

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

SECURITY INDUSTRIAL INSURANCE COMPANY

DONALDSONVILLE, LOUISIANA

AS OF

December 31, 1997

NAIC CODE 60076

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COMMISSIONER OF INSURANCE
STATE OF LOUISIANA

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March 13, 1998

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 compliance with statutory provisions, a market conduct examination has been made of the affairs of

SECURITY INDUSTRIAL INSURANCE COMPANY

at its Home Office at

110 Railroad Avenue

Donaldsonville, Louisiana 70346

as of December 31, 1997 and the report of examination is herewith submitted.

FOREWORD

This Market Conduct Examination Report covered the insurance activities of Security Industrial Insurance Company, hereinafter referred to as Security or Company, for the period from January 1, 1996 through December 31, 1997. This examination was conducted as part of a stipulated agreement between the Company and the Louisiana Department of Insurance and the Report of this examination is an addendum to the 1995 Market Conduct Examination Report.

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.

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

SCOPE OF EXAMINATION

The examination of Security Industrial Insurance Company, was conducted by the Louisiana Department of Insurance, hereinafter referred to as the Department or DOI, in accordance with the laws of the State of Louisiana and the guidelines set forth by the National Association of Insurance Commissioners.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws and Regulations in order 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. Complaints
3. Marketing and Sales
4. Producer Licensing
5. Policyholder Service
6. Underwriting and Rating
7. Claims

COMPANY OVERVIEW

COMPANY HISTORY

The Company was organized on May 10, 1948, as Security Industrial Insurance, Inc., under the provisions of the laws of the State of Louisiana that governs an industrial insurer.

By charter amendment dated January 2, 1971, the name of the Company was changed to Security Industrial Insurance Company. This charter amendment also converted the Company from an industrial insurer to an ordinary insurer.

Loewen Group International, Inc., a Delaware Corporation, acquired Security on March 26, 1996.

COMPANY OPERATION

The Company is currently licensed to market life and accident and health and industrial life and industrial accident and health insurance in the states of Louisiana and Mississippi. The Company was licensed to operate in Mississippi effective January 1, 1997.

INTERNAL AUDITS

The Company employs floating auditors to audit the many agency debits established by the Agency Department. Audits are conducted on a debit operation whenever an agent resigns or is promoted. Also, audits are conducted when the Company deems it necessary.

ANTIFRAUD PLAN

The Company has no formal procedures to prevent fraud.

DISASTER RECOVERY PLAN

The Company does not have a formal disaster recovery plan. However, the Company in August 1997 completed its Business Impact Analysis in connection with Loewen's overall systems evaluation.

The Business Impact Analysis identifies critical and significant business processes and the systems that support these processes. The Analysis also assesses the financial impact of a disaster on each major system as well as the hardware and software equipment and facilities necessary to operate an emergency site. The Analysis also details key personnel to be contacted in the event of a disaster.

The Company considers this Analysis as Phase I in the preparation of a formal disaster recovery plan. Upon completion of the Company's new field accounting system, implementation to begin in March of this year, management will devote the necessary resources to develop a comprehensive disaster recovery plan. Also, the Company will pursue options with IBM in securing a "hot site" in the event of a disaster.

COMPUTER SECURITY

Access control to the Company's mainframe computer system is maintained through user profiles and passwords unique to the specific job description. Each user profile has an initial program associated with the respective job description. For example, an underwriter's user profile displays the underwriting menu that restricts access only to underwriting related applications. Also, each terminal has security features unique to its location. For example, access to the accounting menu is allowed

only through terminals located in the accounting department. No user has access to system commands.

The Company's new field accounting system, which will allow Internet access of the mainframe by district office personnel, provides for a separate security firewall built into the system. The firewall will prohibit unauthorized access to the system as well as recording all unauthorized attempts to access the system. District office personnel will also have unique user profiles and passwords to restrict access to necessary data and applications.

Currently the Company's policy accounting and file maintenance is backed up on a daily basis after the completion of its daily processing. All programs are backed up twice a day. The Policy Master File is included in the daily backup and is also backed up separately three times a week.

Daily backup tapes are rotated daily and stored at an off-site location. However, the off-site location is located on the same street as the location of the home office where the mainframe is housed. Back-up tapes containing monthly, quarterly and annual policy activity are currently stored in the Data Processing Department.

The Company's vital records are stored in a locked building but are not protected against fire.

PARENT, SUBSIDIARIES, AND AFFILIATES

The following organizational chart, based on the Company's annual filing as of December 31, 1997, depicts the Company's relationship with the holding company system. Subsidiary companies are shown indented under the appropriate parent

company.

THE LOEWEN GROUP INC.

LOEWEN GROUP INTERNATIONAL, INC.

**EAGAN HOLDING CO., A LOUISIANA CORP.
FIRST CAPITAL LIFE INSURANCE CO.
ADMINISTRATIVE RESOURCES
PLANNED FUNERAL SERVICES**

**SECURITY INDUSTRIAL INSURANCE COMPANY
SECURITY INDUSTRIAL FIRE INSURANCE CO.**

**FUNERAL SERVICE, INC., d/b/a EARTHMAN FUNERAL SER, INC.
NATIONAL CAPITAL LIFE INSURANCE CO.**

**LOEWEN LIFE INSURANCE GROUP, INC
MAYFLOWER NATIONAL LIFE INSURANCE CO.**

On December 17, 1997, Loewen life Insurance Group, Inc. acquired Mayflower National Life Insurance Company; an Indiana domiciled life and health insurance company with licenses to operate in twenty-eight states. Prior to this purchase Combined Insurance Company of America and its ultimate parent, AON Corporation, wholly owned Mayflower.

Mayflower primarily wrote group credit life and accident and health insurance. Mayflower has not written any new business since early 1996 and all of its remaining credit life and health insurance has been reinsured by a 100% coinsurance agreement with Combined Insurance Company of America.

Loewen Life Insurance Group, Inc. future goal is to use Mayflower to provide insurance to fund pre-need funeral contracts marketed by Loewen's funeral homes and its distribution system of advanced planning counselors.

PRIOR EXAMINATION REPORTS

Separate routine financial and market conduct examinations were conducted as of December 31, 1995.

A review was made to determine what actions the Company had taken on recommendations in the 1995 Market Conduct Report.

CONSUMER COMPLAINTS REVIEW

The NAIC defines a complaint as a written communication primarily expressing a grievance. Louisiana Revised Statute LRS-R.S. 22:1214(17) states "complaint" shall mean any written communication received by the insurer from the Department of Insurance.

The complaints routinely filed with the Department generally consisted of complaints due to the insured's misunderstanding of the policy provisions, delays in handling insureds requests, delays in payments due the insured, or dissatisfaction with the insurer's claims practices.

A random sampling of approximately 20 complaints was selected for review. This sampling represented approximately one-fifth of the Company's total complaints for 1996 and 1997. These complaints were reviewed without exception.

The Company provided a detailed computerized complaint register that complied with LSA-R.S. 22: 1214 (17).

This review revealed that the Company took adequate steps to promptly resolve any complaint in accordance with applicable statute, procedure, and policy provision.

MARKETING AND SALES REVIEW

The Company primarily markets its products through the Home Service Marketing Distribution System, which consists of debit agents, staff managers, district managers, and regional managers. As of December 31, 1997, the Company's Agency Force consisted of 485 debits, 84 staff managers, 25 districts, and 3 regions for the State of Louisiana. The regions are divided into North, Southwest, and Southeast Louisiana.

Security primarily markets whole life, and accident and health insurance. The Company's annual statement as of December 31, 1997 indicated that approximately 72% of its in force policies represented industrial life policies while approximately 28% represented ordinary life policies. It was determined during the last examination that approximately 10% of the Company's industrial policies issued represented funeral service policies as defined in LSA-R.S. 22:253. Funeral service policies are also referred to in this report as funeral policies.

Many of the Company's funeral policies are serviced by funeral homes that became official funeral directors of the Company by executing a funeral service agreement with the Company. Some of the Company's affiliates also were official funeral directors of the Company.

Since the Company's inception it has acquired numerous companies primarily through a reinsurance transaction and, as a result, services many different funeral policies that offer different funeral service benefits along with a descriptive policy casket. However, in many of these funeral policies only a "policy casket" is offered along with certain funeral service benefits.

If the funeral policy requires a specific casket, the Company stated it is required

to provide such a casket. If the policy states "casket" then the Company provides the funeral home either a Security Wood Casket described by the Company as a 200 Hingle Panel, wood, Cedar E. Doe Skin, #1 ivory twill, #1 sheered, hardware S2770 silver 3XO or a Security Metal Casket described as a 1000 Hingle, 20 gauge metal, Venetian Bronze, no lacquer, #30 ivory twill, pillow and panel; balance KCEL, hardware 206/208 chocolate.

It is the Company's practice to provide a Security Wood casket for funeral policies with a face amount less than \$600 and a Security metal casket for funeral policies with face amounts of \$600 or more.

As of August 1, 1997 the Company ceased marketing any furnish and conduct funeral policies in accordance with House Bill No. 616 which enacted LSA-R.S.

22:253(D). This statute states as follows:

"No funeral service policies as described in R.S. 22:252, R.S. 22:253 R.S. 22:291(1), R.S. 22:332, and R.S. 22:337 shall be sold after twelve o'clock midnight July 31, 1997.

Effective August 15, 1997 the Company began selling a Cash Funeral Expense Plan. This plan will provide cash that may be used as a credit toward the payment of the insured's funeral expenses.

Although the Company is no longer writing funeral service policies, the funeral homes by contract are required to service the existing funeral service policies.

The Company's advertising components include television, radio, and newspaper. The Company provides advertising funds that are used by the affiliated funeral homes to promote various funeral programs.

Although Company agents generally do not advertise, the Company's advertising guidelines require that any agent advertising must be submitted to the Home Office for approval.

PRODUCER REVIEW

A review was conducted of all of the Company's agents as of December 31, 1997. A comparison was made of the Company's listing of active agents against the Department's listing of agent appointments.

The Company has not changed any of its hiring practices. However, it does appear that the Company has accelerated the processing of its appointment practices in order to secure an appointment for the newly hired agent as soon as possible.

This review indicated that the Company had several active agents who were unappointed. The Company responded it was currently assisting these agents with their licensing difficulties.

Overall, this review indicated that the Company has implemented controls that insure that its active agents are properly licensed and appointed.

However, the Underwriting Review revealed a few ordinary applications written to fund pre-need arrangements that were signed by individuals who were not appointed to represent Security and/or properly licensed to sell ordinary insurance. Such agent practices are not in compliance with LSA-R.S. 22:1113 A (1) & (2). See Underwriting Review, page 13 for details.

POLICYHOLDER SERVICE REVIEW

It should be noted that the Company has acquired numerous companies and consequently numerous plans of insurance that require manual calculations to determine such benefits as extended insurance, paid-up insurance, cash surrender and policy loan values.

Random samplings were extracted from these various non-forfeiture activities of the Company in order to review the manual calculations of these benefits. This review was performed without exception.

This review revealed a number of paid-up policies issued as early as the 1930s for small amounts of insurance. The records of these policies, which were secured by acquisitions, contained no current address or social security number of the insured. It is possible that some of the insureds of these policies may be deceased.

The Company acknowledged that it was currently reviewing the applications and other policy records on these old paid-up policies in order to update their master files with the insured's last known address.

A random sampling of new business applications for 1996 and 1997 was reviewed in order to verify that premium charges were in accordance with the Company's rate book. This review was performed without exception.

Finally, the Company was advised that its policy loan subsidiary is not in agreement with its general ledger account as of December 31, 1997. Although the out of balance condition was only appropriately \$1100, reconciliation of the general ledger

account to the policy loan subsidiary provides verification that policy loans made to policyholders are properly recorded.

UNDERWRITING REVIEW

A random sampling of new business records processed in 1996 and 1997 were reviewed in order to determine how the Company treats the public and if such treatment is in compliance with applicable statutes, rules and regulation.

Because the Company did not maintain correspondence relating to a particular policy in one primary policy file it was not possible to review all communications between the insured and the Company. However, a review of the applications and some related correspondence was completed without exception.

A random sampling of premium charges was verified without exception.

A review of the new business applications revealed a small number of agents employed by Advanced Planning, Inc. (API), an affiliate of Loewen Group International, Inc., was marketing ordinary insurance to fund pre-need arrangements without a proper license or appointment with Security.

A review of Advanced Planning's hiring procedures indicated that its procedures were not adequate to insure proper appointing and licensing of new agents. The Company agreed to assist API in establishing adequate agent hiring procedures.

During the last market conduct examination the Company committed to revising its policy forms and submitting to the Department for approval in order to comply with LSA-R.S. 22:620 A.

A review of the Company's policy forms revealed that a number of forms still need revision and approval by the Department. The following are the results of this review.

As of December 31, 1997 the Company had the following forms revised and approved by the Department:

122-97	CASH FUNERAL EXPENSE-20 PAY INDUSTRIAL
123-97	CASH FUNERAL EXPENSE-WHOLE LIFE
141-97	CASH FUNERAL EXPENSE-TEN PAY INDUSTRIAL
401-402-97	SUPER TRIPLE PROTECTOR-WHOLE LIFE
405-97	LIFE APPLICATION
421-422	SUPER TRIPLE PROTECTOR-20 PAY LIFE

As of December 31, 1997 the Company had the following forms in the proofing stage to be proofed by Security:

352-97	INDUSTRIAL WHOLE LIFE CASH POLICY
12M-12F	ORDINARY 20 PAY LIFE-INCREASING DEATH BENEFITS
IWM-IWF	WHOLE LIFE-INCREASING DEATH BENEFITS
M87-F88	GRADED DEATH BENEFIT

As of December 31, 1997 the Company had the following forms still remaining for revision and subsequent approval by the Department:

006	WHOLE LIFE COUPON
090	PREMIUM PAYOR INSURANCE RIDER
091-092-093	CANCER POLICY (INDIVIDUAL, ONE PARENT, FAMILY)
104	HOSPITAL INDEMNITY
353	INDUSTRIAL 20 PAYMENT LIFE
370	INDUSTRIAL 10 PAYMENT LIFE
465-475	SUPER TRIPLE PROTECTOR-PLUS
470-471	INCOME PROTECTOR
749	SPECIAL INDUSTRIAL ACCIDENT POLICY
FP-95-2	FAMILY POLICY
PN97	PRE-NATAL PRELIMINARY TERM INSURANCE RIDER
SPIB-089-M	SINGLE PREMIUM WITH INCREASING BENEFITS

In addition, application forms for cancer and family plans remain for revision and subsequent approval by the Department

By letter dated January 14, 1997, the Company assured the Department that it would continue to administer benefits on all policies existing as well as future issues according to Title 22 of the Louisiana Revised Statutes in effect as of January 1, 1997.

The Company offered this assurance until all necessary policy forms were revised and the proper departmental approvals had been secured.

The Company is currently marketing some plans on policy forms that have not been revised by the Company and approved by the Department.

LIFE CLAIMS REVIEW

A random sampling of one hundred and twenty (120) death claims was selected from the Company's 1996 and 1997 claims activity for review.

The Company paid its claims promptly and the official funeral homes routinely provided funeral services that equaled or exceeded the retail value of the funeral service benefits required by the funeral policy(ies).

A review of funeral statements from this sampling revealed that the funeral homes began providing detailed accounting of the funeral policy benefits as of July 1997. Prior to July 1997 when a funeral policy was used for the funeral arrangement, funeral service benefits provided were indicated in a number of ways: "POL", "POLICY" or ".00" were entered on the funeral statement. In some cases, it appeared that an agreement

was made with the family in which the funeral home reduced the cost of some services to agree with the amount of insurance proceeds paid to the funeral home.

Effective July 1997 in order to provide consistency in claims reporting for the funeral policies, the Company instructed the official funeral homes to show the costs of all funeral services. For those services that were provided by or attributed to the funeral policy, the funeral homes were instructed to write "Pol" for policy next to each funeral service. The following example was provided: Embalming \$295.00/Pol.

Also, the Company provided to the official funeral homes a new funeral statement titled *Statement of Funeral Goods and Services Selected* that must be filed with the Company. The Company also provided instructions for detailing the funeral goods and services selected by the beneficiary.

Under the Summary Section on the funeral statement is a line titled "Credits to Account". If the new funeral statement is properly completed by the funeral home, the Company will have detailed accounting of all funeral services provided by or attributed to the funeral policy. The "Credit to Account" should contain the total of all funeral services attributed to the funeral service policy(ies) less the total amounts of coverage. This total will then be a credit against the total cost of the funeral expenses.

This claim review revealed that additional funeral services were provided by the funeral home even in arrangements in which a policy casket was substituted for any other casket offered by the funeral home.

The casket substitutions provided by the funeral homes did not appear to be part of any established procedure. Although most of the casket substitutions reviewed in this sampling were offered on funeral policies that provided coverage from \$1,000 to \$2,500,

there were several funeral services in which substitutions were provided for funeral policies with face amounts less than \$500.

It appears that when the funeral policy was used, any offering of additional funeral services at no cost or a casket substitution with additional funeral services at no cost was left to the discretion of the funeral home.

This sampling for this claim review provided the following statistic

- 28 of the claim files (23%) indicated that the funeral policy benefits were used
- 3 of the claim files (2%) were not provided – one funeral home was closed, one did not respond and one claim file apparently was misfiled
- 89 of the claim files (75%) indicated that the insurance proceeds were applied to a different funeral or paid to the beneficiary
- 120 TOTAL SAMPLE

In response to House Bill No. 616 the Company implemented a form titled *Funeral Service Policy Explanation Acknowledgment* form effective July 1997. This form requires the funeral director to explain the three funeral options as addressed in House Bill No. 616. to the family or responsible party. Once explained the party selects an option and signs and dates the acknowledgment form.

The three options available for the funeral service policy are as follows:

OPTION A.

You may choose the funeral service provided by the funeral service policy(ies) in exchange for the assignment of the proceeds of the funeral service policy(ies). If you request any item of merchandise and/or service not listed in the policy(ies), you may purchase if from the general price list.

OPTION B.

You may choose a traditional funeral from our regular packages and receive a credit equal to the face value of the funeral service policy(ies) toward the cost of that package.

OPTION C.

You may choose a casket other than the one provided by the funeral service policy(ies) and purchase that casket at retail from the funeral home casket price list. If you choose a substitute casket, you will be provided the other merchandise and services listed in your funeral service policy(ies) for the assignment of the proceeds of the funeral service policy(ies). If you request any item of merchandise and/or service not listed in the policy(ies), you may purchase it from the general price list.

A copy of the new *Funeral Service Policy Explanation Acknowledgment* form along with the *Statement of Funeral Goods and Services Selected* form were included in the Company's claim files reviewed after July 1, 1997.

A random sampling of open and closed litigation files relating to claims was reviewed. Litigation reviewed was the result of the Company's denial of claims due to pre-existing medical conditions. These denials appeared to be in accordance with policy provision.

COMMENTS AND RECOMMENDATIONS

The Company provided the following documentation in response to the recommendations in the 1995 Market Conduct Report:

- Underwriting Procedures Manual (10/97)
- Claim Processing Procedures Manual (11/97)
- Procedures for rating a substandard risk
- Revised "Statement of Funeral Goods and Services Selected" with instructions
- A revised non-cancelable policy amendment
- Completed Schedule Fs for 1996 and 1997

The Company provided an Underwriting Procedure Manual (10/97) that provided procedures to the agency field for completion of the application and to the Home Office for verification of the application. Also, letters were provided to the district managers relating to the proper completion of the applications.

The Company has developed a Claims Processing Procedure Manual (11/97) that provides instructions to both the agents and the Home Office for proper claims handling.

The Company stated that it has followed the recommendation in the 1995 Market Conduct Report by referring to a reinsurance manual from Optimum Re to determine a substandard risk.

The Company's new funeral statement should provide the Company with adequate detail in order to verify proper adjudication of the claim.

The Company is currently working with the Department to develop a new irrevocable beneficiary form to comply with the recommendation in the 1995 report. During the course of this examination the Company provided a draft of a revised form titled *Non-cancelable Policy Amendment*.

The Company is now preparing Schedule F in order to complete its annual statement filings as recommended in the 1995 Report.

The Company did not revise its Funeral Service Agreement relating to the war clause provision as recommended in the 1995 Report but acknowledged that this provision is not enforceable against a policyholder. Other revisions were completed.

Effective March 1998 the Company's will begin implementation of its new debit accounting system. Once fully implemented this new system should eliminate excessive premiums paid in advance and policies or policy riders being paid beyond their expiration dates. This was a recommendation in the 1995 Report.

A review of the Company's agent practices as of December 31, 1997, revealed that the Company is closely monitoring its newly hired agents by expediting the licensing and appointment functions. However, a small number of agents working for Advance Planning were detected writing ordinary applications without an appointment and/or proper license.

It is recommended that the Company work closely with Advance Planning to insure that its agents are properly licensed and appointed with the Company. See *Producer Review*, page 11.

By letter dated February 26, 1998, the Department advised the Company to provide draft policy form revisions of its remaining unapproved policies by April 15, 1998 for review and consideration for approval. See *Underwriting Review*, page 13.

It is recommended that the Company make every effort to locate the policyholders of the old reduced paid-up policies acquired by various acquisitions over the years. See *Policyholder Service Review*, page 12.

It is recommended that the Company separate its accounting and other policy records from Security Industrial Fire Insurance Co. so that various reports, such as new business reports and claims reports will not contain any activity from the Company's affiliate.

SUBSEQUENT EVENTS

Effective March 1998 the Company is introducing a Before-Need Funeral Arrangement. The Company will market two types of Pre-Need contracts: A "Total Package" that will be offered to an applicant who does not have any funeral service policies. This package will include services and merchandise. A "Partial Package" that will be offered to insureds owning one or more funeral service policies. This package includes merchandise only.


Security's life insurance products will fund both Pre-need packages. The funeral home will assist the agent and the applicant in the selection of the merchandise and services for the pre-need arrangement.

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 Security Industrial 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

**SECURITY INDUSTRIAL INSURANCE COMPANY
DONALDSONVILLE, LOUISIANA**

That he made such examination as of December 31, 1997 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.

*These done and passed
before me, this 27th day of May, 1998*



RICHARD A. SPONG, CFE, AIE

Nancy Mitchell

(PRINT NAME) NANCY MICHELL, NOTARY PUBLIC

in and for the State of Louisiana

My commission expires at death.