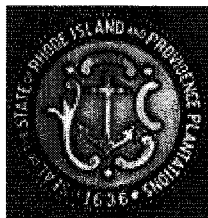


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**REPORT ON**

**THE MARKET CONDUCT EXAMINATION**

**OF**

***Bankers Life and Casualty Company***

(NAIC Company Code: 61263)

***as of***

**March 31, 2009**

State of Rhode Island

Department of Business Regulation

Insurance Division

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Providence, Rhode Island

November 3, 2009

Honorable A. Michael Marques  
Insurance Commissioner  
State of Rhode Island

Commissioner Marques:

In accordance with your instructions, and pursuant to the statutes of the State of Rhode Island, a targeted Market Conduct Examination was conducted of the:

**Bankers Life and Casualty Company**  
**600 West Chicago Avenue**  
**Chicago, Illinois 60654**

hereinafter referred to as the "Company" or "Bankers".

The examination was conducted at the Rhode Island Insurance Division's office at 1511 Pontiac Avenue in Cranston, RI.

## **FOREWORD**

Our Market Conduct Examination Report is, in general, a report by exception. Information relating to practices, procedures, and/or files subject to review during our examination has been omitted from the report if errors and/or improprieties were not evidenced.

## **SCOPE OF EXAMINATION**

Authority for this examination is provided by R. I. Gen. Laws §27-13-1, §27-13.1-3 and §27-71. This examination covered the period from January 1, 2006 through March 31, 2009, and was conducted in accordance with standards established by the National Association of Insurance Commissioners, and procedures developed by the Rhode Island Department of Business Regulation, Insurance Division.

The examination encompassed a review of the following areas: Consumer or Other Related Complaints, Replacements of Life Insurance, Life Insurance Underwriting and Suitability of Annuity Sales. The lines of business examined were Individual Life Insurance and Individual Annuities.

The primary purpose of the examination was to evaluate the Company's compliance with Rhode Island General Laws and Insurance Regulations, and to determine whether Rhode Island insureds are being treated fairly.

The test work performed during the examination satisfied this purpose, and formed the basis for the findings and recommendations presented in this report. The examination consisted of verification and evaluation, on a test basis, of information contained in the insurer's files.

## **PROFILE OF COMPANY**

### **History**

Bankers Life and Casualty Company commenced business on January 17, 1879, and was incorporated on April 6, 1880. The Company eventually became insolvent and in 1935 was purchased from the State of Illinois by John D. MacArthur. In 1942 Bankers merged with the Illinois Standard Life Insurance Company and Hotel Men's Mutual Benefit Association to form one company operating under the name Bankers Life and Casualty Company.

After the Medicare bill was signed into law in 1965, Bankers began offering Medicare Supplement Insurance. In the 1970's Bankers began offering nursing home insurance, and in 1977, Bankers entered the fixed annuity business.

Bankers is organized under the laws of the State of Illinois as a stock life insurance company, and is currently conducting business in all states except New York and the District of Columbia. Bankers is part of the Consec Insurance Group.

### **Operations**

Bankers' presence in Rhode Island is through its sales office in West Warwick, Rhode Island. The two individuals in charge of the Rhode Island office are District Manager Greg Gelineau and Richard Connors.

The Company's Rhode Island direct written premiums for the year 2008 were as follows:

<u>Line of Business</u>	<u>Amount</u>
Individual Life Insurance	\$3,045,352
Annuity Considerations	\$31,109,626

### **Board of Directors**

At December 31, 2008, the Directors of Bankers Life and Casualty Company were as follows:

Edward Bonach  
Christopher Nickle  
Russell Bostick  
Scott Perry  
John Kline  
Timothy Tongson

### **Management**

As of 12/31/08, the officers of Bankers Life and Casualty Company are as follows:

Scott Perry	President
Russell Bostick	Executive Vice-President
Eric Johnson	Executive Vice-President
Matthew Zimpfer	Executive Vice-President

Michael Farley	Senior Vice-President
David Nelson	Senior Vice-President
Richard Garner	Senior Vice-President
William Johnson	Senior Vice-President
Scott Goldberg	Vice-President Strategy and Marketing
Gerardo Monroy	Vice-President Long Term Care
Gary Brown	Vice-President Underwriting and New Business
Todd Hacker	Treasurer
Karl Kindig	Secretary
Mark Billingsley	Actuary

### **CONSUMER OR OTHER RELATED COMPLAINTS**

A review of the Company's consumer or other related complaints was conducted to determine whether the Company was in compliance with R.I. Gen. Laws §27-29-4, Unfair Competition and Practices, and any other applicable Rhode Island General Laws and Insurance Regulations. The review was also performed to determine whether the Company adhered to its own complaint handling procedures, whether a pattern existed in the type of complaints received, whether complaints were processed and resolved in a timely manner, and whether all complaints recorded by the Department of Business Regulation, Insurance Division, were listed on the Company's complaint register.

For the period under examination, a total of thirteen complaints were received directly by the Rhode Island Insurance Division. All thirteen complaints were reviewed during this examination. The results of our review demonstrated that eleven of thirteen complaints provided evidence that Bankers violated R.I. Gen. Laws. Eleven violations of R. I. Gen. Laws §27-29-4 (14), twelve violations of Rhode Insurance Regulation 12 and three violations of Rhode Island Insurance Regulation 29 in the sale of annuities or life insurance were evidenced.

The Company was asked to provide a listing of complaints they received directly. A listing of eight complaints was provided to the examiners. The results of our review demonstrated that six out of eight complaints provided evidence of Bankers violating Rhode Island Insurance Laws. Two complaints provided evidence that Bankers violated R.I. Gen. Laws §27-29-4(14), four complaints provided evidence that Bankers violated R.I. Insurance Regulation 12, Sections 6A and 6B, and two complaints provided evidence that Bankers violated R. I. Insurance Regulation 29, Section 6A.

### **INDIVIDUAL LIFE UNDERWRITING**

A review of the Company's individual life insurance underwriting practices for the period under examination was performed. For the period under examination, the Company wrote a total of 3,342 individual life insurance policies. From this population of 3,342, a sample of fifty policies was selected for review.

The results of the review provided evidence of ten violations of R.I. Gen. Laws §27-29-4, two violations of R.I. Gen. Laws §27-4-27, and seven violations of R.I. Insurance Regulation 29. This Company had an average life insurance lapse rate of 29%, for the period under examination, which is significantly higher than the 7% average lapse rate for these types of contracts according to the LIMRA International Society of Actuaries.



## **REPLACEMENTS**

### **Individual Life and Annuities**

A review of the Company's life insurance and annuity replacement practices was conducted to determine whether the Company was in compliance with Rhode Island Insurance Regulation 29, Replacement of Life Insurance, and Rhode Island Regulation 12, Suitability in Annuity Transactions, for the period under examination. Rhode Island Insurance Regulation 29 was established to protect the interests of life insurance policyholders and applicants regarding the replacement of existing life insurance, and requires specific actions by the agent and replacing insurer, thereby reducing the opportunity for misrepresentation and incomplete disclosures. Protecting policyholder interests is accomplished by assuring that the policyholders and applicants receive information to make decisions that are in their best interests. Rhode Island Insurance Regulation 12 was established to protect the interests of applicants and annuity owners regarding the replacement of existing annuities.

The Company provided the examiners with a listing of 1,222 replacements processed during the period under examination. Bankers wrote 3,342 individual life policies and 2,255 annuities during the period under examination, of which, 1,222 were acknowledged replacements. A sample of fifty replacement files were selected for review. The sample included twenty-five annuities and twenty-five individual life policies.

The results of our review demonstrated that thirty-two of the fifty replacement files reviewed evidenced that Bankers was in violation of R.I. Gen. Laws as follows: thirty

violations of R.I. Gen. Laws §27-29-4, nine violations of R.I. Insurance Regulation 12, and twenty-one violations of R.I. Insurance Regulation 29.

### **Unreported Replacements**

Rhode Island Insurance Regulation 29 Section 5A.(5) requires companies to have procedures in place to detect transactions that may be replacement business. Based on Bankers' "rewrite procedures", the Company provided a listing of what they referred to as forty-two "rewrites" for the period under examination. The Company has explained that they have a procedure whereby they review any transactions where there is a new policy written within six months for any policyholder who has either terminated or lapsed a policy, or who has withdrawn a portion of the total funds on deposit in an annuity.

Based on a review of these "rewrites" it appears that at least eight of the "rewrites" were actually replacements. None of the eight replacements were processed in accordance with R.I. Insurance Regulation 29, therefore for at least eight of the "rewrites" the Company has violated R.I. Insurance Regulation 29.

### **SUITABILITY OF ANNUITIES SOLD**

A review of the Company's underwriting practices for annuity transactions was performed for the period under examination. For the period under examination, 2,255 individual annuity contracts were written. A sample of fifty was selected from the 2,255 annuities written.

In general, the files contained no documentation to substantiate that the sale was an appropriate one for the individual purchasing the annuity. Seven of the fifty files reviewed provided us with evidence of violations of R.I. Insurance Regulation 12 Section 6A and 6B. Additionally, three files provided us with evidence of violations of R.I. Insurance Regulation 29 6A.

### **COMMENTS AND RECOMMENDATIONS**

Based on the findings contained in this report, it is very evident that Bankers is operating in a manner in which the best interests of their proposed insured or annuitant are not the driving force behind the sale of their product. It appears in many cases that the objective of the Company (and its agents) is to bring in premium and annuity dollars in order to achieve sales numbers and to provide commissions, without regard for whether or not the product is suitable for the insured or annuitant. The number of exceptions we found during this examination, and the circumstances surrounding these exceptions is unconscionable. This Company claims to specialize in seniors. It appears that they specialize in selling inappropriate products to many seniors. It also appears that Bankers is not appropriately supervising its agency force.

It is recommended that Bankers be required to meet with the Department of Business Regulation to discuss the details of the findings in this report.

It is also recommended that Bankers cease writing business in Rhode Island immediately, by voluntarily giving up its certificate of authority, and also immediately closing its West Warwick office.

## CONCLUSION

We have applied verification procedures to the data contained in this report using both subjective and statistical sampling techniques as deemed appropriate. While sampling techniques do not give complete assurance that all errors and irregularities will be detected, those that were detected during the course of this examination have been disclosed in this report. We were not informed of, and did not become aware of any other error or irregularity that could have a material effect on the market conduct condition of the Company as presented in this report.

Assisting in the examination with the undersigned was Deb Wendoloski, CFE Senior Insurance Examiner and Robert G. Arrow, FLMI, Senior Market Conduct Examiner.

Respectfully submitted,

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Sharon K. Gordon, CPA, CFE  
Chief Insurance Examiner  
Rhode Island Insurance Division