



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

Catholic Family Life Insurance  
1572 Capitol Drive  
Shorewood WI 53211

dated March 17-26, 2003, and served upon the company on October 8, 2003, 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 17th day of November, 2003.

Jorge Gomez  
Commissioner of Insurance

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

**MARKET CONDUCT EXAMINATION**

**OF**

**CATHOLIC FAMILY LIFE INSURANCE  
SHOREWOOD, WISCONSIN**

**MARCH 17-26, 2003**

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Jim Doyle, Governor*  
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March 26, 2003

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Honorable Jorge Gomez  
Commissioner of Insurance  
125 South Webster Street  
Madison, Wisconsin 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted March 17 to March 26, 2003 of:

CATHOLIC FAMILY LIFE INSURANCE  
Shorewood, Wisconsin

and the following report of the examination is respectfully submitted.

## I. INTRODUCTION

Catholic Family Life Insurance was established and domiciled in Wisconsin in 1868. It was the first Catholic fraternal benefit organization established in the United States. In 1991 a New England fraternal, Union Saint-Jean Baptiste (USJB) merged into Catholic Family, and in 1993 another merger was completed with Northern Fraternal Life. Membership is open to practicing Catholics of good character and health.

The company markets individual whole life plans and interest sensitive plans and offers immediate, single, and flexible deferred annuity contracts. The company does a small amount of accident/health business consisting of accidental death and dismemberment insurance.

In 2000 and 2001, Catholic Family Life Insurance was authorized to write business in Arizona, California, Connecticut, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, North Dakota, Pennsylvania, Rhode Island, South Dakota, Vermont, Virginia, and Wisconsin. As of December 31, 2001, the

company's total policy payments received and benefits paid in Wisconsin as compared to the total policy premiums received and benefits paid nationally was as follows.

	<b>Life Total Payments Rcvd From Members</b>	<b>Life Insurance Benefits Paid</b>
<b>Wisconsin</b>	\$10,538,982	\$5,419,143
<b>National</b>	\$16,403,692	\$8,564,360
<b>Wisconsin As a % of National</b>	64.25%	63.28%

The majority of the premium written by the company in 2001 was life and annuity insurance. The company did not rank in the top twenty writers in Wisconsin for 2001. As of December 31, 2001, the company reported the following premium written and benefits paid organized by line of business in Wisconsin:

<b>2001</b>	<b>Life &amp; Annuities</b>
<b>Direct Premiums &amp; Annuity Considerations</b>	
Life Insurance	\$5,130,342
Annuity Considerations	\$5,408,640
<b>Direct Claims &amp; Benefits Paid</b>	
Death Benefits	\$1,508,311
Matured Endowments	\$119,340
Annuity Benefits	\$2,661,993
All Others	\$1,129,499

The Office of the Commissioner of Insurance received six complaints against the company between June 1, 2001 through December 31, 2002. All six complaints involved individual life insurance coverage. Two of the complaints concerned agent actions and the four remaining complaints involved policyholder services. The company was not on the Office of Commissioner of Insurance above average complaint list for life insurance and annuities in either 2000 or 2001. A complaint is defined as "a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." 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.

<b>2002</b>	<b>Complaint Reason</b>				
<b>Coverage Type</b>	<b>Underwriting</b>	<b>Marketing &amp; Sales</b>	<b>Claims</b>	<b>Policyholder Service</b>	<b>Other</b>
Individual Life		2		3	
Group Life					
Individual Annuity					
Group Annuity					
Credit Life					
All Others					
<b>Total</b>		<b>2</b>		<b>3</b>	

<b>2001</b>	<b>Complaint Reason</b>				
<b>Coverage Type</b>	<b>Underwriting</b>	<b>Marketing &amp; Sales</b>	<b>Claims</b>	<b>Policyholder Service</b>	<b>Other</b>
Individual Life				1	
Group Life					
Individual Annuity					
Group Annuity					
Credit Life					
All Others					
<b>Total</b>				<b>1</b>	

## **II. PURPOSE AND SCOPE**

A targeted market conduct examination was conducted to determine the company's compliance with the recommendations made in the previous market conduct examination dated July 28, 1997, and to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from June 1, 2001 through December 31, 2002. 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 Catholic Family Life Insurance company's operations in company operations and management, producer licensing, marketing, sales and advertising including electronic commerce and illustrations, policyholder services and complaints, privacy requirements, policy forms and rates, replacements, and new business and underwriting including AIDS. This examination focused on individual life & annuity 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 market conduct examination of Catholic Family Life Insurance, as adopted June 24, 1998, contained nine recommendations. Following are the recommendations and the examiners' findings regarding the company's compliance with each recommendation.

#### **Marketing, Sales and Advertising**

1. It is recommended Catholic Family Life Insurance maintain a copy of each advertisement used, in its advertising file, as required by s. Ins 2.16 (30), Wis. Adm. Code.

**Action:** Compliance

2. It is recommended Catholic Family Life Insurance clearly identify its complete company name on each advertisement, pursuant to s. Ins 2.16 (8), Wis. Adm. Code.

**Action:** Compliance

3. It is recommended Catholic Family Life Insurance disclose the guaranteed interest rate for a product when advertising a current interest rate, pursuant to s. Ins 2.16 (24) (c), Wis. Adm. Code.

**Action:** Compliance

4. Advertising- It is recommended Catholic Family Life Insurance include documentation in its advertising files to indicate the manner and extent of distribution for each advertisement, as required by s. Ins 2.16 (30), Wis. Adm. Code.

**Action:** Compliance

#### **Underwriting**

5. It is recommended Catholic Family Life Insurance remove language from its applications forms [U-416-595, U-399-894, and U-280-1086 (REV 691)] which violates s. 631.09, Wis. Stat., regarding information acquired by an agent, and that the company submit the revised applications to OCI for approval, within 60 days of the adoption of this report.

**Action:** Compliance



6. It is recommended Catholic Family Life Insurance revise its current "Resources for Persons with a Positive HIV Test/Implications of Testing Positive for HIV" form to disclose the form number of the OCI version being used, and to incorporate changes made to the form by OCI in March of 1997, as required by s. Ins 3.53 (4) (d), Wis. Adm. Code.

**Action:** Compliance

7. It is recommended Catholic Family Life Insurance develop written procedures and underwriting guidelines for handling applications in which domestic violence is disclosed or suspected, to ensure that its underwriting standards are consistent and not unfairly discriminatory, pursuant to s. 628.34 (3), Wis. Stat.

**Action:** Compliance

### **Producer Licensing**

8. It is recommended Catholic Family Life Insurance provide each terminated agent, whether terminated voluntarily or involuntarily, with a written request for the return of all indicia of agency, pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

**Action:** Non-Compliance. Refer to the current examination findings for producer licensing.

### **New Business**

9. It is recommended Catholic Family Life Insurance develop and follow written procedures for determining whether replacement is involved when it is noted that both replacement questions on new business applications have not been completed or have been answered inconsistently by the agent and the applicant, as required by s. Ins 2.07 (5) (a), Wis. Adm. Code.

**Action:** Compliance

#### **IV. CURRENT EXAMINATION FINDINGS**

##### **Policyholder Service and Complaints**

Although the company does not have a formal definition of a complaint, it maintains excel spreadsheets for recording all complaints of substantial nature or those concerning ethics, complaints to the commissioner's office; and any complaints concerning billing problems and issues of misunderstandings on policies, that are received in the company's Member Services Department. All employees have access to record the concerns and complaints, and they are handled by the department in the company that is best suited to deal with the issue. Complaints of a more complex nature are referred to managers. Catholic Family Life Insurance has also developed the Concerns Committee, which deals with issues of a substantial nature or those concerning ethics. Complaints received against agents are referred to the Vice President and Director of Agencies.

The examiners reviewed the company's response to the policyholder service and complaint interrogatory, a random sample of 10 log entries involving verbal complaints that were recorded on the excel spread sheets, and all 6 Office of the Commissioner of Insurance complaints. Catholic Family Life Insurance responded to the complaints within the time requirements of the Office of Commissioner of Insurance. The files were well documented and no exceptions were noted.

##### **Policy Forms and Rates**

The Administrative Department is responsible for rate and form filings. The examiners reviewed the company's response to the policy forms and rate interrogatory, and 26 policy forms, including those deemed by OCI. All forms appeared to be in compliance with Wisconsin Insurance law and no exceptions were noted.

## **Privacy and Confidentiality**

The examiners reviewed the company's response to the privacy of consumer financial and health information interrogatory, including its privacy policy, employee manual, privacy notice, application, and authorization. The company's board of directors was responsible for appointing the privacy officer and for reviewing and approving the company's privacy program as presented by management. The company's senior vice president and secretary was appointed privacy officer with oversight of the privacy policy. The company stated that its board of directors approved its privacy policy on May 16, 2001.

The examiners found that the company had developed a plan for oversight of its privacy and confidentiality process that involved its management team, privacy officer and board of directors. The examiners also found that the company had instituted its privacy and confidentiality process by drafting its privacy policy, providing the information on its web site, incorporating information regarding handling private information into its employee handbook, and by instituting a disposal of records procedure.

The company stated that it includes in its policy delivery packets a copy of its initial privacy notice. The company first mailed its privacy notice to existing customers on July 1, 2001. The company also stated that it planned to conduct an annual mailing of its privacy notice to all its customers every July.

The company stated that its privacy policy had not been subject to either internal or external audit, and it has no plans to do so. It also stated that it had not developed an "opt-out" form since it does not share its customer lists or disclose any non-public personal financial information about a consumer.

The examiners found that the company's agent contracts did not contain any language regarding protecting the privacy and confidentiality of applicant and policyholder information.

- 1. Recommendation:** It is recommended that the company amend its agent contracts to include a provision requiring agents to protect the privacy and confidentiality of applicant and policyholder nonpublic financial and health information in order to document compliance with s. 610.70, Wis. Stat., and ch. Ins 25, Wis. Adm. Code.

### **Producer Licensing**

The Sales Department is responsible for the management of agent contracts, agent appointments and terminations. Catholic Family Life Insurance utilizes agents and general agents. The Sales Department supervises all general agents and any full-time or part-time agents not affiliated with any agency. The company does not accept brokered business.

The examiner reviewed the company's response to the producer licensing interrogatory, its agency procedure manual, its agency and agent contracts, and 36 producer files, that included 11 active and 25 terminated producers.

The examiners requested from Catholic Family Life Insurance a listing of all producers licensed and appointed in Wisconsin. The producer licensing data provided by Catholic Family Life Insurance was compared to the producer database maintained by the Office of the Commissioner of Insurance. The examiners found in two instances the company's database listed the agents as active, however the Office of the Commissioner of Insurance's database listed the agents as terminated. The company's response indicated that in one instance, the agent was terminated according to the procedures, however, a computer error continued to show him active. The second deviation occurred, when in 1964 an agent was reassigned a new agent number without deactivating the previous number, therefore giving the agent two numbers. Catholic Family Life Insurance terminated the agent correctly, however the previous number appeared on the data call.

Of the 25 terminated producer files, examiners found eight files that did not include a termination letter with the request for return of all indicia of agency. The file documented that the agent had been terminated and all indicia of agency had been returned within a timely

manner. However, the file did not contain a termination letter requesting a return of all indicia of agency. The company indicated that the agents terminated voluntarily.

One of the recommendations from the previous market conduct examination was that Catholic Family Life Insurance provide each terminated agent, whether terminated voluntarily or involuntarily, with a written request for the return of all indicia as required by s. Ins 6.57 (2), Wis. Adm. Code. The company did not issue termination letters that requested the return of all indicia of agency to agents who terminated voluntarily. All terminated agents must receive a termination letter as requested by s. Ins 6.57 (2), Wis. Adm. Code.

- 2. Recommendation:** It is again recommended that Catholic Family Life Insurance provide each terminated agent, whether terminated voluntarily or involuntarily, with a written request for the return of all indicia of agency, pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

### **Electronic Commerce**

The Fraternal Department, Sales Department, Communications Division and the IT Department are all responsible for overseeing the company's Internet and World Wide Web activities.

Catholic Family Life Insurance's website, [www.cfli.org](http://www.cfli.org) explains the different types of life insurance and annuity policies, includes a producer locator, and has contact information for individuals who may be interested in applying for employment with Catholic Family Life Insurance. The website also provides information about the company.

The company does offer one plan for which applicants can apply online. This policy is a Juvenile Term Insurance and is specific to Wisconsin. The website also allows consumers to download forms such as the Request for Electronic Funds Transfer Program, the Request for Change of Beneficiary and/or Name, and the Preliminary Death Claim.

Catholic Family Life Insurance does not allow its producers to have producer websites for business purposes. The company states that any advertisement whether print or electronic must receive approval from Catholic Family Life Insurance before it is used.

The examiners reviewed the company's responses to the electronic commerce interrogatory and the company's website. No exceptions were noted.

### **Marketing, Sales and Advertising**

The Sales Department is responsible for the company's marketing, sales, and advertising. Catholic Family Life Insurance's greatest number of leads are solicited directly by their producers through referrals from their clients. The company also supplements that approach with direct response marketing. If interested, prospects return the response card, and Catholic Family Life Insurance will distribute the lead to the agent or agency serving the area from which the card was sent.

Catholic Family Life Insurance stated that the agents may develop the concept for the advertisements, however all ads must have the company's approval. Catholic Family Life Insurance reimburses producers for all approved advertisements.

The examiners reviewed the company's response to the marketing, sales, and advertising interrogatory, the company's short-range and long-range marketing plans, sales reports, copies of newsletters and bulletins, and all 16 advertisements in the company's advertising file.

The examiners found that annuity interest rate forms A-540-895 (REV 303) and A- 539-895 (REV 303) were not included in the advertising file. The company informed the examiners that the interest rate forms were used as inserts in another annuity brochure. Section Ins 2.16 (30), Wis. Adm. Code requires that the advertising file contain all advertising publications concerning the company's policies, which would include forms used as inserts in other publications.

- 3. Recommendation:** It is recommended that Catholic Family Life Insurance include copies of its annuity interest rate forms and all other advertising inserts in the advertising file pursuant to s. Ins 2.16 (30), Wis. Adm. Code.

## **Illustrations**

The Sales Department is responsible for preparing life insurance illustrations. The examiners reviewed the company's response to the illustration interrogatory, sample illustrations and the Statement of Policy Cost and Benefit Information. The company has procedures in place that comply with the life insurance illustration rule, s. Ins 2.17, Wis. Adm. Code.

The examiners reviewed 88 underwriting files in which the life insurance illustration rules would apply. No exceptions were noted.

## **New Business and Underwriting**

The New Business Department is responsible for processing all new applications from submission through issue. The Underwriting Department is responsible for underwriting all new applications, determining proper risk classifications, and development of applications.

Upon receipt of an application, submitted payment and all accompanying forms, the application is assigned a policy number and the application is manually entered into the computer system. The application is then forwarded to the screener who assigns the application to an underwriter and orders medical requirements, as set forth in Catholic Family Life Insurance's Medical and Non-Medical Underwriting Limits procedures. A tele-underwriter will contact the applicant and an underwriter will review the information to determine whether to accept or deny the application.

The examiners reviewed the company's response to the new business and underwriting, AIDS underwriting, and replacement interrogatories. The examiners reviewed 50 life new business issued files, 50 annuity new business issued files, 21 life new business issued rated files, 33 life new business declined files, 39 replacement life new business issued files, and 36 replacements annuity new business issued files.

The examiner found two deviations in the replacement life new business issued sample. In both of these policy files, the notice to the replaced company went out more than

five days after receiving the application. Section Ins 2.07(5)(a) 4b, Wis. Adm. Code, requires the written notification to be sent out within five days. The company claims that when it did not receive the replacement notice form with the application, it contacted the agent. When the signed replacement notice was received, the company states it sent the notice to the replaced insurer immediately. However, it appears that the company began the underwriting process before sending out the notice to the replaced insurer which is in violation of s. Ins 2.07(5)(a) 4b, Wis. Adm. Code. The rule requires the company to send notification of the replacement to the replaced insurer before commencing any underwriting. The examiner reviewed 75 replacement files and only found these two exceptions. Catholic Family Life Insurance does have written replacements procedures in place. No other exceptions were noted.

The prior examination report recommended the company establish procedures to ensure it was using the then current (1997) Resources for Persons with a Positive HIV Test/The Implications of Testing Positive for HIV form, OCI 17-00, pursuant to s. Ins 3.53 (4) (d), Wis. Adm. Code. The examiners found that Catholic Family Life Insurance did comply with the prior recommendation, however, the company is currently using the outdated Resources for Persons with a Positive HIV Test/The Implications of Testing Positive for HIV form, OCI 17-00 (R04/98).

- 4. Recommendation:** It is recommended that Catholic Family Life Insurance ensure they are using the most current copy of form, OCI 17-00, Resource for Persons with a Positive HIV Test/The Implications of Testing Positive for HIV, pursuant to s. Ins 3.53 (4) (d), Wis. Adm. Code.



## V. CONCLUSION

The prior examination report contained nine market conduct recommendations in the areas of underwriting and new business, producer licensing, marketing, sales, and advertising, and policy rates and forms. The company was found to be in compliance with all but one of the prior recommendations. In addition to the repeat recommendation, three new recommendations were written in the areas of marketing, sales and advertising, privacy and confidentiality, and new business and underwriting.

The repeat recommendation states that the company should provide each terminated agent, whether terminated voluntarily or involuntarily, with a written request for the return of all indicia of agency, as required by s. Ins 6.57 (2), Wis. Adm. Code.

The other recommendations concern the areas of marketing, sales and advertising, privacy and confidentiality, and new business and underwriting, where the examiners noted the company was not in complete compliance with Wisconsin insurance regulations.

## **VI. SUMMARY OF RECOMMENDATIONS**

### **Privacy & Confidentiality**

- Page 09      1.    It is recommended that the company amend its agent contracts to include a provision requiring agents to protect the privacy and confidentiality of applicant and policyholder nonpublic financial and health information in order to document compliance with s. 610.70, Wis. Stat., and ch. Ins 25, Wis. Adm. Code.

### **Producer Licensing**

- Page 10      2.    It is again recommended that Catholic Family Life Insurance provide each terminated agent, whether terminated voluntarily or involuntarily, with a written request for the return of all indicia of agency, pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

### **Marketing, Sales & Advertising**

- Page 11      3.    It is recommended that Catholic Family Life Insurance include copies of its annuity interest rate forms and all other advertising inserts in the advertising file pursuant to s. Ins 2.16 (30), Wis. Adm. Code.

### **New Business & Underwriting**

- Page 13      4.    It is recommended that Catholic Family Life Insurance ensure they are using the most current copy of form OCI 17-00, Resource for Persons with a Positive HIV Test/The Implications of Testing Positive for HIV, pursuant to s. Ins 3.53 (4) (d), Wis. Adm. Code.

## VII. 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.

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

<u>Name</u>	<u>Title</u>
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Respectfully submitted,

Kristy Jacobson  
Examiner-in-Charge