



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

Cuna Mutual Insurance Society
5910 Mineral Point Road
Madison WI 53705

dated September 3-11, 2002, and served upon the company on December 4, 2002, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 2nd day of May, 2003.

Jorge Gomez
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**CUNA MUTUAL INSURANCE SOCIETY
MADISON, WISCONSIN**

SEPTEMBER 03-11, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott McCallum, Governor
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September 11, 2002

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Honorable Jorge Gomez
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a compliance market conduct examination was made in September 3-11, 2002 of:

CUNA Mutual Insurance Society
Madison, Wisconsin

and the following report is respectfully submitted.

I. INTRODUCTION

CUNA Mutual Insurance Society (CUNA Mutual) was organized in 1935, by credit union interests, to serve the insurance needs of the credit unions and their members. CUNA Mutual is authorized to do business in all 50 states, the District of Columbia, Canada, Puerto Rico, Guam, and the U.S. Virgin Islands. CUNA Mutual continues to restrict its market to credit unions, credit union members, and associated organizations such as credit union leagues. The operations of the company exist on an international basis to serve credit unions and organizations similar to credit unions.

Wisconsin Life Insurance Business

The following tables summarize the company's Wisconsin premiums written and benefits paid in 2001 and 2000, broken down by line of business.

Wisconsin Life Insurance Business

	2001	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations					
Life Insurance		749,667	4,771,044	7,683,680	-
Annuity Considerations		371,580	-	15,428,543	-
Deposit Type Funds		-	-	3,513	-
Other Considerations		-	-	-	-
Direct Claims & Benefits Paid					
Death Benefits		224,233	2,672,843	5,096,702	-
Annuity Benefits		210,062	-	199,843	-
All Others		710,247	56,169	13,873,700	-

	2000	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations					
Life Insurance		729,451	4,576,496	7,454,832	-
Annuity Considerations		372,820	-	189,443	-
Deposit Type Funds		29,311	-	8,918,050	-
Other Considerations					
Direct Claims & Benefits Paid					
Death Benefits		400,338	2,477,088	5,818,564	-
Annuity Benefits		139,535	-	189,737	-
All Others		1,706,461	45,551	13,688,704	-

The following table summarizes the total direct national premium written in 2001 and 2000 as compared it to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

	Life Insurance	Annuity	A&H	Deposit Type	Other
	Premiums	Considerations	Insurance	Funds	Considerations
2001			Premiums		
Wisconsin	\$ 13,204,391	\$ 15,800,123	\$ 13,343,392	\$ 37,477	\$ -
National	\$ 463,540,821	\$ 265,040,991	\$ 486,353,230	\$ 2,695,689	\$ -
2000	Life Insurance	Annuity	A&H Insurance	Deposit Type	Other
	Premiums	Considerations	Premiums	Funds	Considerations
Wisconsin	\$ 12,760,774	\$ 562,263	\$ 14,201,429	\$ 9,040,752	\$ -
National	\$ 460,455,225	\$ 22,872,968	\$ 475,257,359	\$ 269,112,752	\$ -

The Office of the Commissioner Of Insurance received 24 complaints against CUNA Mutual between January 1, 2001 and July 1, 2002. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.' The company received the majority of its complaints in Credit

Accident and Health. The majority of the complaints involve dissatisfaction with the processing of claims or claim disputes. The following table categorizes the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint.

Complaint Reason					
2002 Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Individual Life	0	0	0	3	0
Group Life	0	2	0	0	0
Credit Life	0	0	0	0	0
Credit A&H	0	0	0	0	0
Individual Annuity	0	0	0	0	0
Group Annuity	0	0	0	0	0
All Others	1	0	1	1	0
Total	1	2	1	4	0

Complaint Reason					
2001 Coverage Type	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Individual Life	0	0	1	1	0
Group Life	0	0	0	0	1
Credit Life	0	0	2	0	0
Credit A&H	0	1	5	1	0
Individual Annuity	0	0	0	0	0
Group Annuity	0	0	0	0	0
All Others	1	0	2	1	0
Total	1	1	10	3	1

II. PURPOSE AND SCOPE

The examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2001 through July 1, 2002. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination was limited to a review of CUNA Mutual's operations in the areas of complaint handling, marketing and sales, producer licensing, policyholder service, new business, claims, electronic commerce, and privacy procedures; for the purpose of verifying compliance with recommendations made by market conduct examiners in the financial examination report dated February 3, 1996. The examination focused on credit life, credit disability, group life, and individual life business.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. PRIOR EXAMINATION RECOMMENDATIONS

The previous financial examination report, as adopted on May 8, 1998, contained twelve market conduct recommendations. CUNA Mutual's compliance with the prior recommendations is noted below:

1. Include dividends and retrospective payments to credit union policyholders of credit insurance policies in calculations to determine if the total payment to the credit union exceeds actual administrative expenses of the credit union, estimated on a reasonable basis; in order to determine whether the credit union is exempt from the agent licensing requirement pursuant to s. 628.02(1)(b)5, Wis. Stat.

Action: Compliance

2. Develop and implement procedures to ensure that in the case where payments to a credit union policyholder exceed actual expenses, estimated on a reasonable basis, at least one licensed agent should be at each credit union location where persons are enrolled for credit insurance, pursuant to s. 628.03, Wis. Stat.

Action: Compliance

3. Develop and implement procedures to include a copy of some form of appointment document addressed to the agent in each agent's file to indicate when that agent was appointed to engage in the activity of an agent on behalf of the company, pursuant to s. 6.57(5), Wis. Adm. Code.

Action: Compliance

4. Develop and implement procedures to ensure that a written notice of termination and demand for return of indicia is provided to each terminated agent, and a copy of such notice is kept in that agent's file, pursuant to s. Ins 6.57(2), Wis. Adm. Code.

Action: Non-compliance

5. Notify each federally chartered credit union that has a group contract with CUNA providing credit insurance, that it is contrary to Wisconsin insurance law to compensate directly or indirectly any unlicensed and unlisted individual that is giving advice or assistance to an enrollee, pursuant to s. 628.61, Wis. Stat.

Action: Compliance

6. Develop and implement procedures to ensure that all published information about providing direct or indirect compensation to individuals contains a disclaimer that such compensation may require individuals to be licensed as agents in some states, pursuant to s. 628.61, Wis. Stat.

Action: Compliance

7. Notify all state chartered credit unions with which CUNA has a group credit insurance contract, that it is contrary to Wisconsin insurance law to indirectly compensate any unlicensed and unlisted individual that is giving advice or assistance to an enrollee, pursuant to s. 628.61, Wis. Stat.

Action: Compliance

8. Review and monitor its agent appointment procedures to ensure that they meet all agent licensing and listing requirement of s. 628.03, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

Action: Compliance

9. Develop and implement procedures to ensure that all advertisements for policies containing graded or modified benefits, prominently disclose that fact, as required by s. Ins 2.16(25), Wis. Adm. Code.

Action: Compliance

10. Develop and implement procedures to ensure that the date of receipt of a claim document is recorded at the time the document is imaged, so that it can be determined whether interest is payable pursuant to s. 628.46, Wis. Stat.

Action: Compliance

11. Develop and implement written procedures to process new business that involves the replacement of life insurance according to the requirements of s. Ins 2.07, Wis. Adm. Code.

Action: Compliance

12. Cease using application form A1b-106-0886 and medical exam forms A1b-106-0886 and A1b-MED-1295, until these forms have been revised to comply with s. 631.90, Wis. Stat., and s. Ins 3.53, Wis. Adm. Code, and resubmitted to OCI for approval for use in Wisconsin.

Action: Compliance

IV. CURRENT EXAMINATION FINDINGS

Producer Licensing

The examiners reviewed CUNA Mutual's procedures for listing and terminating agents and a sample of 50 agent files. CUNA Mutual utilizes captive agents to sell its life business and utilizes credit union employees to sell its credit life and credit disability insurance. The examiners requested from CUNA Mutual a listing of all agents licensed and appointed in Wisconsin. The agent licensing data provided by CUNA Mutual was compared to the agents' database maintained by OCI. No deviations were noted for this review.

The examiners found 2 instances where the agent listing form OCI 11-001 was not in the agent's file. CUNA Mutual could not explain why the form was not in the file, as the form must have been submitted to OCI since the agents were properly listed. The remaining files were well documented and no deviations were noted with the company's agent listing procedures.

The review of the terminated agent files found 6 instances where a termination letter was not in the agent's file. The company indicated that its termination procedures were adopted on October 1, 2001, however the company was not following its procedures in all cases. The termination letters provided the examiners in the company's response to an interrogatory and those included in the agents files did not include the formal demand for return of all indicia of agency, as required by s. Ins 6.57(2), Wis. Adm. Code. The company stated that when a credit union employee leaves his place of employment, materials are the property of the credit union. Credit union employees do not have marketing materials of their own. The company has updated its procedures as a result of the examination, to ensure termination letters are sent to agents.

- 1. Recommendation:** It is again recommended that CUNA Mutual develop and implement procedures to ensure that a written notice of termination and demand for return of indicia is provided to each terminated agent, and a copy of such notice is kept in that agent's file, pursuant to s. Ins 6.57(2), Wis. Adm. Code.

One terminated file was for an agent whose license was suspended by OCI for failure to comply with the continuing education requirements. CUNA Mutual did not send a termination letter to this agent, stating the agent was notified by OCI that his license was suspended. The written procedures utilized by CUNA Mutual for terminating an agent whose license has been revoked or suspended did not include a requirement to send the agent a termination letter, as required by s. Ins 6.57(2), Wis. Adm. Code.

- 2. Recommendation:** It is recommended that CUNA Mutual amend its agent termination procedures to ensure a written notice of termination and demand for return of indicia is sent to an agent whose license is suspended or revoked, as required by s. Ins 6.57(2), Wis. Adm. Code.

Claims Administration

The examiners reviewed the company's response to the claims interrogatories, its claims administration processes and procedures, and its procedure for paying interest on delayed claims. The claim process for credit disability and credit life begins when the credit union is notified of a claim. The credit union files the required loan information to CUNA Mutual, and CUNA Mutual in turn sends the initial claim form to the member within a day of receiving the loan information. Claim forms are scanned into the company's imaging system upon receipt. A date stamp is recorded on the upper left corner of the claim document as part of the imaging process. Claims for individual life are filed directly with CUNA Mutual. Group life claims are handled the same as individual life.

The examiners reviewed a random sample of 50 paid credit life claims, 50 paid credit disability claims, 50 paid individual life claims, 31 denied credit life claims, 50 denied credit disability claims, and 6 denied individual life claims. The data provided for individual life claims included group life claims. Although the policy is issued to a group, all claims are processed on an individual basis. CUNA Mutual does not distinguish between group and individual business during claim processing. The claim files were well documented and claims were processed within the time requirements of s. 628.46, Wis., Stat. No exceptions were noted.

Electronic Commerce

The examiners reviewed the company's website and its response to the electronic commerce interrogatory. The examiners found that the company's website was primarily informational, providing guidance for credit union employees and credit union members. CUNA Mutual indicated that the purpose of the website is not to sell its products, but to create consumer awareness of products via product information, education and on-line newsletters.

CUNA Mutual does allow claims to be submitted electronically through its website. Cunamutual.com contains a secured application for submitting credit life and credit disability claims. Credit union employees must sign in to cunamutual.com and navigate to the 'My Home' page section of the site. Under 'My Services' on the 'My Home' page, the credit union employee selects one of several options for filing a credit claim. Once all the necessary information is entered, the credit union member clicks on "send" to submit the claim to CUNA MUTUAL.

CUNA Mutual stated that agents are not allowed to create their own websites or advertise outside of CUNA Mutual controlled sites. CUNA Mutual does not advertise on credit union websites, however credit unions are allowed to include information regarding CUNA Mutual's products on their site. A credit union is required to obtain approval from CUNA Mutual prior to including product information on its website. CUNA Mutual monitors credit union websites and works with designated marketing staff to make modifications when necessary. Although CUNA Mutual appears to have adequate oversight of agent and credit union websites, the company does not have written procedures for this process.

- 3. Recommendation:** It is recommended that CUNA Mutual develop and implement written procedures for the monitoring of agent and credit union advertisements on the internet, as required by s. Ins 3.27(27), Wis. Adm. Code.

Marketing, Sales, and Advertising

The examiners' review of the company's advertising activities included a review of the company's response to the marketing, sales, and advertising interrogatory and the company's advertising file. CUNA Mutual does not market its credit insurance products directly

to credit union members. CUNA Mutual is in a third-party marketing relationship with credit unions. CUNA Mutual provides marketing materials (brochures, statement stuffers, newsletters, etc.) to credit unions to use in marketing CUNA Mutual's credit life and credit disability products. Group life and individual life is marketed primarily through direct mail to certain segments of credit union members. If interested, members return the application or call CUNA Mutual's Call Center for enrollment information.

The examiners reviewed 15 life advertisements and 15 credit life and credit disability advertisements. The review found that CUNA Mutual does not currently maintain hard copy screen prints of its web site information in the advertising file.

- 4. Recommendation:** It is recommended that CUNA Mutual maintain hard screen prints or an electronic version of its web site pages in its advertising file, as required by s. Ins 3.27(28), Wis. Adm. Code.

Policy Forms

The examiners reviewed 30 policy forms and verified that the policy forms marketed during the examination period had received approval by OCI and were in compliance with changes in insurance law. The examiners also reviewed 10 forms that were deemed approved by OCI. The files were well documented and no exceptions were noted.

Policyholder Service & Complaints

The examiners reviewed the company's response to the policyholder service and complaints interrogatory and its complaint handling policies and procedures.

The examiners reviewed a random sample of seven of the company's complaint files. CUNA Mutual's complaints are maintained on an electronic database. The complaint log is maintained within the Consumer Affairs department on a calendar year basis. CUNA Mutual considers a complaint as a written or verbal communication received by the company or its representatives which primarily expresses a grievance. Two of the complaint files were OCI

complaints. CUNA Mutual responded to the complaint within the time requirements of OCI. The files were well documented and no exceptions were noted.

Privacy & Confidentiality

The examiners reviewed the company's privacy policy, administrative, physical, and technical privacy standards, employee privacy guidelines, and the company's response to the privacy of consumer financial and health information interrogatory.

The examiners found that the company had developed adequate privacy guidelines and has developed the Office of Privacy Compliance (OPC) working group to ensure compliance with the Title V of Gramm-Leach-Bliley Act. The OPC is comprised of representatives from the company's marketing, customer service, information technology, and legal departments. The primary purpose of the OPC was to ensure CUNA Mutual had met its obligations to comply with privacy notice, disclosure and confidentiality protections required under state and federal law. CUNA Mutual intends to replace the OPC with the Privacy Leadership Team (PLT) by December 31, 2002. The main difference between the OPC and PLT is that business units corporate wide will take on administrative responsibility for privacy compliance activities. The examiners also found that the company had implemented procedures for formal training for employees regarding privacy standards. This includes initial training for new employees and periodic refresher courses regarding protections for computer usage and privacy guidelines. The examiners found that the company has made significant effort toward meeting the privacy and confidentiality requirements under s. 610.70, Wis. Stat., and ch. Ins 25, Wis. Adm. Code.

New Business & Underwriting

The examiners reviewed the company's response to the new business & underwriting and replacements interrogatory and a random sample of 102 issued application files and 20 declined application files.

The examiners found that one of the underwriting files did not include a declination letter, as required by s. 631.17, Wis. Stat. CUNA Mutual has procedures where a manual letter is drafted by the underwriter upon a declination, however it does not appear a letter was sent for this application.

V. CONCLUSION

The prior examination report contained 12 market conduct recommendations in the areas of producer licensing, advertising, policy forms, new business, and claims. The company was found to be out of compliance with 1 recommendation from the prior examination report. In addition to the repeat recommendation, 3 new recommendations were written in the areas of producer licensing and electronic commerce.

VI. SUMMARY OF RECOMMENDATIONS

Producer Licensing

Page 07 1. It is again recommended that CUNA Mutual develop and implement procedures to ensure that a written notice of termination and demand for return of indicia is provided to each terminated agent, and a copy of such notice is kept in that agent's file, pursuant to s. Ins 6.57(2), Wis. Adm. Code.

Page 08 2. It is recommended that CUNA Mutual amend its agent termination procedures to ensure a written notice of termination and demand for return of indicia is sent to an agent whose license is suspended or revoked, as required by s. Ins 6.57(2), Wis. Adm. Code.

Electronic Commerce

Page 09 3. It is recommended that CUNA Mutual develop and implement written procedures for the monitoring of agent and credit union advertisements on the internet, as required by s. Ins 3.27(27), Wis. Adm. Code.

Marketing, Sales, and Advertising

Page 10 4. It is recommended that CUNA Mutual maintain hard screen prints or an electronic version of its web site pages in its advertising file, as required by s. Ins 3.27(28), Wis. Adm. Code.

VII. ACKNOWLEDGEMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

Name	Title
Renee Fabry	Insurance Examiner
Jo A. LeDuc, CIE, CPCU	Senior Insurance Examiner
Jerry Zimmer	Insurance Examiner

Respectfully submitted,

Jamie Key
Examiner-in-Charge