



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

GLOBE LIFE AND ACCIDENT INSURANCE COMPANY
GLOBE LIFE CENTER
OKLAHOMA CITY OK 73184

dated JUNE 24, 2010, and served upon the company on AUGUST 31, 2010, 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 12TH day of MAY, 2011.

A handwritten signature in black ink, appearing to read 'Theodore K. Nickel', written over a horizontal line.

THEODORE K NICKEL
Commissioner of Insurance

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

MARKET CONDUCT EXAMINATION

OF

**GLOBE LIFE AND ACCIDENT INSURANCE COMPANY
OKLAHOMA CITY, OKLAHOMA**

JUNE 14 - 24, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Sean Dilweg, Commissioner

Wisconsin.gov

August 31, 2010

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Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted June 14 to June 24, 2010 of:

GLOBE LIFE AND ACCIDENT INSURANCE COMPANY
Oklahoma City, Oklahoma

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Globe Life and Accident Insurance Company (Globe) was incorporated and commenced business on April 9, 1951. On November 2, 1970, the company purchased all outstanding stock of American Life and Accident Insurance Company. On December 31, 1979, the company redomiciled to the state Delaware. On July 31, 1980, Liberty National Life Insurance Company acquired the company and reorganized as Torchmark Corporation. On August 31, 2007, the company merged with American Life and Accident Insurance Company. The company redomiciled from Delaware to Nebraska on December 19, 2007.

The company was licensed in the District of Columbia and all states except New York in both 2007 and 2008.

In 2007 and 2008 the company reported written premium in all states except New York, in Washington, D.C. and Guam.

The following table summarizes the total direct national premium written in 2007, 2008 and 2009 as compared to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

| 2009 | Life Insurance Premiums | Annuity Considerations | A&H Premiums | Deposit Type Funds | Other Considerations |
|-----------------------|--------------------------------|-------------------------------|-------------------------|---------------------------|-----------------------------|
| Wisconsin | 7,468,478 | 0 | 242,731 | 0 | 0 |
| National | 545,039,197 | 1,389 | 31,565,865 | 0 | 0 |
| WI as a % of National | 1% | 0% | 1% | 0% | 0% |

| 2008 | Life Insurance Premiums | Annuity Considerations | A&H Premiums | Deposit Type Funds | Other Considerations |
|-----------------------|--------------------------------|-------------------------------|-------------------------|---------------------------|-----------------------------|
| Wisconsin | 7,179,888 | 0 | 247,630 | 0 | 0 |
| National | 518,318,331 | 1,389 | 32,679,162 | 0 | 0 |
| WI as a % of National | 1% | 0% | 1% | 0% | 0% |

| 2007 | Life Insurance Premiums | Annuity Considerations | A&H Premiums | Deposit Type Funds | Other Considerations |
|-----------------------|--------------------------------|-------------------------------|-------------------------|---------------------------|-----------------------------|
| Wisconsin | 6,956,218 | 0 | 230,232 | 0 | 0 |
| National | 495,172,162 | 1,389 | 31,127,042 | 0 | 0 |
| WI as a % of National | 1% | 0% | 1% | 0% | 0% |

The majority of the premium written by the company in both 2007 and 2008 at both the national and state levels was life insurance.

The following tables summarize the company's Wisconsin life insurance premium written and benefits paid in 2007, 2008 and 2009.

Wisconsin Life Insurance Business

| 2009 | Ordinary | Group |
|--|-----------------|--------------|
| Direct Premiums | | |
| Life Insurance | 4,309,990 | 3,158,488 |
| Direct Claims & Benefits Paid | | |
| Death Benefits | 1,599,693 | 1,190,725 |
| All Others | 280,244 | 0 |

| 2008 | Ordinary | Group |
|--|-----------------|--------------|
| Direct Premiums | | |
| Life Insurance | 4,546,990 | 2,632,898 |
| Direct Claims & Benefits Paid | | |
| Death Benefits | 1,460,236 | 1,033,348 |
| All Others | 308,621 | 0 |

| | 2007 | Ordinary | Group |
|--|------|-----------|-----------|
| Direct Premiums | | | |
| Life Insurance | | 3,947,180 | 3,009,038 |
| Direct Claims & Benefits Paid | | | |
| Death Benefits | | 1,583,829 | 630,136 |
| All Others | | 259,642 | 0 |

In 2008, the company ranked as the 74th largest writer of ordinary life insurance in Wisconsin with 0.2% of the market share. The company ranked as the 31st largest writer of group life insurance in Wisconsin with 0.5% of the market share. The company was ranked as the 152nd largest writer of individual health insurance.

In 2007, the company ranked as the 84th largest writer of ordinary life insurance in Wisconsin with 0.2% of the market share. In addition, the company ranked as the 31st largest writer of group life insurance in Wisconsin with 0.4% of the market share. The company was ranked as the 158th largest writer of individual health.

A review of the website for the Insurance Marketplace Standards Association (IMSA) indicates that the company is not a member of IMSA.

The Office of the Commissioner of Insurance (OCI) received 33 complaints against the company between January 1, 2008 through March 31, 2010. 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. The company's ratio of complaints to premiums written has been high enough to place the company on OCI's Above-Average List for consumer complaints each year since 2004. The company was ranked #2 on the list three times and was ranked #4 in 2008 and 2009. Policyholder service concerns involving billing and premium notice problems as well as proper application of premiums paid were the basis for the majority of the company's complaints that were received in 2008 and 2009 (19 of 26 or 73%). This percentage is far greater than the percentage of

all complaints received by OCI that involved policyholder service concerns during the same period (10.6%).

Complaints Received

| Through March 31, 2010 | | | | | | | | | | | | |
|------------------------|-------|------------|--------------|------------|-------------------|------------|--------|------------|----------------------|------------|-------|------------|
| 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 |
| Individual Health | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Individual Life | 7 | 100% | 0 | 0% | 1 | 14% | 3 | 43% | 3 | 43% | 0 | 0% |
| Group 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 | 7 | 100% | 0 | 0% | 1 | 14% | 3 | 43% | 3 | 43% | 0 | 0% |

| 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 |
| Individual Health | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Individual Life | 17 | 100% | 1 | 6% | 2 | 12% | 3 | 18% | 11 | 69% | 0 | 0% |
| Group 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 | 17 | 100% | 1 | 6% | 2 | 12% | 3 | 18% | 11 | 69% | 0 | 0% |

| 2008 | | | | | | | | | | | | |
|-------------------|-------|------------|--------------|------------|-------------------|------------|--------|------------|----------------------|------------|-------|------------|
| 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 |
| Individual Health | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| Individual Life | 9 | 100% | 0 | 0% | 0 | 0% | 1 | 1% | 8 | 99% | 0 | 0% |
| Group 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 | 9 | 100% | 0 | 0% | 0 | 0% | 1 | 1% | 8 | 99% | 0 | 0% |

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, 2008 through March 31, 2010. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination covered individual life business in Wisconsin and included a review of company operations and management; marketing, sales and advertising; policy forms; producer licensing; claims; policyholder service and complaints; and underwriting which included new business processing, and policy replacement.

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

Claims

The claims department of Globe is located in Oklahoma City, Oklahoma. The examiners reviewed the company's response to the claims interrogatory. The claims department typically processes incontestable claims (claims occurring more than two years after the policy's issue date) within 10 days of receipt of proof of loss. The company did not provide a written claims processing manual as it stated that the claims universe is too ever-changing to accommodate a claims manual.

1. It is recommended that the company develop, document and implement policies and written procedures for administration of death claims in order to effectively service claims as required by s. Ins 6.11 (3) (b) 2., Wis. Adm. Code.

The examiners reviewed 50 paid claims. The examiners found that in one file the company did not honor an insured's request to change her beneficiaries. The company stated that it did not know which children she was referring to as the insured had not completed the department's required beneficiary change form. Section 632.48 (b), Wis. Stat. states that if the designation of beneficiary is not explicitly irrevocable, any act that unequivocally indicates an intention to make the change is sufficient to effect it. Although the company admitted to finding on the supplied obituary names of the insured's 5 children who were clearly the children the insured was referring to, the death benefit was paid only to the insured's daughter.

The examiners reviewed 56 claims closed without payment or denied. No exceptions were noted.

Company Operations and Management

The examiners reviewed the company's response to the company operations and management interrogatory. Globe verified that the company is not a member of Insurance Marketplace Standards Association (IMSA).

The company stated that all business, marketing, and long-range strategic plans of the company are handled at the holding company level, and that Globe Life does not maintain its own business plan as a wholly owned subsidiary. The company also stated that it would continue its current efforts through its direct response business and did not have any plans to venture into other sales markets or products.

The board of directors for Globe has one or two physical or teleconference meetings per year. In addition to these meetings, the board acts by unanimous written consent. The Associate General Counsel of Globe Life presents regulatory reports at all Board Meetings and teleconferences. The company stated that if a compliance issue needs to be expeditiously reviewed by the Board, the compliance matters can be confidentially submitted to the Torchmark Audit Committee by the Globe Legal Department.

The company stated that the Torchmark Corp. internal audit department conducts the internal audits of Globe. The audit reports are given to the company's board of directors to determine whether or not to act upon the suggestions of the auditors. The examiners reviewed the Torchmark Corp. internal audit reports and the company's responses to the auditors' findings and suggestions. No significant compliance problems were noted, but the company did not always agree with the auditors' suggestions. The company does not have state specific audit reports.

The company's compliance department's duties include, but are not limited to: filing rates, forms, and advertising; maintaining records of form filings; the administration of forms; the oversight of marketing; providing direction to administration and company agents including proper development and use of consumer materials; and the development and monitoring of

regulatory issues impacting the administration of the business of insurance. The company's Vice-President of Compliance is the principle officer in charge of the Compliance Department and reports directly to the General Counsel of the Torchmark Corporation. The examiners requested to review the company's compliance plan. The company stated it did not have or maintain a formal compliance plan due to the rapid changes within the regulatory environment, and because the compliance environment in which the company operates is continually changing. The examiners noted that the lack of a formal compliance plan and written procedures in most areas of the company that were reviewed resulted in deficiencies and non-compliance with Wisconsin insurance laws and regulations as noted elsewhere in this examination report.

2. It is recommended that the company develop, document and implement a formal compliance plan to ensure the company's compliance with Wisconsin insurance laws and regulations.

Marketing, Sales and Advertising

The examiners reviewed the company's responses to the Marketing, Sales, and Advertising and the E-Commerce Interrogatories. The company stated that it does not have any written plan for marketing. The creative marketing department is responsible for the company's marketing, sales and advertising. The compliance department and/or the legal department relay all regulatory changes to the creative marketing department for implementation in all advertising. The creative marketing department writes and designs advertising based on a mail schedule created by the campaign design department. The advertising is approved by the creative marketing department, then printed and mailed by the company's printing facility.

The company generates leads through an insert media program, the Internet and television. The insert media program involves advertising pieces that include a business-reply card. These pieces are inserted in various media such as coupon mailers, newspapers and

mail flyers. The consumer can return a card to the company for information. The company then responds with a direct mail packet including applications, rates, and policy details. The same packet is also sent in response to leads from television commercials and Internet inquiries. When a consumer completes the lead form, or application form, on the company's website, he or she is first prompted to complete his or her resident state information. The website then automatically compiles all of the approved plans, rates, and application forms that were previously approved by the consumer's resident state.

The company's advertising files are organized and maintained in Oklahoma City, Oklahoma by the creative marketing department. Three to five copies of every piece of advertising is kept in a file with the date of distribution. The files are never purged and remain stored and organized in archived files.

All agent advertising is conducted by third-party vendors, Accuquote, Official Quote, Matrix, and Selectquote, with whom the company contracts with to market its products via direct response sales.

Agents of the company submit all pages of websites to the creative marketing department for review of the content and accuracy before publishing to the Internet. The sites are also reviewed by the actuarial department for approval on rate tables. Any time a change is made after initial approval, the changes must be submitted to the creative marketing department prior to publishing.

The company advertises on Internet search engine sites including Google, Yahoo, and MSN (Bing). The examiners found the company was using various Internet means, including Facebook and Twitter as institutional advertisements. It was found that the creative marketing department writes "Tweets" to direct consumers to the company website. These are approved internally by the creative marketing department, and then published.

Although not included in the company's advising file, the examiners reviewed the company's Internet advertising including search engine text link advertising, its Twitter

advertising file, including all Tweets published during the period of review, and the company's Facebook page. The examiners found the company considered advertisements as paper and television advertisements only. The OCI considers the use of Internet advertising such as search engine text link, Facebook and Twitter advertising. Section Ins 2.16 (3) (a) 1 a, Wis. Adm. Code defines advertising as "printed and published material, audio visual material and descriptive literature of an insurer or intermediary used in direct mail, newspapers, magazines, other periodicals, radio and TV scripts, billboards and similar displays, excluding advertisements prepared for the sole purpose of obtaining employees, intermediaries or agencies." Section Ins 2.16 (3) (h), Wis. Adm. Code, defines an institutional advertisement as "an advertisement which is prepared solely to promote the reader's or listener's interest in the concept of life insurance or annuities, or of promoting the insurer's sponsoring the advertisement, or both."

3. It is recommended that the Company develop, document, and implement a process and written procedures to ensure Internet advertisements including search engine text link advertising, and social networking such as Facebook and Twitter are included in its advertising files pursuant to s. Ins. 2.16 (3), Wis. Adm. Code.

The examiners also reviewed a sample of 50 advertising files. The examiners found 40 advertisements in which the company did not identify the sources of statistical information found in its advertisements which set out the number of persons insured, among other statistical information. In these advertisements, statistics regarding the number of persons insured and/or the number of satisfied policyholders did not reference where the information was compiled. Section Ins 2.16 (16) (a), Wis. Adm. Code states that an advertisement which sets out the dollar amounts of claims paid, the number of persons insured or other statistical information shall identify the source of the statistical information.

4. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements containing statistical information identify the sources of the statistical information as required by s. Ins. 2.16 (16) (a), Wis. Adm. Code.

The examiners found eight advertisements which stated "No Medical Exam" or similar terms but failed to further disclose that issuance of an insurance policy may depend on answers

to health questions set forth in the application. Section Ins 2.16 (26) (a), Wis. Adm. Code states that in the event an advertisement uses "Nonmedical," "No Medical Examination Required" or similar terms where issue is not guaranteed, the terms shall be accompanied by a further disclosure in close proximity thereto and with equal prominence to the effect that issuance of the policy may depend on answers to the health questions set forth in the application

5. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements containing terms such as "No Medical Exam" or similar terms, disclose in close proximity and with equal prominence that issuance of an insurance policy may depend on answers as required by s. Ins 2.16 (26) (a), Wis. Adm. Code.

The examiners found five of the samples were advertisements in which the company failed to include a written description of the graded or modified benefits on the first page of each advertisement in 12 point bold font. Section Ins 2.16 (25) (b) (3), Wis. Adm. Code states that the prominent disclosure required shall mean the following for the specified type of advertisement: for pre-printed advertisements intended for general distribution, a written description of the graded or modified benefits printed on the *first* page of the advertisement and in at least 12 point bold type.

6. It is recommended that the Company develop, document, and implement a process and written procedures to ensure all advertisements for policies containing graded or modified benefits contain a written description of the graded or modified benefits on the first page of each advertisement in at least 12 point bold type as required by s. Ins 2.16 (25) (b) (3), Wis. Adm. Code.

The examiners found that all fifty of the advertisement samples failed to disclose the extent of distribution of the advertisement. The company supplied a spreadsheet with the sample which disclosed the manner of distribution, e.g. print, but failed to note the extent of distribution of each individual advertisement. Section Ins 2.16 (30), Wis. Adm. Code states that each insurer shall maintain at its home or principal office a complete file containing every printed, published, or prepared advertisement of its policies hereafter disseminated in the state. It also states that a notation shall be attached to each advertisement in the file indicating the

manner and extent of distribution and the form number of any policy, amendment, rider or endorsement form being advertised.

7. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements in its advertising files have a notation indicating both the manner and extent of distribution attached to each advertisement as required by s. Ins 2.16 (30), Wis. Adm. Code.

Policy Forms

Globe sells children's individual life, adult term life, adult whole life, adult accidental death, and whole life adult replacement policies.

The examiners reviewed the company's response to the policy forms and rates interrogatory. The company's compliance department has the responsibility of filing policy forms, rates and advertising materials with state departments of insurance. The compliance department also monitors Wisconsin for changes in regulations related to policy provisions and marketing and selling of life insurance policies. The compliance department is responsible for the testing and implementation of new and modified policy forms. The compliance department is responsible for communicating relevant information to sales agents, the marketing department, and other administrative departments. The company stated that it shares with its staff new information regarding new or updated laws by email. The examiners found that the company does not have or use any written procedure manuals for the compliance department. The company stated that past efforts to develop written procedures were unsuccessful due to rapid changes in insurance law.

The examiners reviewed the 86 policy forms the company used during the period of review. No exceptions were noted.

Policyholder Service and Complaints

The examiners reviewed the company's responses to the policyholder service and complaints interrogatory. Prior to the period of review, the company had a separate

policyholder service department and customer service center. Policyholder service representatives are responsible for complex policy changes that affect premium rates, such as gender and/or age information if found to be incorrect. Further responsibilities of the policyholder service department include policy suspense resolution, policy face amount reductions and increases, policy cancelation processing, policy name and date of birth corrections, conversion processing, resolving payments in suspense, and resolving requests where the policyholder does not want to receive add-on offers. Customer service representatives (CSRs) are responsible for answering telephone inquiries and providing information concerning policy coverage and paid-to dates, processing policyholder payments, performing policy changes and corrections, advising beneficiaries of claim status, and providing other policy information to policyholders and/or interested third-parties.

In March, 2007, the company began moving its customer service representatives from Oklahoma City to McKinney, Texas. By December, 2007, the company had relocated 90 percent of its customer call center to McKinney, Texas. The company also transitioned to a new platform in phone system in February, 2008.

Due to the relocation of this department, the company hired and trained new customer service representatives to fill several positions left by employees who were unable to relocate. The CSR training includes one day of observing a senior representative, five to seven days of training based on a consistent agenda, and another day to sit with a senior representative to listen in on calls. Then the trainee takes two or three calls while the senior representative observes, and lastly, they are on their own. The whole training process typically takes two to three weeks.

As a result of the move to McKinney, the policyholder service and customer service departments were combined, and the number of policyholder service representatives was reduced from ten to three individuals. At present, the customer service center in McKinney, TX is staffed by 86 CSRs who handle calls from Globe Life and Accident policyholders.

The company considers a complaint to be any written communication which primarily expresses a grievance, which includes all written communication submitted to the company directly from the consumer, the OCI, the Better Business Bureau and/or an attorney representing the complainant. The insurance department complaints come to the company addressed to the associate general counsel. The OCI complaints are logged on the calendar with the date received and the date the response is due. The complaints are then forwarded to the company's paralegal. The paralegal then notes the complaint in the company's complaint log and then researches and responds to the inquiry under the supervision of the associate general counsel.

Consumer verbal complaints are considered inquiries by Globe and are handled by each Globe department individually, or by the company's paralegal, depending on the nature of the inquiry. The company compiles customer concerns and inquiries on a spreadsheet by type of issue and department involved, as well as by date, frequency, cause, resolution, and next action. The examiners reviewed the 124 issues and concerns noted on the spreadsheet and 12 written complaints that were received by the company during the period of review.

The spreadsheet noted a concern where CSRs were unable to access OnBase (the company's document imaging software) to answer policyholders' questions. This problem continued as of March 1, 2010, causing the number of policyholder calls to escalate because the CSRs were still unable to access the necessary information. The company explained that the Quality Assurance Group which was at one time a part of the Customer Service Department was utilizing a large number of software licenses that were supposed to be dedicated customer service licenses. The company stated that the problem no longer exists and that the CSRs are able to utilize the application as needed.

The examiners noted a number of customer concerns and complaints involved premium payment checks that were rejected at insureds' banks. The company stated that this

happened due to the large number of requests on a single day for a credit card/bank draft. The company was not able to supply information as to how many policies were affected as it stated it has no way to track such errors.

The examiners noted that the customer service department received weekly inquiries from policyholders concerning misapplied premium payments. There were approximately 10,324 misapplied premium inquiries nationwide during the period of review. The company tracks misapplied premium inquiries nationally only and does not keep state statistics. The average number of misapplied premium inquiries reported nationally by CSRs was 156 per week. The company stated that the premium accounting department processes over 200,000 premium payments per week, and that the ratio of misapplied premiums, under 1 percent, in relation to the total number of payments applied is low. The company stated it did not believe the number of misapplied premiums to be excessive. The company stated that it resolves errors retroactively, once policyholders notify the company of the error.

The company also stated that it implemented a computer system change during the 3rd quarter of 2009 that resulted in premium checks being rejected by the banks due to a transaction code error (R26), which affected premium processing. The company resolved the problem with further programming to the company's remittance software vendor. Approximately 860 payments were redeposited and all payments then applied correctly to the insureds' policies.

The examiners noted a concern regarding policyholders' inability to call the company's claims department directly and receive information concerning a claim. Callers are instead directed to the Customer Service Department where CSRs were not always able to answer callers' claim questions. The company stated that it is company policy to have only its CSRs communicate for the company. The company stated that as a result of the customer concern, the company made several changes including, implementing claim call scripts for all CSRs to assist them in giving a descriptive status to a claimant, retraining CSRs in the claims process,

and allowing customer service supervisors to work directly with claims management to resolve complex claim calls as well as to call claims supervisors and analysts directly for status on escalated issues.

The examiners noted a customer concern regarding delays in add-on coverage requests. The company stated that the delays were due to a processing gap related to its quality assurance (QAC) group. These processing gaps were created when the QAC group held onto a number of records in order to give policyholders more time to respond to health questions resulting in a delay of the issue or rejection of add-on coverage offers. The company stated that it put a limit on the number of attempts to contact an insured. Those insureds that were determined "unreachable" had the current premium applied to the policy, the add-on coverage rejected, and the overpayment refunded.

The examiners found that the company failed to give insureds the reasons for the company's denial of add-on coverage to existing policies. The company only stated that it reviewed health information, but gave the insureds no specifics on the denial. Section 631.17 (2), Wis. Stat requires an insurer that denies coverage under an individual life policy to advise the applicant or proposed insured in writing of the reasons for the denial. The company agreed that it should notify the insured of the reason for all denials of coverage, in addition to those denied for adverse underwriting decisions.

8. It is recommended that the company develop, document, and implement a process and written procedures to ensure it includes a written reason for denial of coverage (including add-on coverage) as required by s. 631.17 (2), Wis. Stat.

In September of 2008 the company launched its new E-Service Center that allows policyholders to log in and obtain policy information, make address and beneficiary changes and pay premiums online. The E-Service Center site also allows policyholders to email inquiries and requests for policy changes to the company. CSRs also use the E-Service Center to view policyholder information and assist policyholders' requests. The E-Service Center minimizes the number of screens the CSRs need to use to obtain policy information, and integrates with the

company's OnBase system where letters are retained. The company noted that eighty percent of policyholders' email requests are handled through the E-Service Center. The remainder of the requests, such as those needing to be handled by policyholder service, accounting, underwriting, new business, and life claims, are forwarded to the appropriate department.

The examiners found that the company uses email communications called 'Did You Knows' to communicate new business updates, and legal feedback related to complaints to its CSRs. The examiners reviewed 178 'Did You Knows' that were sent to CSRs during the period of review.

The examiners noted in one email communication that in May 2009, a banking error occurred that resulted in the company's premium payment system being unable to identify the banking information on file. As of May 27, 2009, the premiums for 48 policies had yet to be drafted, causing thirteen lapsed policies nationwide. The one potentially lapsed policy in Wisconsin was on extended term at the time of the lapse and it was unknown whether the lapse was caused by the banking error. The company stated that the status of all policies affected by the banking error had been corrected.

The examiners also found that due to another system error, premium notices generated during the May 2009 billing cycle were sent out to numerous customers with the incorrect premium amounts listed. Fifteen records were impacted in the State of Wisconsin. The company stated that no policies lapsed due to this error and all errors were corrected.

Producer Licensing

The examiners reviewed the company's response to the producer licensing interrogatory. The agent licensing department is responsible for the management of agent contracts, agent appointments and terminations for Wisconsin.

The company had 11 Employee Services Division (ESD) agents selling worksite products during the examination period. The company stated that it was not responsible for the recruitment of agents by third-party vendors. The company stated that those responsibilities were handled by a third-party general agency that employed those agents. The company stated that it did provide state-approved marketing materials and rates to the general agency for training purposes.

The company stated that it did not provide continuing education for the independent contactors that are the ESD agents. The company also indicated that those agents were independently responsible for obtaining the required CE credits for each state the agents were licensed and appointed in. The general agency was responsible for providing and monitoring the continuing education for all sub-agents employed. The company does not have any written training manuals for agents other than the ESD Policy and Procedure Manual for Civil Service Employees. The company also indicated that the 11 appointed ESD agents sold only 24 policies during the examination period.

The examiners compared the company's agent appointment records with OCI's records. Five corporation and six individual producer license numbers were not found in OCI's records at the end of the exam period. The company explained that the entries were listed in the data in error due to manual errors by members of the agent licensing area.

There was one policy sold to a Wisconsin consumer by an agent within a third-party direct marketing agency who was not licensed or appointed by the company in Wisconsin. The company stated that the application had been completed via telephone by the writing agent. The company further stated that in the past, all third-party direct marketing agencies had been diligent in the procedure to transfer telephone requests for coverage to only those agents who were licensed and appointed to sell business in the state the applicant is calling from. The company indicated the agent received the telephone request for coverage in error and that the application should not have been accepted by the company. The company indicated that it was

currently evaluating changes that can be made to the new business system to ensure that all future requests for coverage received from unlicensed and/or unappointed third-party direct marketing agents will not be accepted.

Section Ins 6.57 (5), Wis. Adm. Code prohibits an insurer from accepting business directly from any intermediary or entering into an agency contract with an intermediary unless that intermediary is a licensed agent appointed with that insurer.

9. It is recommended that the company develop, document and implement written procedures to ensure it is in compliance with its own company procedures and s. Ins 6.57 (5), Wis. Adm. Code which prohibits an insurer from accepting business directly from any intermediary or entering into an agency contract with an intermediary unless that intermediary is a licensed agent appointed with that insurer.

The examiners reviewed 50 appointed agent files. The examiners found that 46 files did not contain a copy of the appointment application or an indication of when the electronic application was submitted to OCI. Section Ins 6.57 (1), Wis. Adm. Code requires the application for intermediary-agent appointment to be submitted and entered into the OCI licensing system within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted. The company provided documentation for 45 of the files. The company could not locate appointment verification or PDB (Producer Data Base) print out for one file.

10. It is recommended that the company develop, document, and implement an audit procedure to verify that the company's agent appointment process is followed and to ensure that accurately maintained agent licensing, appointment, and termination records are maintained and processed in compliance with s. Ins 6.57, Wis. Adm. Code.

The examiners reviewed 50 terminated agent files. The company indicated that all but one of the terminated agent sample are Direct Marketing agents. The company does not provide supplies to these agents, as they are true sub-agents, and all supplies would be provided by the Direct Marketing Agency. Upon termination, letters of termination had not been sent to these agents directly from the company but were sent out by the Direct Marketing

general agent. The company stated that there was no need to ask for indicia to be returned. The remaining agent was never appointed with the state of Wisconsin. Section Ins 6.57 (2), Wis. Adm. Code requires that the termination notice provided to the agent by the insurer include a formal demand for the return of all indicia of agency.

11. It is recommended that the company develop, document, and implement a process and written procedures that request the return of indicia from all terminated agents, even sub-agents, pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

Underwriting

New Business

The examiners reviewed the company's response to the new business interrogatory. The company's new business department is responsible for reviewing incoming life insurance applications and replacement forms to verify that the application is complete, complies with the company's procedures and the necessary paperwork is included. Applications are scanned into Globe's system in the new business department. The new business department encompasses the underwriting department. The underwriting department uses MIB codes to review any necessary additional information. The underwriting department verifies medical information by telephone. The new business underwriting staff uses the Swiss Re manual to determine ratings on policies. The company has no written new business or underwriting manual of policies and procedures unique to Globe.

The examiners reviewed a total of twenty-five juvenile life applications. Of the twenty-five applications, five (20 percent) did not conform to the consent and insurable interest standards set forth in s. 631.07 (1) and (2), Wis. Stat. since although all five insureds were of legal age, they did not sign the application agreeing to be insured.

The examiners reviewed a total of twenty-five adult whole life applications. Of the twenty-five applications, nine (36 percent) did not comply with the consent and insurable interest standards set forth in s. 631.07 (1) or (2), Wis. Stats. because the policy applicant was a relative

of the insured and the insured had not signed the application agreeing to be insured. The company agreed that all but three of the policies did not meet the criteria set out by 631.07(2), Wis. Stat. Section 631.07 (1), Wis. Stat. states that no insurer may knowingly issue a policy to a person without an insurable interest in the subject of insurance. Section 631.07 (2), Wis. Stat. states that no insurer may knowingly issue an individual life insurance policy to a person other than the one whose life is at risk unless the latter has given written consent to the issuance of the policy. The company agreed that the acceptance of aunt and uncle, brother and sister signatures as applicants was not in compliance with s. 631.07 (2), Wis. Stat.

12. It is recommended that the Company develop, document and implement written procedures to ensure that it issues policies only to individuals with insurable interest in the insured pursuant to s. 631.07 (1), Wis. Stat.

13. It is recommended that the company develop, document and implement policies and written procedures to ensure that the adult person whose life is at risk gives written consent to being insured and that only applications from an individual with an acceptable relationship to the insured are accepted as required by s. 631.07 (2), Wis. Stat.

Underwriting

Replacement

During the latter part of the examination's review period, Wisconsin's administrative rule, s. Ins 2.07, Wis. Adm. Code, relating to the replacement of life insurance was repealed and recreated effective July 1, 2009, with an applicability date of November 1, 2009. The examiners reviewed the company's response to the replacement interrogatory. The company stated that it does not perform any determination as to whether a replacement sale is suitable. The company does not monitor or track internal replacements. The company stated that it does not believe internal replacements require monitoring since the company does not encourage or suggest that current policyholders replace in-force coverage regardless of carrier. The company stated that since all decisions are made by the policyholder without influence from the company or an agent's involvement, it believes that replacements do not require monitoring.

The examiners reviewed 25 new business files that involved replacement. None of the files contained a copy of the replacement notification to the replaced insurer. The duties of insurers with respect to direct response solicitations where replacement is involved prior to November 1, 2009 were contained in s. Ins 2.07 (5) (b), Wis. Adm. Code. The duties of insurers with respect to direct response solicitations where replacement is involved on or after November 1, 2009 are now contained in s. Ins 2.07 (8), Wis. Adm. Code. Both s. Ins 2.07 (5) (b) and current s. Ins 2.07 (8) (b) 2., Wis. Adm. Code, requires the replacing insurer to notify the replaced insurer of the proposed replacement within 5 business days of receipt of a completed application that indicates replacement is involved. Section s. Ins 2.07 (5) (b) 5.c., Wis. Adm. Code required insurers to maintain copies of the replacement notification for at least 3 years. The company stated that although it believes the required notification letters were sent, it was unable to produce the replacement letters because the letters were created on a correspondence system no longer utilized by the company. The company stated that since April, 2010, it uses a system that will be able to recreate copies of the notification letters.

Both s. Ins 2.07 (5) (b) 5,b and current s. Ins 2.07 (8) (a) and (b) 1., Wis. Adm. Code require that a replacement notice be sent to the insured no later than the time the policy is issued. None of the 25 new business files that involved replacement and were reviewed by the examiners contained a copy of the replacement notice to the insured. Former s. Ins 2.07 (5) (b) 5.c. and current s. Ins 2.07 (6) (a) 3., Wis. Adm. Code require the insurer to maintain and be able to produce copies of the replacement notice to insureds for at least 3 and 5 years respectively. The company stated that in the middle of 2009, the company switched to using the replacement notices that were based on the NAIC model replacement rule, and that are required by Wisconsin's current replacement regulation. The company's policy issue system automatically prints the appropriate replacement notice along with the policy depending on the answer to the replacement question on the application. Copies of the notices are not kept in the new business files. The company stated it did not believe s. Ins 2.07 (6) (a), Wis. Adm. Code

applies to direct response solicitations. The examiners noted that s. Ins 2.07 (8) (b) 2., Wis. Adm. Code specifically requires insurers who do direct response solicitations to comply with the requirements of s. Ins 2.07 (6) (a) 3. and 4. and (b), Wis. Adm. Code.

14. It is recommended that the company develop, document, and implement written procedures to ensure that copies of replacement notices and notification letters are kept in new business files as required by ss. Ins 2.07 (8) (b) 2. and 2.07 (6) (a) 3, Wis. Adm. Code.

Section Ins 2.07 (6) (a) 4., Wis. Adm. Code currently requires a replacing insurer to provide to the policyowner notice of the right to return the policy within 30 days of the delivery of the policy and receive an unconditional full refund of all premiums or considerations paid on it. The prior replacement rule had required only a 20-day free-look provision. The company indicated that all policy forms filed with or approved in Wisconsin already contain a 30-day free-look provision.

IV. CONCLUSION

This was OCI's first market conduct examination of Globe Life and Accident Insurance Company. The examiners wrote a total of 14 recommendations for this company. During the examination the examiners found deficiencies in seven areas including Claims; Company Operations and Management; Marketing, Sales and Advertising; Policyholder Service and Complaints; Producer Licensing; New Business and Replacement.

In the Claims area the examiners found a lack of written procedures for the administration of death claims.

In the Company Operations and Management area the examiners found the company lacked a formal compliance plan to ensure the company's compliance with Wisconsin insurance laws and regulations.

In the Marketing, Sales and Advertising area the examiners found advertisements, company advertising files, and methods of advertising that were not compliant with Wisconsin insurance law.

In the Policyholder Service and Complaints area the examiners found a lack of written procedures, and computer system failures and weaknesses that led to the company at times being unable to provide insureds with certain policy information, process timely premium payments, and resolve insureds' problems.

In the Producer Licensing area the examiners found that the company had accepted business from an unlicensed and unlisted agent. The examiners also noted that a lack of written procedures resulted in deficiencies regarding the company's agent termination procedures and agent files.

In the New Business area the examiners found that a lack of written procedures resulted in the issuance of policies to individuals who had no insurable interest in the life of the insured and inconsistencies regarding individuals' written legal consent to be insured.

In the Replacement area the examiners found that a lack of written procedures resulted in deficiencies in maintaining copies of required replacement notices and notifications in policy files. It was recommended that the company develop written procedures in most areas the examiners reviewed. Written procedures would help to eliminate problems and ensure compliance with Wisconsin insurance laws and regulations.

V. SUMMARY OF RECOMMENDATIONS

Claims

- Page 8 1. It is recommended that the company develop, document and implement policies and written procedures for administration of death claims in order to effectively service claims as required by s. Ins 6.11 (3) (b) 2., Wis. Adm. Code.

Company Operations and Management

- Page 10 2. It is recommended that the company develop, document and implement a formal compliance plan to ensure the company's compliance with Wisconsin insurance laws and regulations.

Marketing, Sales and Advertising

- Page 12 3. It is recommended that the Company develop, document, and implement a process and written procedures to ensure Internet advertisements including search engine text link advertising, and social networking such as Facebook and Twitter are included in its advertising files pursuant to s. Ins. 2.16 (3), Wis. Adm. Code.
- Page 12 4. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements containing statistical information identify the sources of the statistical information as required by s. Ins. 2.16 (16) (a), Wis. Adm. Code.
- Page 13 5. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements containing terms such as "No Medical Exam" or similar terms, disclose in close proximity and with equal prominence that issuance of an insurance policy may depend on answers as required by s. Ins 2.16 (26) (a), Wis. Adm. Code.
- Page 13 6. It is recommended that the Company develop, document, and implement a process and written procedures to ensure all advertisements for policies containing graded or modified benefits contain a written description of the graded or modified benefits on the first page of each advertisement in at least 12 point bold type as required by s. Ins 2.16 (25) (b) (3), Wis. Adm. Code.
- Page 14 7. It is recommended that the company develop, document, and implement a process and written procedures to ensure all advertisements in its advertising files have a notation indicating both the manner and extent of distribution attached to each advertisement as required by s. Ins 2.16 (30), Wis. Adm. Code.

Policyholder Service and Complaints

- Page 18 8. It is recommended that the company develop, document, and implement a process and written procedures to ensure it includes a written reason for denial of coverage (including add-on coverage) as required by s. 631.17 (2), Wis. Stat.

Producer Licensing

- Page 21 9. It is recommended that the company develop, document and implement written procedures to ensure it is in compliance with its own company procedures and s. Ins 6.57 (5), Wis. Adm. Code which prohibits an insurer from accepting business directly from any intermediary or entering into an agency contract with an intermediary unless that intermediary is a licensed agent appointed with that insurer.
- Page 21 10. It is recommended that the company develop, document, and implement an audit procedure to verify that the company's agent appointment process is followed and to ensure accurately maintained agent licensing, appointment, and termination records are maintained and processed in compliance with s. Ins 6.57, Wis. Adm. Code.
- Page 22 11. It is recommended that the company develop, document, and implement a process and written procedures that request the return of indicia from all terminated agents, even sub agents, pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

New Business

- Page 23 12. It is recommended that the Company develop, document and implement written procedures to ensure that it issues policies only to individuals with insurable interest in the insured pursuant to s. 631.07 (1), Wis. Stat.
- Page 23 13. It is recommended that the company develop, document and implement policies and written procedures to ensure that the adult person whose life is at risk gives written consent to being insured and that only applications from an individual with an acceptable relationship to the insured are accepted as required by s. 631.07 (2), Wis. Stat.

Replacement

- Page 25 14. It is recommended that the company develop, document, and implement written procedures to ensure that copies of replacement notices and notification letters are kept in new business files as required by ss. Ins 2.07 (8) (b) 2. and 2.07 (6) (a) 3, Wis. Adm. Code.

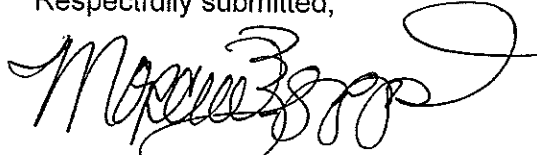
VI. ACKNOWLEDGEMENT

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

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> |
|----------------|-------------------------------|
| Janelle Dvorak | Insurance Examiner |
| Erin Mirza | Insurance Examiner |
| John Pegelow | Insurance Examiner- Journey |
| William Genne | Insurance Examiner - Advanced |

Respectfully submitted,



Marcia Zimmer, AIE, MCM
Examiner-in-Charge