

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

UNION NATIONAL LIFE INSURANCE CO

BATON ROUGE, LOUISIANA

AS OF

December 31, 2003

NAIC CODE 69779

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August 8, 2004

Honorable Robert Wooley
Commissioner of Insurance
P O Box 94214
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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 the

UNION NATIONAL LIFE INSURANCE COMPANY

BATON ROUGE, LOUISIANA

as of December 31, 2003 and the report of examination is herewith submitted.

FOREWORD

In accordance with **LSA-R.S. 22:1301 D** a market conduct examination was conducted of the activities of Union National Life Insurance Company from January 1, 2000 through December 31, 2003. The Producer Review was conducted through May 1, 2004. 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 Union National Life Insurance Company, hereinafter referred to as ("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 were performed.

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

- Company Overview,
- Complaints,
- Producer Licensing and Appointments,
- Marketing and Sales ,
- Underwriting and Rating ,
- Claims and
- Consumer Privacy Policy.

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

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance 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 of certain company record listings or a manual random sampling 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 most samples. Samples could be smaller based on the size of the population. Based on the sampling's error rate, additional samplings may be required.

COMPANY OVERVIEW

COMPANY HISTORY

The Company was organized under the laws of the state of Louisiana as an industrial life insurer on June 29, 1928. Its charter was amended on December 30, 1954 authorizing the Company to write ordinary and industrial life insurance.

On October 31, 1989, United Insurance Company of America, domiciled in Illinois, acquired all of the shares of the Company.

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the following states:

Alabama	Mississippi
Arkansas	Oklahoma
Florida	Tennessee
Georgia	Texas
Louisiana	

The Company's annual statements for the period under examination reflected the following Louisiana written premium:

YEAR PREMIUMS WRITTEN*

2001	\$ 59,956,104
2002	57,766,427
2003	55,540,030

* Schedule T of the Annual Statements including life and health premiums

PARENT, SUBSIDIARIES AND AFFILIATED COMPANIES

The Company, a Louisiana corporation, is one hundred percent (100%) owned by United Insurance Company of America ("United"), which is domiciled in Illinois. United is one hundred percent (100%) owned by Unitrin, Inc., which is domiciled in Delaware.

Union National Fire Insurance Company, ("UNFIC") is one hundred percent (100%) owned by the Company. UNFIC is located in Baton Rouge, Louisiana, in the same building with the Company. Through an administrative services agreement UNFIC utilizes the Company's facilities and personnel in order to sell and service its fire policies.

A detailed organizational chart is contained in the Company's annual statement.

RECOMMENDATIONS FROM PRIOR EXAMINATION REPORTS

There were no market conduct issues from the previous Louisiana Financial Examination Report dated as of December 31, 1999 that required any follow-up in this report.

COMPLAINTS REVIEW

This review was conducted in accordance with the provisions of LSA-R.S. 22:1214 Methods, acts, and practices which are defined herein as unfair or deceptive. Specifically 22:1214 (17), states as follows:

"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.”

The Company provided complaint procedures which appeared adequate for the proper recording and timely processing of complaints. During the examination, the Company provided complaint registers for the three-year period, which were in compliance with the above Louisiana Statute.

The Department's complaint log contained approximately fifteen (15) complaints not contained in the Company's complaint registers for the three (3)-year period. It was determined that the Department erroneously included complaints filed by the Company against its producers. These complaints occurred, after the Company terminated the producer's appointment, but before premium shortages were detected or verified by an audit of the producer's debit operation.

During the course of the examination the Department removed the erroneous complaints from the Company's complaint registers and provided the Company with a revised complaint log with the appropriate corrections.

PRODUCER REVIEW

The Company has twelve (12) district offices well distributed in Louisiana, with each district staffed by approximately thirty (30) producers who service the company's policyholders.

The producer is provided a hand-held computer whereby he or she can immediately enter the premium collected from each policyholder. The utilization of the hand-held computer allows for more accurate and timely reporting of premium collections.

With the installation of modems in 2001, the producer transmits home service premium collections daily to the Company and then deposits premiums collected into the Company's depository account. Producers must settle their accounts at the end of each week.

The ACL Program was utilized to match the Department's producer appointments by the Company as of May 1, 2004 with the Company's list of active producers as of May 30, 2004. The difference in dates occurred because the Department was limited to May 1 for providing appointments by CD, the annual renewal date for producer appointments. The exceptions caused by the differing dates in the listings were eliminated from the exception reports provided to the company.

The ACL match of producers generated two (2) exception listings: the first exception listing generated missing appointments from the company's listing of active producers; while the second exception listing generated excess producer appointments held by the Department

The first ACL exception listing contained twenty-five (25) active producers in the Company's listing of active producers that did not have appointments with the Department. The Company reviewed these twenty-five (25) exceptions and provided the following response:

NO	SUMMARY OF 25 PRODUCER EXCEPTIONS
19	Company failed to remove producer's name from its active listing after appointment was terminated due to cancellation, retirement, or health reasons. These omissions occurred over a period of years.
2	Producers had duplicated license numbers provided by the Department
2	Company had incorrect license number in database
1	Agent did not have sufficient continuing education requirements for a C license. The Company was in the process of amending license from a C to a D,

	which does not have CE requirements
1	Agent was late in renewing life license; Company was in the process of assisting agent in securing license
25	TOTAL EXCEPTIONS

The second ACL exception listing contained sixty-six (66) appointments from the Department's listing of appointments that did not match with producers in the Company's list of active producers. These unmatched excessive appointments indicate that the Company continued paying for producer appointments after the date the producer was terminated. It is recommended that the Company review this exception report and cancel any unnecessary appointments with the Department.

It is recommended that in the future the Company should reconcile it's listing of active agents with the Department's annual renewal listing of producer appointments before submitting payment of its appointment fees.

A judgmental sampling of thirty (30) producers was selected from the Department's listing of appointments based on hiring and termination dates. This review indicated that the Company had procedures in place to timely appoint new hires and terminated producers in accordance with Louisiana Statutes.

The Company implemented the following procedure in 2004 to insure compliance with **LSA-R.S. 22:1142 B**. If full documentation cannot be included with the Appointment Cancellation Notice provided to the Department of Insurance, the following note will be typed on the appointment cancellation notice, ***“Terminated for cause under R. S. 22:1142. Under investigation, documentation to follow.”***

A copy of this notification to the Department will also be provided to the terminated producer by certified mail at his or her last known address. The Company

will then complete an audit of the producer's debit within sixty (60) days and provide any additional material findings to the Department's Fraud Division.

If after termination of an appointment for cause for any reason *not* addressed in **LSA-R.S. 22:1142**, the Company detects such causes, it will notify the Fraud Division of the Department within fifteen (15) days of the discovery by letter with full documentation. If full documentation cannot be provided at that time, it will be provided within sixty (60) days after a complete audit of the producer's debit.

The Company requires prospective employees and producers to take a drug-screening test. Also, applicants must certify that he or she has not been convicted of a criminal felony nor any offense under 18 U. S. C. Section 1033. Finally, a routine inquiry is made of all applicants, which provides information on character, mode of living, criminal records and credit history.

The Company's hiring procedures for producers and employees appear to be in compliance with **Louisiana Bulletin #99-01** dated June 1, 1999 titled "Consent for Prohibited Person to engage in Insurance Business, 18 United States Code, Sections 1033 and 1034".

MARKETING AND SALES REVIEW

Mail outs and brochures provided to clients or hung on doors utilized during the period under examination were reviewed without exception.

THE RECORD, a monthly magazine published by the Company, provides sales by district and recognition of agent's tenure or sales accomplishments. The Company has not implemented electronic mail communications with its producers.

The Company's producers are expected to maintain a fire license in order to market for Union National Fire Insurance Company, a subsidiary of the Company. Therefore, the Company provides a training manual, *FIRE STEP*, which includes marketing and product knowledge of fire coverage. The producer is also given instructions on Union National's *Principles and Code of Ethical Market Conduct, Market Conduct Rules and the Unfair Trade Practices Act*.

UNDERWRITING AND RATING REVIEW

Applications for life, accidental death and cancer policies are submitted to Career Agency Insurance Service ("CAIS") in Webster Groves, Missouri for underwriting and issue. CAIS is a service center developed by Unitrin, Inc. to consolidate some insurance functions of the Company.

The Company did not retain a listing of new business policies issued during the three (3) year period under examination. A random sampling was selected for review from a listing of policy number ranges provided by the Company.. Initially a sampling of sixty (60) new business policies was selected for review. Twenty (20) policies from this sampling could not be found or were Mississippi policies. The examiner agreed to select another twenty (20) policies from the same listing.

The two (2) samplings totaled eighty (80) applications. The following schedule depicts breakdown of the sampling:

54	Louisiana life or health applications
15	Mississippi applications

11	Not found
80	Sampling size

The Company provided a CD of the fifty-four (54) scanned applications in response to the sampling request. Although some of the scans were not clear it did appear the applications were complete and processed timely.

On two (2) applications the health questions were not completed and the application had a notation "This policy is incontestable, health questions do not apply." The Company responded these were applications in which the insureds were exercising the "Option for Additional Insurance" clause under the original policies.

The Company scans its declined applications on reels but no listings are maintained. A review of the 2001 and 2002 scans indicated the scans were not indexed which would make sampling or reviewing of the applications and related documents very difficult. The 2003 declined applications for life and health were in boxes ready for scanning. Due to the easy access to these applications, a manual sampling of approximately fifty (50) 2003 declined applications were pulled from various boxes for review.

The 2003 declined applications reviewed were well documented and the reasons for declination were primarily for lack of proper signature, health history, medical data not provided and application not properly witnessed. The Company's reasons for declination were in accordance with applicable statutes, rules and regulations.

A general review was performed of the policy forms approved by the Department during the period under examination. This review was performed without exception.

With the 2004 implementation of the Life 70 System, the Company stated it will be able to provide computer records of new business and declined applications for future examinations.

It is recommended that the Company implement programs that will maintain new business applications, declined applications and other underwriting activities for easy access for future examinations in accordance with **LSA-R.S. 22:1214 (16)** which states as follows:

“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.”

CLAIM REVIEW

The district office assists the policyholder in submitting the claim but the adjudication and authority to pay the claim resides with the Baton Rouge Claims Office. The Baton Rouge Claims Office maintains the original of the claim file and the District Office is informed of the status of the claim.

The Company acknowledged that its claim numbers are unique but not in sequential order. There are two (2) reasons for gaps in the sequencing of the claim number during claim processing. First, the Company uses the same claim system for its Mississippi Operation which would cause gaps in claim numbers. Second, any

adjustment claim activity on a prior year claim will create a gap in the current year claim activity because the original claim number is used.

The Company provided a CD containing all paid and denied claims for 2003. After the 2003 paid claims total was reconciled with the 2003 annual statement total, ACL was utilized to select a random sampling of sixty (60) paid claims.

A review of the sampled paid claims revealed that the claims were paid timely in accordance with policy provision, statutes and regulations. A time study showed that paid claims from the sampling were paid on an average of eleven (11) days.

ACL was also utilized to generate the following time study of *all* 2003 paid claims:

RANGE	COUNT	← %	% →	DOLLAR AMT
0 TO 30 DAYS	6,159	61.38%	57.16%	\$ 14,281,176
31 TO 60 DAYS	2,193	21.85	19.68	4,917,625
61 TO 91 DAYS	771	7.68	9.68	2,418,835
> 91 DAYS	912	9.09	13.48	3,366,726
TOTALS	10,035	100.00%	100.00%	\$24,984,362

The ACL time study indicated that approximately eighty-three percent (83%) of the number of claims and seventy-seven percent (77%) of the dollar amount of claims were paid within sixty (60) days from the date the claim was received. This time study was based on the date the claim was received by the Company and the date the claim was paid. During this review, the examiner verified that the date received and date paid in the Company's database were accurate.

ACL was utilized to generate a random sampling of thirty (30) 2003 denied life claims provided by the Company. A smaller sampling was selected based on the size of the denied life claim population. A review of the sampled denied claims revealed that the

claims were denied timely in accordance with policy provision, statutes and regulations. The Company could not find two (2) denied claims from the sampling.

On June 1, 2004, a judgmental sampling of six (6) resisted claims was selected from the Company's annual statement (Schedule F). After reviewing these six (6) resisted claims, a follow-up request dated June 8, 2004 was prepared on three (3) of these resisted claims because these files were incomplete and the examiner could not determine why the Company changed its position and offered a compromised settlement. Also, on June 17, 2004, a sampling of nine (9) litigated claims were selected from a list provided by the Company.

CAIS Legal Division in Webster Groves, Missouri, responsible for handling the Company's resisted and litigated claims, initially refused to provide any additional information on the examiner's resisted/litigated claims requests citing attorney/client privilege. It should be noted that most of the claim litigation requested were on closed litigated files.

Although the examiner, through the Baton Rouge Contact suggested a summary of the claim activity might be acceptable for this review, the CAIS Legal Division hired a local Baton Rouge law firm to represent the Company without any attempt to discuss this issue with the examiner.

The Baton Rouge law firm provided documents classified as "non-privileged" on the nine (9) litigated claim files and the three (3) resisted claims, which also had been litigated. The majority of the requested material was provided on July 22 with the remaining file provided on July 30, 2004, approximately forty-five (45) after the date of

the examination requests and thirty (30) days after the examiner left the Company's location.

CAIS Legal Division's response time to the litigated claim review was in conflict with **LSA-R.S. 22:1309**, which states as follows:

PRODUCTION OF BOOKS AND RECORDS

"Every insurer being examined, its officers, employees and representatives, shall produce and make freely accessible to the commissioner of insurance the accounts, records, documents and files in its possession or control relating to the subject of the examination, and shall otherwise facilitate the examination."

Also, during an earlier examination of an affiliate, CAIS Legal Division was provided **LSA-R.S. 22:1302 (J)**, in order to assure that all records reviewed by the examiner would be given confidential treatment. **LSA-R.S. 22:1302 (J)** states as follows:

EXAMINATION REPORTS

"All working papers, recorded information, documents, and copies thereof produced by, obtained by, or disclosed to the commissioner, or any other person, in the course of an examination made under this Part, shall be given confidential treatment and are not subject to subpoena and may not be made public by the commissioner or any other person, except to the extent provided in R.S. 22:1301 (E) and Subsection I of this Section. Any access may be granted to the National Association of Insurance Commissioners. The parties shall agree, in writing prior to receiving the information, to provide to it the same confidential treatment as required by this Section, unless the prior written consent of the company to which it pertains has been obtained."

LSA-R.S. 22:1301 E. further maintains:

"Nothing contained in this Part shall be construed to limit the commissioner's authority to use any final or preliminary examination report, any examiner or company workpapers or other documents, or any other information discovered or developed during the course of

any examination in the furtherance of any legal or regulatory action which the commissioner may, in his sole discretion, deem appropriate.”

A review of the “non-privileged” documents provided by the Company did not indicate any apparent trend or claim practice that would compel an insured to institute litigation to recover amounts due under an insurance policy.

It is recommended that the Company implement procedures that will provided timely responses to claim litigation requests that will not conflict with **LSA-R.S. 22:1309** and **22:1302 (J)**.

The Company’s paid claim files reviewed were well documented. The date the claim was received by the district claims office was routinely stamped on the claim form. An original of the death certificate was included with the claim file with the date received stamped on the back of the death certificate.

The Company did not maintain a listing of denied health claims for the period under examination. However, copies of the denial letters were maintained in a file. A judgmental sampling of thirty (30) 2003 denial letters was selected for review from a box of denial letters. A review of this sampling revealed that denials were primarily due to benefit not covered; policy lapsed for non-payment and required medical authorization not provided. Two (2) files from the sampling were not found. If the policyholder provided the required medical authorization after the claim was closed, the Company paid the claim promptly.

It is recommended that the Company maintain a complete listing of denied health claims for future examinations in accordance with **LSA-R.S. 22:1214 (16)** which states as follows:

“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 two preceding years shall be maintained.”

Finally, in order to identify claim fraud, the Company conducts an annual claim fraud-training seminar. All suspected claim fraud is referred to an officer of the Company.

CONSUMER PRIVACY POLICY REVIEW

A review of the Company’s Privacy Procedures, which govern the privacy of consumer financial information, is in compliance with the Louisiana Department of Insurance Regulation 76 / *PRIVACY OF CONSUMER FINANCIAL INFORMATION*.

SUBSEQUENT EVENTS

In February of 2004, the Company began moving some of its insurance functions, such as policyholder service, new business and underwriting to CAIS, its service center located in Webster Groves, Missouri which is close to St. Louis, with staff being located in Webster Groves and Baton Rouge, Louisiana. In August 2004, the CAIS Service Center relocated to a larger facility at 12115 Lackland Road, St. Louis, MO 63146.

In addition, the Company’s office building located at 8282 Goodwood Boulevard, Baton Rouge, Louisiana is currently for sale. Once the sale is finalized the Company will

seek a smaller office to house the remaining executive, agency, claims, financial, payroll and computer support personnel.

COMMENTS AND RECOMMENDATIONS

It should be noted this was the first routine market conduct examination of the Company.

In general the Company's record keeping was not adequate for proper examination review. Listings for underwriting and claims activity were not maintained in order to provide the examiner with an opportunity to properly sample the three (3) years under examination.

The Company did make every attempt to provide what records were available whether it was a copy of a denial letter or a "range" of policy numbers for sampling. When the records were not well maintained, the examiner used the 2003 records, the most current year of the examination, so that the Company's response efforts would be less labor intensive.

In general, the Company's response time to the examination requests were adequate. However, CAIS Legal Division's reluctance to provide requested claims litigation files delayed the completion of the examination by more than a month.

In February 2004, the Company implemented a new computer system, Life 70 System. During the course of this examination, the Company responded that the Life 70 System would provide better record keeping for future examinations.

PRODUCER REVIEW

It is recommended that the Company review the exception report containing excess appointments and cancel any unnecessary appointments with the Department.

It is recommended that in the future the Company should reconcile it's listing of active agents with the Department's annual renewal listing of producer appointments before submitting payment of its appointment fees to the Department.

CLAIM REVIEW

It is recommended that the Company implement procedures that will provide timely responses to claim litigation requests that will not conflict with **LSA-R.S. 22:1309** and **22:1302 (J)**. Also, it is recommended that the Company implement programs that will maintain all claims activity for easy access for future examinations in accordance with **LSA-R.S. 22:1214 (16)**.

UNDERWRITING AND RATING REVIEW

It is recommended that the Company implement programs that will maintain new business applications, declined applications and other underwriting activities for easy access for future examinations in accordance with **LSA-R.S. 22:1214 (16)**.

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

UNION NATIONAL LIFE INSURANCE COMPANY

BATON ROUGE, 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 appreciated the courteous cooperation of the Officers and Employees at its Baton Rouge Office.

Respectfully submitted,



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