



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. G07-0353
	)	
The Market Conduct Examination of	)	FINDINGS, CONCLUSIONS,
	)	AND ORDER ADOPTING REPORT
<b>MEGA Life and Health Insurance</b>	)	OF
<b>Company,</b>	)	
<b>Midwest National Life Insurance</b>	)	
<b>Company of Tennessee, and</b>	)	
<b>Chesapeake Life Insurance Company</b>	)	MARKET CONDUCT EXAMINATION
	)	
Authorized Foreign Life and Disability	)	
Insurance Companies	)	

**BACKGROUND**

A multi-state examination of the market conduct of **MEGA Life and Health Insurance Company, Midwest National Life Insurance Company of Tennessee and Chesapeake Life Insurance Company** (the Companies) as of December 31, 2005, was conducted by the Washington Office of the Insurance Commissioner (OIC) and the Alaska Division of Insurance as lead states. The Companies, **MEGA Life and Health Insurance Company and Chesapeake Life Insurance Company** domiciled in the state of Oklahoma, and **Midwest National Life Insurance Company of Tennessee** domiciled in Texas, hold Washington certificates of authority as life and disability insurance companies. This examination was conducted in compliance with the laws and regulations of the states of Washington and Alaska, and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Companies for their comments on July 31, 2007. The Companies' response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner, or a designee, has considered the report, the relevant portions of the examiners' work papers and submissions by the Company.

Subject to the right of the Companies to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

MEGA Life and Health Insurance Company,  
Midwest National Life Insurance Company of Tennessee, and  
Chesapeake Life Insurance Company  
Order Adopting Examination Report  
Mailing Address: P. O. Box 40255 • Olympia, WA 98504-0255  
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501



## FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 5 through 112 of the report.

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the market conduct examination of **MEGA Life and Health Insurance Company, Midwest National Life Insurance Company of Tennessee and Chesapeake Life Insurance Company**, and to order the Companies to take the actions described in the Findings and Required Actions section of the report. The Commissioner acknowledges that the Companies may have implemented the Findings and Required Actions prior to the date of this order. The Findings and Required Actions in the report are an appropriate response to the matters found in the examination.

## ORDER

The market conduct examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Companies are ordered as follows, these being the Required Actions contained in the examination report on page 64 through 75.

1. The Companies are ordered to strengthen the training program for new agents by including health insurance industry information.
2. The Companies are ordered to provide agent training more frequently based upon average agent retention statistics, such as every three to six months rather than annually.
3. The Companies are ordered to develop a standard but progressive curriculum for agents based upon experience level with the Companies.
4. The Companies are ordered to strengthen the training program for existing agents, particularly product information, ethics and point-of-sale presentations.
5. The Companies are ordered to develop centralized standards and controls to manage agents and train agency management in appropriate controls and monitoring of agent and agency activities. The Companies are also ordered to develop tools and metrics for measuring the effectiveness of training (e.g., reduction of complaints, reductions in cancellations, etc.).
6. The Companies are ordered to develop additional methods to help consumers have a better understanding of the Companies' products during the sales process.

7. The Companies are ordered to train BCP staff to be assertive in reviewing coverages with clients to ensure more calls are successfully completed.
8. The Companies are ordered to implement quality assurance procedures over agent activities including monitoring procedures and periodic audits.
9. The Companies are ordered to enhance the effectiveness of agent training by requiring monitored testing and monitoring the delivery of the training presentations by the field managers.
10. The Companies are ordered to implement a plan to monitor agents' actions using tools such as comprehensive field audits, phone interviews with recent customers, secret shoppers and trending of agent and agency related information, such as complaint statistics, cancellations, product upgrades and the like.
11. The Companies are ordered to provide additional point-of-sale materials such as scripts and checklists for agents' use and ensure that all materials include appropriate disclosures.
12. The Companies are ordered to investigate all agents with unusual trend statistics and all complaints regarding claims alleging that agents misrepresented the product at the point-of-sale. Any agent found to be misrepresenting the products at the point-of-sale should be retrained, disciplined or dismissed as appropriate for the circumstances.
13. The Companies are ordered to hold field management, such as regional managers and above, accountable for the actions of each agent under their supervision. Field management performance assessment and overall compensation should contain a component that is tied to such performance measures as the number of complaints received about sales practices in the manager's territory, the number of cancellations and persistency of business written by the manager and his agents, and other actions that may be indicators of the overall performance of that manager's territory. Incentives should also be developed which reward regional managers who demonstrate effective accountability and management of their agents with respect to compliance requirements and performance.
14. The Companies are ordered to identify and re-adjudicate any claims for which diagnosis and CPT codes were altered. The Companies are also ordered to cease altering diagnosis and CPT codes submitted by providers on claims.
15. The Companies are ordered to make changes to the claims adjudication system that will allow an entire claim to be entered into the system as a single claim.

16. The Companies are ordered to adjudicate all claims in a timely manner as required by statute or rule in the appropriate jurisdiction, based on claim submission location. All delayed claim letters must include a reason for the delay. The Companies' practice of pending claims while waiting for information on other claims must cease.
17. The Companies are ordered to provide EOB forms which include the deductible information pertinent to the claim.
18. The Companies are ordered to perform independent, routine and ongoing audits of claims to determine adherence with the Claims Procedures Manual and applicable laws and regulations. The results of such audits must be analyzed by compliance personnel to identify trends and root causes of claim mishandling, areas for training emphasis and problem claim adjusters. Audits must result in action by the Companies to correct those areas found to be problematic or deficient.
19. The Companies are ordered to develop and maintain a Claims Procedures Manual.
20. The Companies are ordered to adjudicate claims under the Company in which the claim is being made.
21. The Companies are ordered to document all claims correctly by filing claims with the Company in which the claims are made.
22. The Companies are ordered to send appropriate notification anytime a claim is denied.
23. The Companies are ordered to change their procedures so that the insurance payments and the association payments are received as two separate payments. The Companies must identify states in which the definition of premium includes all amounts collected by the insurer and must advise those states of the possibility that the Companies may need to amend premium tax filings. The Companies must work with the affected regulatory jurisdictions to correct prior year filing errors.
24. The Companies are ordered to disclose, with emphasis and clarity, to consumers and policyholders the relationship between the Companies and any associations they use for marketing products.
25. The Companies are ordered to clearly disclose to regulators how the **Policy Fees** and the association **New Member Admin Fees** are allocated between the insurance companies and the associations. This will assist the Companies in providing to the regulators an accurate accounting for premium tax purposes and proper accounting for premium refunds to insureds.

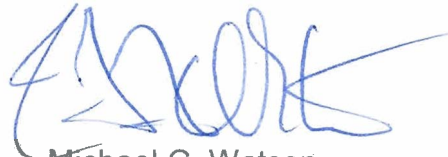
26. The Companies are ordered to remain vigilant that their relationships with all entities are cost effective and do not adversely impact the cost of insurance to consumers/policyholders.
27. The Companies are ordered to record and log all complaints correctly in compliance with state laws and the Companies' stated procedure.
28. The Companies are ordered to ensure that all issues raised in a complaint/grievance are acknowledged, investigated and finalized/disposed of in accordance with applicable statutes, rules and regulations, and contract language.
29. The Companies are ordered to comply with timeliness of response and timeliness of resolution of each complaint/grievance as required by applicable statutes, rules and regulations.
30. The Companies are ordered to identify those jurisdictions that have statutes or regulations defining a grievance. The Companies are ordered to train appropriate personnel to identify grievances upon receipt. The Companies are ordered to also develop procedures for staff to follow when handling grievances. These procedures must be state specific.
31. The Companies are ordered to request an agent statement for all complaints involving an agent's actions.
32. The Companies are ordered to improve their complaint handling controls and establish strong oversight of the complaint handling process by preparation of a report to regulators outlining the complaint-related business practice reforms that the Companies have implemented to date, which address the many concerns expressed in complaints. Included with the report should be documentation to evidence and support the adequacy of such reforms. This report can be used by regulators in developing a workplan for a follow-up examination. The Companies must also create a tracking log for issues forwarded to **CAT** and establish a procedure to ensure that there is ownership and accountability for the process.
33. The Companies are ordered to handle cancellation, non-renewal and discontinuance notices consistently for all policies and must comply with policy provisions and state laws. This includes information about the availability of a grace period provided to the insured and other parties to the contract.
34. The Companies are ordered to centralize the compliance program to promote consistency in all business units. The Companies' adherence to their Compliance Plan and compliance program enhancements must be independently evaluated at periodic intervals and should be re-examined in the next 12 to 18 months. The Companies must inform regulators on a timely and

periodic basis concerning the program's enhancements and changes to their compliance procedures.

35. The Companies are ordered to prepare separate financial information of **PDA** and **SDA** on an annual basis and have it available to domestic regulators upon request.
36. The Companies are ordered to provide to regulators authoritative accounting support for their treatment of the agent's stock benefit match.
37. The Companies are ordered to provide a copy of the consultant's report or an overview of the report for review by the regulators.
38. Each of the Companies are ordered to prepare a report to the regulators in each state in which it is authorized outlining concisely by examination area, all business reforms, improvements and changes to policies and procedures implemented through a current date. That report must be prepared as of March 20, 2008, and delivered to appropriate regulators no later than March 28, 2008.

IT IS FURTHER ORDERED THAT, the Companies file with the Market Conduct Oversight Manager, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 20th day December 2007.



Michael G. Watson  
Chief Deputy Insurance Commissioner