This review was conducted in accordance with the provisions of Louisiana Revised Statute 22:1214(17) which states as follows:

**"The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance: ...Failure to maintain adequate complaint handling procedures. Failure of any insurer to maintain a complete record of all the complaints that it received since the date of its last examination. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each**

**complaint. For purposes of this Paragraph, “complaint” shall mean any written communication primarily expressing a grievance received by the insurer from the Department of Insurance.”**

A judgmental sampling of six (6) complaints filed with the LDOI was selected for review that represented approximately fifty percent (50%) of the total complaints for the period under examination. A review of the Company’s responses to the Department indicated that responses were timely and provided adequate detail to explain the Company’s position.

The Company maintains a complaint register that contains all complaints filed against the Company. The Company successfully extracted those complaints filed with the LDOI during the period under examination for purposes of this examination. The complaint register was in compliance with **LSA-R. S. 22:1214(17)**. No exceptions were noted during this review.

### ***PRODUCER REVIEW***

The Company provides intense screening of potential producer applicants, which includes a consumer credit report and a criminal investigation. In addition, various interviews are conducted in order to evaluate the applicant’s marketing ability. During a producer’s career the Company stresses ethical standards, rules of conduct and minimum standards for producers. The Company demonstrated a strict enforcement of these principles by promptly terminating any producer with fieldwork deficiencies. It should be noted that during the period under examination, no producers were terminated for cause as defined in **LSA-R.S. 22:1142**.

The Company's recruiting procedures appear to be in compliance with **LDOI Bulletin #99-01** dated June 1, 1999 referencing "Consent for Prohibited Person to engage in Insurance Business".

Since this was the first complete market conduct examination of the Company's producer appointments, all active producers were reviewed for appointments with the LDOI. No exceptions were noted during this review.

It is recommended that the Company add the Department's producer license number to its producer database in order to expedite this review in future examinations.

### ***MARKETING AND SALES REVIEW***

The Company advertises in local newspapers for name recognition. Sales material provided to its producers during the period under examination was reviewed without exception. Management must approve sales material developed by the Company's producers.

The Company's website is [www.klic.com](http://www.klic.com). Currently the website provides office locations and phone numbers. The Company indicated that there may be future enhancements to this website.

### ***UNDERWRITING AND RATING REVIEW***

The Company provided underwriting procedures that appeared to be in compliance with applicable statutes, rules and regulations.

A systematic sampling of sixty (60) new business-underwriting files for individual life was selected for the period under examination. This review indicated that applications from this sampling were fully completed and the required disclosure forms

were documented. The Underwriting Department responded promptly in order to secure missing items on an application. It was determined from the sampling that the turnaround time, from the date an application was received to the issue date of the policy, was approximately four (4) days.

From the above sampling of new business, a random sampling of approximately twenty (20) applications was selected to verify writing producer appointments. Also, an additional random sampling of twenty (20) applications was selected to verify rate calculations. No exceptions were noted during the review of producer appointments or rate calculations.

The Company has an Automatic Coinsurance Agreement with Optimum Re located in Dallas, Texas, whereby the Company retains a maximum of \$10,000 of coverage per individual life. Also, all cases not eligible for automatic coverage may be submitted to Optimum Re facultatively. This process allows the reinsurance company to participate in the underwriting process before accepting the risk.

The review of the sampling of underwriting files indicated that the Company only retained \$10,000 of coverage per its agreement with Optimum Re and those cases that were submitted to Optimum Re for additional underwriting were promptly returned to the Company with an acceptance or denial of coverage.

Optimum Re performed an audit on a sampling of underwriting files in 2002. As a result of this audit, Optimum Re increased the Company's automatic binding limit from \$40,000 to \$90,000.

A judgmental sampling of fifteen (15) *not taken* files were selected from a small listing of *not taken* underwriting files for the period under examination. Primarily,

policies were declined by the applicant due to substandard rating based on health conditions. No exceptions were noted during this review of *not taken* files.

A random sampling of approximately fifty (50) rejected applications from the period under examination was selected from various agent debits for review. The Company adhered to its underwriting guidelines and no unfair discriminatory practices were detected. It is recommended that the Company consolidate rejected applications into one (1) database for future examinations.

A systematic sampling of eight (8) hospital policies was selected from a listing of fifty-seven (57) active hospital policies issued during the period under examination. Applications were complete and no discrepancies were noted during this review.

Effective January 2002, the Company began marketing Nonparticipating Flexible Deferred Annuities. A systematic sampling of six (6) annuity-underwriting files was selected from a small list of annuities issued in 2002. No discrepancies were noted during this review.

## **CLAIMS REVIEW**

The Company provided claim procedures that appeared to be in compliance with applicable statutes, rules and regulations.

A "claims walk through" was conducted at the Company's home office in Shreveport, Louisiana. It was observed that claim forms received by the Company were date stamped and the date of telephonic claims were entered into the claim system when coverage was verified. Once a valid claim is determined, the system automatically

assigns a claim number. The claim system also alerts the claim adjuster of a potential reinsurance transaction with Optimum Re.

The Company's computer system is social security number driven. As a result, all multiple policies on one (1) insured are displayed together. In addition, verification for underwriting or claim purposes can be made by social security numbers, beneficiary information, last mailing address, age and date of birth.

The Company provided its 2002 paid claims by CD with reconciliation to paid claims on its annual statement for the same period. Received and paid dates in this file were unique in that the month, day and year were defined in separate fields. This type of field definition was not compatible with the ACL Program.

ACL was used to generate a random sampling of sixty (60) paid claims for review. Claims were paid in compliance with applicable statutes, rules and regulations. Based on a review of this sample, claims were paid in an average of 4.5 days (the date of receipt of claim to the date of payment).

The Company provided a list of approximately twenty (20) denied claims for 2002. A systematic sampling of five (5) denied claims was selected for review. Denials were based on policy provision and were in compliance with applicable statutes, rules and regulations.

The Company provided a listing of open and closed litigation files during the period under examination. A judgmental sampling of five (5) litigated claim files was selected for review. It appeared that the Company had taken appropriate action to settle these claims.

It is recommended that for future examinations, the Company provide one (1) field that contains the month, date and year for received date and for paid date of claims.

### ***UNIFORM DISPOSITION OF PROPERTY ACT REVIEW***

Effective July 10, 1997, Act 809 of the 1997 Regular Legislative Session required all companies, including life insurance companies, to file a report by November 1 each year of unclaimed property in its possession. When this was discussed with the Company, the Company agreed to make necessary internal changes to comply with this required filing.

### ***COMMENTS AND RECOMMENDATIONS***

An examination request register was maintained during the examination in order to track the Company's response time to requests. The Company's response time to examination requests during the course of this examination was excellent.

### ***UNDEWRITING AND RATING REVIEW***

It is recommended that the Company consolidate rejected applications into one (1) database for future examinations.

### ***CLAIMS REVIEW***

It is recommended that for future examinations, the Company provide one (1) field that contains the month, date and year for both received date and paid date of claims.

### **PRODUCER REVIEW**

It is recommended that the Company add the Department's producer license number to its producer database in order to expedite this review in future examinations.

### **UNIFORM DISPOSITION OF PROPERTY ACT REVIEW**

It is recommended that the Company implement internal procedures to insure that a report of unclaimed property in its possession, is filed by November 1 each year in order to comply with Act 809 of the 1997 Regular Legislative Session.

## **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

**KILPATRICK LIFE INSURANCE COMPANY**  
**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.

Mr. Don Ewing, IS Specialist/Automated Exam Specialist, with the Louisiana Department of Insurance also participated in this examination and joined the undersigned in acknowledging the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,

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