



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K Nickel, Commissioner

Wisconsin.gov

125 South Webster • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9936
E-Mail: Information@ocf.state.wi.us
Web Address: ocf.wi.gov

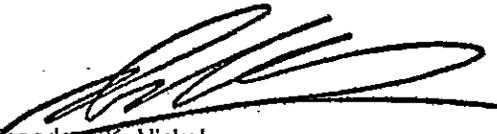
Notice of Adoption and Filing of Examination Report

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

CATHOLIC FINANCIAL LIFE
1100 W WELLS ST
MILWAUKEE WI 53233

dated August 26, 2011, and served upon the company on February 28, 2012, 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 4th day of April, 2012.



Theodore K. Nickel
Commissioner of Insurance

**CATHOLIC FINANCIAL LIFE
MILWAUKEE, WISCONSIN**

AUGUST 15, 2011 TO AUGUST 26, 2011

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	PURPOSE AND SCOPE.....	5
III.	CURRENT EXAMINATION FINDINGS.....	6
	<i>COMPANY OPERATIONS AND MANAGEMENT</i>	6
	<i>CLAIMS</i>	6
	<i>POLICY FORMS AND FILINGS</i>	8
	<i>POLICYHOLDER SERVICE AND COMPLAINTS</i>	8
	<i>PRODUCER LICENSING</i>	10
	<i>NEW BUSINESS AND UNDERWRITING</i>	12
	<i>MARKETING, SALES AND ADVERTISING</i>	17
IV.	CONCLUSION.....	18
V.	SUMMARY OF RECOMMENDATIONS.....	20
VI.	ACKNOWLEDGEMENT.....	21



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K Nickel, Commissioner

Wisconsin.gov

Bureau of Market Regulation
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
(800) 288-3585 • (800) 238-8517 (WI Only)
Fax: (608) 264-8116
E-Mail: ocfcomplaints@wisconsin.gov
Web Address: ocf.wi.gov

August 26, 2011

Honorable Theodore K. Nickel
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted from August 15, 2011 to August 26, 2011 of:

CATHOLIC FINANCIAL LIFE

Milwaukee, Wisconsin

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Catholic Financial Life is a fraternal life insurance company domiciled in the state of Wisconsin. Its home office is located in downtown Milwaukee, Wisconsin. It is the result of the April 1, 2010 merger of two venerable fraternal life insurance companies, Catholic Knights and Catholic Family Life, and subsequent name change to Catholic Financial Life on June 17, 2010.

Catholic Knights was originally organized under the laws applicable to fraternal benefit societies on January 21, 1885 as the Catholic Knights of Wisconsin. In 1958, it broadened its business scope beyond the state of Wisconsin and changed its name to Catholic Knights Insurance Society. The name was shortened to Catholic Knights in 2000. It merged with Catholic Knights of America of St. Louis, Missouri in July of 2005.

Catholic Family Life Insurance was organized in 1869 as the "Familien Schutzgesellschaft von Wisconsin" under the laws applicable to fraternal benefit societies. The name "Catholic Family Life Insurance" was adopted in 1950. It has merged over the years with the Union Saint-Jean-Baptiste from Woonsocket, Rhode Island and Northern Fraternal, a Wisconsin-domiciled fraternal.

In 2009, the company was licensed in the following states: Arkansas, California, Florida, Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota, Missouri, New Mexico, North Dakota, Ohio, Pennsylvania, South Dakota, Texas, West Virginia and Wisconsin. In 2010, the company was licensed in Arizona, Arkansas, California, Connecticut, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Mexico, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Texas, Vermont, West Virginia and Wisconsin.

The table below summarizes the total direct national premium written in 2010 and 2009 as compared to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

2010	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit Type Funds	Other Considerations
Wisconsin	26,955,093	50,085,623	72,832	913,300	0
National	35,731,080	61,019,153	137,961	1,084,620	0
WI as a % of National	75%	82%	53%	84%	0%

2009	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit Type Funds	Other Considerations
Wisconsin	22,088,402	35,352,934	8,489	3,731,489	0
National	26,407,156	39,205,417	24,557	4,469,512	0
WI as a % of National	84%	90%	35%	83%	0%

The majority of the premium written by the company in 2009 and 2010 was in individual life and individual annuity.

The tables below summarize the company's Wisconsin premium written and benefits paid in for 2010 and 2009 broken down by line of business.

Wisconsin Life Insurance Business

2010	Ordinary	Credit Life	Group	Industrial
<u>Direct Premiums & Annuity Considerations</u>				
Life Insurance	26,955,093	0	0	0
Annuity Considerations	50,085,623	0	0	0
Deposit Type Funds	913,300	0	0	0
Other Considerations				
<u>Direct Claims & Benefits Paid</u>				
Death Benefits	16,969,998	0	0	0
Annuity Benefits	7,794,160	0	0	0
All Others	0	0	0	0

2009	Ordinary	Credit Life	Group	Industrial
<u>Direct Premiums & Annuity Considerations</u>				
Life Insurance	22,088,402	0	0	0
Annuity Considerations	35,352,934	0	0	0
Deposit Type Funds	3,731,489	0	0	0
Other Considerations				
<u>Direct Claims & Benefits Paid</u>				
Death Benefits	7,797,961	0	0	0
Annuity Benefits	5,729,948	0	0	0
All Others	0	0	0	0

In neither 2009 nor 2010 was the company ranked in the top twenty writers of individual annuity or individual life in Wisconsin.

The Office of the Commissioner of Insurance received six complaints against Catholic Financial Life between January 1, 2009 through June 30, 2011 and two complaints against Catholic Family Life during the same period. A complaint is defined as "a written

communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." The tables on this and the following page categorize 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.

Complaints Received

As of June 30, 2011												
Reason Type	Total		Underwriting		Marketing & Sales		Claims		Plychldr Service		Other	
Coverage Type	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Life	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Individual Life	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Group Life	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Individual Annuity	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Group Annuity	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Credit Life	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
All Others	0	100%	0	100%	0	100%	0	100%	0	100%	0	100%
Total	0											

2010												
Reason Type	Total		Underwriting		Marketing & Sales		Claims		Plychldr Service		Other	
Coverage Type	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Life	4	100%	0	0	0	0	2	50%	2	50%	0	0
Individual Life	0	0	0	0	0	0	0	0	0	0	0	0
Group Life	0	0	0	0	0	0	0	0	0	0	0	0
Individual Annuity	0	0	0	0	0	0	0	0	0	0	0	0
Group Annuity	0	0	0	0	0	0	0	0	0	0	0	0
Credit Life	0	0	0	0	0	0	0	0	0	0	0	0
All Others	0	0	0	0	0	0	0	0	0	0	0	0
Total	4						2		2			

2009												
Reason Type	Total		Underwriting		Marketing & Sales		Claims		Policyholder Service		Other	
Coverage Type	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
Life	2	100%	1	50%	0	0	0	0	0	0	1	50%
Individual Life	0	0	0	0	0	0	0	0	0	0	0	0
Group Life	0	0	0	0	0	0	0	0	0	0	0	0
Individual Annuity	0	0	0	0	0	0	0	0	0	0	0	0
Group Annuity	0	0	0	0	0	0	0	0	0	0	0	0
Credit Life	0	0	0	0	0	0	0	0	0	0	0	0
All Others	0	0	0	0	0	0	0	0	0	0	0	0
Total	2		1								1	

Overall, the complaints made against the company tended to be in the areas of Policyholder Services and Claims, with one complaint involving Underwriting. The company was not on OCI's above average list of complaints for the life and annuity lines of business.

II. PURPOSE AND SCOPE

A targeted 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, 2009 through June 30, 2011. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination included, but was not limited to a review of the functional groups: Company Operations and Management, Claims, Policy Forms and Filings, Policyholder Service and Complaints, Producer Licensing, New Business and Underwriting, and Marketing, Sales and Advertising. The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. CURRENT EXAMINATION FINDINGS

Company Operations and Management

The company's response to the company Operations and Management Interrogatory, committee and Board of Directors meeting minutes, compliance matrix and other information were reviewed by the examiners. The committee and Board of Directors meeting minutes focused on the decision to merge Catholic Family Life and Catholic Knights, and the process of effecting the merger. The company's "compliance matrix" is designed to decentralize the compliance function by breaking down and assigning responsibilities to several departments, all housed in the home office. The company decided in the interests of economy to eliminate its corporate legal position and to outsource its legal business on an as-needed basis. The company does not have its own internal audit department; it relies on Ernst and Young as an external auditor and breaks down internal financial monitoring responsibilities between several departments.

The examiners also reviewed a condensed version of the report commissioned by the company and done by Milliman actuarial and consulting firm. Of note in the report were Milliman's suggestions that the company use social media to expand its customer base and market its products solely by its captive agent advisors instead of expanding availability to brokers.

Claims

The examiners reviewed the company's response to the claims interrogatory and procedure and training manuals. The claims function is housed at the home office in the Claims Department and not outsourced to a third-party administrator.

When the claim forms are received at the office, claims are date stamped. Since April 2011, notes are placed in the system to indicate claims received. Paperwork is matched to pre-set-up claim files and screened for requirements. Follow-ups are done if additional requirements are needed. Claims are filed in date order and pulled to be processed.

Prior to payment, a thorough claim review is conducted. Authorizations are defined by dollar limits. Once approved, claims are paid on the system; a copy of the approved worksheet is sent to Accounting and correspondence is generated. The next day, Accounting matches the checks to the worksheets and releases approved checks to the Claim Department. Checks are received, proofed and mailed. Since April 2011, notes are placed on the system to indicate claim payment has been made and sent to the respective beneficiaries or other parties. Once paid, the system generates a 1099-INT for the interest earned on the proceeds. The claim form includes language as to whether or not the beneficiary is subject to back-up withholding.

After claim payment, reinsurance is filed and followed up until payment is received. Standard turn-around is set at five days and can vary from one to seven or more days based on workload. Catholic Financial Life does not use retained asset accounts for payment of claims.

The company's agents are encouraged to handle claims by notifying the home office of a member's death, meeting with beneficiaries to file claims and personally delivering claim checks.

The examiners reviewed 50 paid life and annuity claims for Catholic Financial Life and 50 paid life and annuity claims for Catholic Family. The examiners found that three claims had not been paid on a timely basis as defined in s. 628.46, Wis. Stat.; however, the company was able to establish that appropriate interest had been paid on these claims. When the examiners began their review of "Claims Not Paid," it became apparent that a difference in terminology existed between OCI and the company; as the company defines "Claims Not Paid" as "claims still under review and on the system" and calls claims where no payment is made for whatever

reason "Claims Denied." Upon the EIC's request, the company provided the files of the claims that were denied during the period of review, which totaled three. No exceptions were noted.

Policy Forms and Filings

As a fraternal insurance company, Catholic Financial Life markets ordinary life products (whole life, flexible premium and term insurance) and fixed annuities. Prior to the merger, Catholic Knights developed products through interaction between the Actuarial, Legal and Operations Departments, while Catholic Family developed them in its Administration, which consisted of the President, Chief Actuary and Compliance Specialist. Since the merger, Catholic Financial Life has concentrated product development and filing responsibilities in its Actuarial Department. Also since the merger, Catholic Financial Life made the decision to submit its form filings through the Interstate Compact (IIPRC). Previously, both Catholic Family and Catholic Knights had submitted their forms and filings directly to Wisconsin's Office of the Commissioner of Insurance.

The examiners reviewed the Policy forms Interrogatory and a sample of 35 policy forms from the period of review, 29 of which were filed through IIPRC since the merger. No exceptions were noted.

Policyholder Service and Complaints

The Member Services Department of Catholic Financial Life provides a substantial portion of the society's handling of the majority of service issues related to insurance contracts from the time a contract is issued to the time of a claim.

Member Services answers all main-line incoming telephone calls – since a majority of the incoming calls relate to members' contracts. This allows assistance to be immediately provided to members without a transfer of the call. This change was effective July 1, 2010.

Members, advisors, and Field Office Associates' questions are answered on various topics ranging from product description/value, billing, and money requests. Any paperwork is sent as appropriate for the request.

Member Services processes all requested contract transactions, including items such as loans, withdrawals, contract changes, reinstatements, ownership changes, and surrenders. This also includes replying to members' written correspondence.

Member Services handles Electronic Fund Transfer from members' bank accounts to pay premiums and repay loans. This includes setting up new accounts on existing contracts and bank changes.

Member Services processes all annuitizations and Single Premium Immediate Annuities. Also, included in this "Payout" area are: special mailing for IRA RMDs, automated systematic annuity withdrawals, annuitization, and death claims.

Member Services also handles "specialty" (non-requested, system-produced) items/reports such as rerates/future changes (contractual changes), deficiency notices, mailing lapse notices that include reinstatement forms, life maturities, Automatic Dividend Transfers, manual premium coding and tax work

The examiners reviewed the company's response to the Policyholder Service and Complaints Interrogatory, 9 OCI complaint files and 22 files from the company's complaint log, which represents the entirety of the complaints for the period of review. Complaints on the company's complaint log tended to involve questions regarding the status of individual life policies, including 9 complaints relating to dissatisfaction with the effect that loans and underfunding premium payments had on the performance of universal life policies. No exceptions were noted.

Producer Licensing

Producer licensing is administered in the Home Office of Catholic Financial Life by the Department of Sales and Marketing. Before the merger, both Catholic Family and Catholic Knights centered administration of agent contracts, appointments and terminations in their Sales Departments.

As of the end of the period of review, Catholic Financial Life had a total field force of 174 producer/agents, called advisors. The company has 10 different producer classes: full-time advisor, part-time advisor, broker, broker general agent, regional manager, director reporting district manager, district manager, personal producing general agent, home office, and inside sales. All field producers are under contract; only the inside sales personnel are not under contract, since their duties are not confined to sales. Brokered business is accepted according to documented company procedures and only through Catholic Financial Life/Catholic Brokerage Services Corporation approved carriers and producers. Catholic Financial Life/Catholic Brokerage Services Corporation is a subsidiary of Catholic Financial Life. Updates and changes in Wisconsin insurance laws and regulations are communicated to producers by the Marketing Department via the company intranet. Attendance at training sessions is not mandatory but Field Managers take an active role in encouraging participation, and all producers are held accountable to meet standards of compliance.

Pursuant to s. 628.11, Wis. Stat., an insurer must notify OCI of all producer appointments and terminations. The examiners compared the list of appointed agents from the OCI appointed agent database to the company's appointed agent database. The examiners found one instance where a producer submitted 27 applications before she was appointed, from May 20, 2010 through August 24, 2010. This instance occurred shortly after the merger of Catholic Family and Catholic Knights and was attributed to human error. No other such instances were found. Currently, producer files are manually maintained in hard copy, but

compliance with licensure and continuing education requirements is ensured by Compliance Keeper software. All applications are reviewed by the software, and if a producer has fallen out of compliance, any applications submitted by that producer will automatically be rejected until compliance is demonstrated. In addition, the examiners reviewed 50 producer appointment files and 50 producer termination files. The examiners found a number of cases of forms missing in files of Catholic Family producers who had been reappointed by Catholic Financial. However, the missing forms were available and produced when requested.

New Business and Underwriting

New business is submitted to the Home Office, where it is underwritten by a team of four underwriters, two of whom originally worked for Catholic Family and two who were with Catholic Knights. The company's retention is \$225,000 with Swiss Re and Optimum insuring the difference up to \$1.125 million. Any face amount over \$1.125 million is underwritten by Swiss Re and Optimum's underwriters, hence the exclusive use of Optimum and Swiss Re manuals. Optimum is the reinsurer for Universal Life products, Swiss Re for traditional life products. The Vice-President of Insurance Services signs off on \$1 million plus cases. The company uses "collaborative underwriting" in which an underwriter who is about to rate or decline a case must designate another underwriter to review the case in order to get another point of view and ensure a fairer hearing for the application.

The examiners reviewed the company's response to the New Business and Underwriting Interrogatory, as well as a random sampling of 50 new business issued files in life and 50 in annuities. The examiners also reviewed a random sampling of 50 new business declines. No exceptions were noted.

Suitability

The examiners reviewed the company's response to the Suitability Interrogatory, attachments and a random sampling of 50 new business annuity files. The company has a formal suitability program in place. Catholic Financial Life monitors the suitability of agents' annuity sales primarily by requiring that an "Annuity Suitability Checklist" form be completed at point-of-sale, with a copy being submitted to the home office with the original application. An agency's Field Office Associate is expected to monitor the forms for completeness, and Home Office Underwriting's Data Entry staff then performs a

similar function. The staff has a list of "acceptable parameters" which are to be checked for in all cases. Forms not indicating acceptable information are reviewed and evaluated by a screener. Cases with adverse information are then reviewed by the Underwriting Director or the Vice President of Insurance Services. Since a relatively large percentage of submitted annuity applications are found to be written on existing Catholic Financial Life members, the company frequently has a transaction and financial history to consider when reviewing cases with less-than-optimal information.

Periodic audits of random files are conducted by the Vice President and his staff, to monitor the actions of the field force and the HO staff.

Catholic Financial Life required all licensed advisors to complete the state-mandated general annuity training course prior to May 1, 2011. A course was offered to all advisors on February 4, 2011. Newly-hired advisors are similarly required to have completed the training before being allowed to sell annuities.

In addition, Catholic Financial Life purchased Compliance Keeper software in 2011 to assist in reminding the advisors/brokers of upcoming license certification renewals or licenses, including annuity certification. The Compliance Director or an assistant sends e-mail notifications at various intervals prior to the needed compliance date. Finally, in the administration system (ID3), the company codes licenses with expiry dates. If the license expiry date is not updated after the company receives verification, no new business will allowed to be processed in the system for the advisor/broker.

Additionally, a "replacements by advisor" report currently generates on a monthly basis which the Sales department can periodically review for trends. Sales is in the process of developing procedures/standards based on percent of business where replacements are involved.

One exception was noted regarding a recent change in the company's suitability form which was amended from asking for a dollar amount of liquid assets to asking a "yes" or "no" question regarding sufficiency of liquid assets. The company's response indicated that they felt that the company's agents were appropriately trained to explain concepts to, and elicit pertinent information from, the proposed annuitant, therefore making a "yes" or "no" response sufficient. Section 628.347 (1) (e) 9. and 10., Wis. Stat., specifies that the financial information that is to be obtained and reviewed to determine the suitability of a sale must include the proposed annuitant's liquid net worth as well as liquidity needs.

1. **Recommendation:** It is recommended that the company revise its Suitability Form to include the proposed annuitant's "liquid net worth" as well as "liquidity needs," as per s. 628.347 (1) (e) 9. and 10., Wis. Stat.

Replacements

When an application is received in the home office by the records department, each document is imaged with a "Document Type" assigned. "Replacement Form – External" and "Replacement Form – Internal" are two "Doc Types" that make cases involving replacement readily identifiable. An external replacement form "Doc Type" automatically puts the case into a separate life cycle from which replacement forms are sent. For tracking purposes, this is also marked in ID3 (the mainframe system) at time of entry - E for external, I for internal replacement, or C for conversion. Next, the case moves into screening at which time the screener verifies that a replacement form has been mailed to the external company. Next, if it is a life case, it moves to the underwriter who determines the suitability of the sale. Suitability of annuity cases are handled between the data entry person and the screener and/or management, as discussed in the Suitability section of this report. When the case has been approved, it is sent to the

final action queue where the processor verifies that the replacement form has been sent out, if needed, or processes the internal replacement. The Sales Department is notified at the time of final action if commission adjustments should be made on the sale of the policy.

The examiners reviewed the company's response to the Replacement Interrogatory and a random sampling of 49 new business files involving replacement.

Pursuant to s. Ins 2.07, Appendix II, Wis. Adm. Code, requirements in the matter of direct response solicitation are that if a replacement or change is not intended or if the applicant fails to indicate intent, the applicant must be sent a replacement notice along with the policy or contract. If the applicant indicates on the application that a replacement or change is intended, the applicant must be sent a copy of the replacement notice as described in s. Ins 2.07, Appendix II, Wis. Adm. Code, with instructions to return a signed copy of the form to the company. Upon review, the company does not have written procedures in place to ensure compliance with the requirements of this regulation.

2. **Recommendation:** It is recommended that the company develop, document and implement a process and procedures to ensure that an applicant of a direct response solicitation is sent the proper replacement notice depending on whether replacement is involved as described in s. Ins 2.07 (8), Wis. Adm. Code.

The examiners found two instances in which the company did not send a notice of possible replacement within five business days of its receipt of the application to the existing insurer as required by s. Ins 2.07 (6) (a) 2, Wis. Adm. Code. In addition, the examiners found that the company did not have written procedures that specifically stated the five-day requirement, nor the requirement to mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five business days of a request from an existing insurer.

3. **Recommendation:** It is recommended that the company develop, document, and implement a process and procedures to ensure that within five business days of every application that indicates replacement or within five days of when a replacement is identified by the company if not on the application, it notifies any other existing insurer(s) that may be affected by the proposed replacement and that it mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five business days of a request from an existing insurer in order to comply with s. Ins 2.07 (6) (a) 2, Wis. Adm. Code.

The examiners found that while the company was capable of producing reports used to monitor each producer's replacements including replacements indexed by replacing producer and existing insurer, the number of financed purchases as a percentage of a producer's total annual sales for life insurance, the number of lapses of policies by the producer as a percentage of the producer's total annual sales for life insurance, and the number of annuity contract replacements as a percentage of the producer's total annual annuity contract sales, as required by s. Ins 2.07 (5) (b), Wis. Adm. Code, it did not have the capability to produce a report that tallies the number of transactions that are unreported replacements of existing policies or contracts by the existing insurer as detected by the insurer's monitoring system.

4. **Recommendation:** It is recommended that the company develop, document, and implement a process and procedures to ensure that it has the capacity to monitor each producer's life insurance policy and annuity contract replacement activity for that insurer and that it can produce records upon request by the commissioner regarding the number of transactions that are unreported replacements of existing policies or contracts by the existing insurer detected by the insurer's monitoring system as required by s. Ins 2.07 (5) (b), Wis. Adm. Code.

Marketing, Sales and Advertising

The Marketing and Sales Departments are two separate entities located in the Home Office of Catholic Financial Life. The Marketing Department oversees corporate marketing, and supports the sales and fraternal departments with all sales and fraternal marketing initiatives. This area directs policies and programs and sets objectives for all marketing activities for the society including market research, advertising, brand management, creative editorial design and design services, corporate communications and the development of non-advisor driven distribution channels. The Sales Department oversees the recruiting, selection and training of the field force for the sale of Catholic Financial Life's life insurance and annuity products. This area reviews marketing pieces for proper sales practices and concepts as well as sales brand and will submit for approval new pieces or changes to existing pieces.

The examiners reviewed the company's response to the Marketing, Sales and Advertising interrogatory and 50 random advertising samples. No exceptions were noted.

IV. CONCLUSION

The market conduct examination of Catholic Financial Life was conducted by the Wisconsin Office of the Commissioner of Insurance to determine compliance with Wisconsin insurance statutes and regulations subsequent to the merger of Catholic Knights and Catholic Family Life Insurance that resulted in the creation of Catholic Financial Life in its present form.

The examiners reviewed files in the following functional categories: Company Operations and Management; New Business and Underwriting; Policy Forms and Filings; Policyholder Service and Complaints; Marketing, Sales and Advertising; Producer Licensing; and Claims. As a consequence of their review, the examiners found that the company was substantially in compliance, with the exception of four recommendations.

The examiners made three recommendations in the area of new business underwriting of replacements and one in the area of suitability of annuity sales. The examiners found that the company lacked written procedures to ensure that the applicant of a direct response solicitation who indicates on the application that a replacement or change is intended receives a replacement notice as described in s. Ins 2.07, Appendix III, Wis. Adm. Code and that the company secures a copy of the replacement notice signed by the applicant. It was recommended that such written procedures be developed, documented and implemented.

Next, the examiners found instances in which the company did not send a notice of possible replacement within five business days of its receipt of the application to the existing insurer as required by s. Ins 2.07 (6) (a) 2., Wis. Adm. Code. In addition, the examiners found that the company did not have written procedures that specifically

stated the five-day requirement, nor the requirement to mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five business days of a request from an existing insurer. It was therefore recommended that appropriate written procedures be developed, documented and implemented to ensure that notification of possible replacement is done within the five business day period.

The examiners found that while the company was compliant with four of the five report capabilities to monitor agent replacements as required by s. Ins 2.07 (5) (b), Wis. Adm. Code, it did not have the capability to produce a report that tallies and monitors the number of transactions that are unreported replacements of existing policies or contracts by the existing insurer detected by the insurer's monitoring system. It was therefore recommended that the company develop, document and implement procedures to produce such a report.

A final recommendation was made that the company revise its annuity suitability form to include the proposed annuitant's liquid net worth as well as liquidity needs as required by s. 628.347 (1) (e) 9. and 10., Wis. Stat.

V. SUMMARY OF RECOMMENDATIONS

New Business and Underwriting

- Page 14 1. It is recommended that the company revise its annuity suitability form to include the proposed annuitant's "liquid net worth" as well as "liquidity needs," as per s. 628.347 (1) (e) 9. and 10., Wis. Stat.
- Page 15 2. It is recommended that the company develop, document and implement a process and procedures to ensure that an applicant of a direct response solicitation is sent the proper replacement notice depending on whether replacement is involved as described in s. Ins 2.07 (8), Wis. Adm. Code.
- Page 16 3. It is recommended that the company develop, document, and implement a process and procedures to ensure that within five business days of every application that indicates replacement or within five days of when a replacement is identified by the company if not on the application, it notifies any other existing insurer(s) that may be affected by the proposed replacement and that it mail a copy of the available illustration or policy summary for the proposed policy or available disclosure document for the proposed contract within five business days of a request from an existing insurer in order to comply with s. Ins 2.07 (6) (a) 2., Wis. Adm. Code.
- Page 16 4. It is recommended that the company develop, document, and implement a process and procedures to ensure that it has the capacity to monitor each producer's life insurance policy and annuity contract replacement activity for that insurer and that it can produce records upon request by the commissioner regarding the number of transactions that are unreported replacements of existing policies or contracts by the existing insurer detected by the insurer's monitoring system as required by s. Ins 2.07 (5) (b), Wis. Adm. Code.

....

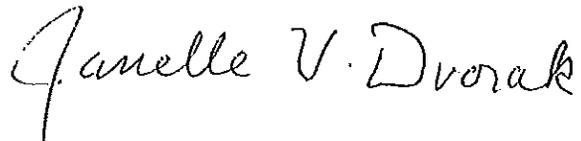
VI. ACKNOWLEDGEMENT

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

The following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

<u>Name</u>	<u>Title</u>
Janelle V. Dvorak, AIRC, ALMI, AIAA	Insurance Examiner
John L. Kitslaar III	Senior Insurance Examiner
Erin Mirza	Insurance Examiner
Marcia Zimmer	Senior Insurance Examiner

Respectfully submitted,



Janelle V. Dvorak

Examiner-in-Charge