

**[IN ACCORDANCE WITH CALIFORNIA INSURANCE CODE (CIC) SECTION 12938,  
THIS REPORT WILL BE MADE PUBLIC AND PUBLISHED ON THE  
CALIFORNIA DEPARTMENT OF INSURANCE (CDI) WEBSITE]**

**WEBSITE PUBLISHED REPORT OF THE MARKET CONDUCT  
EXAMINATION OF THE CLAIMS PRACTICES OF**

**5 STAR LIFE INSURANCE COMPANY  
NAIC # 77879 CDI # 3143-5**

**AS OF JUNE 30, 2013**

**ADOPTED JANUARY 23, 2014**

**STATE OF CALIFORNIA**



**CALIFORNIA DEPARTMENT OF INSURANCE  
MARKET CONDUCT DIVISION  
FIELD CLAIMS BUREAU**

## NOTICE

**The provisions of Section 735.5(a) (b) and (c) of the California Insurance Code (CIC) describe the Commissioner's authority and exercise of discretion in the use and/or publication of any final or preliminary examination report or other associated documents. The following examination report is a report that is made public pursuant to California Insurance Code Section 12938(b)(1) which requires the publication of every adopted report on an examination of unfair or deceptive practices in the business of insurance as defined in Section 790.03 that is adopted as filed, or as modified or corrected, by the Commissioner pursuant to Section 734.1.**

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**DEPARTMENT OF INSURANCE**

Consumer Services and Market Conduct Branch  
Field Claims Bureau, 11th Floor  
300 South Spring Street  
Los Angeles, CA 90013



January 23, 2014

The Honorable Dave Jones  
Insurance Commissioner  
State of California  
300 Capitol Mall  
Sacramento, California 95814

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims handling practices and procedures in California of:

**5 Star Life Insurance Company  
NAIC # 77879**

**Group NAIC # 0000**

Hereinafter, the Company listed above also will be referred to as 5SL or the Company.

This report is made available for public inspection and is published on the California Department of Insurance website ([www.insurance.ca.gov](http://www.insurance.ca.gov)) pursuant to California Insurance Code section 12938(b)(1).

## FOREWORD

The examination covered the claims handling practices of the aforementioned Company on Life claims closed during the period from July 1, 2012 through June 30, 2013. The examination was made to discover, in general, if these and other operating procedures of the Company conform to the contractual obligations in the policy forms, the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law. This report contains all alleged violations of laws that were identified during the course of the examination.

The report is written in a “report by exception” format. The report does not present a comprehensive overview of the subject insurer’s practices. The report contains a summary of pertinent information about the lines of business examined, details of the non-compliant or problematic activities that were discovered during the course of the examination and the insurer’s proposals for correcting the deficiencies. When a violation that reflects an underpayment to the claimant is discovered and the insurer corrects the underpayment, the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered. Failure to identify, comment upon or criticize non-compliant practices in this state or other jurisdictions does not constitute acceptance of such practices.

Alleged violations identified in this report, any criticisms of practices and the Company’s responses, if any, have not undergone a formal administrative or judicial process.

## **SCOPE OF THE EXAMINATION**

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Company for use in California including any documentation maintained by the Company in support of positions or interpretations of the California Insurance Code, Fair Claims Settlement Practices Regulations, and other related statutes, regulations and case law used by the Company to ensure fair claims settlement practices.

2. A review of the application of such guidelines, procedures, and forms, by means of an examination of a sample of individual claims files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results; a review of consumer complaints and inquiries about this Company closed by the CDI during the period July 1, 2012 through June 30, 2013; and a review of previous CDI market conduct claim examination reports on this Company.

The review of the sample of individual claims files was conducted at the offices of the California Department of Insurance in Los Angeles, California.

## **EXECUTIVE SUMMARY OF CLAIMS SAMPLE REVIEWED**

The Life claims reviewed were closed from July 1, 2012 through June 30, 2013, referred to as the “review period”. The examiner randomly selected 73 5SL claims files for examination. The examiner cited six alleged claims handling violations of the California Insurance Code from this sample file review.

Findings of this examination included delaying a payment for a period longer than reasonably necessary, failure upon receiving proof of claim to accept or deny the claim within 40 calendar days and failure to provide thorough and adequate training regarding the Fair Claims Settlement Practices regulations to all its claims agents.

## **RESULTS OF REVIEWS OF MARKET ANALYSIS, CONSUMER COMPLAINTS AND INQUIRIES, AND PREVIOUS EXAMINATIONS**

Except as noted below, market analysis did not identify any specific issues of concern.

The Company was not the subject of any California consumer complaints and inquiries closed from July 1, 2012 through June 30, 2013, in regard to the lines of business reviewed in this examination. There was no specific area of concern identified in the complaint review.

The previous claims examination reviewed a period from March 15, 2003 through March 14, 2004. The most significant noncompliance issue identified in the previous examination report was the Company's failure to pay interest on a claim, unpaid longer than 30 days from the date of death. This issue was not identified as problematic in the current examination.

## DETAILS OF THE CURRENT EXAMINATION

Further details with respect to the examination and alleged violations are provided in the following tables and summaries:

<b>5SL SAMPLE FILES REVIEW</b>			
<b>LINE OF BUSINESS / CATEGORY</b>	<b>CLAIMS IN REVIEW PERIOD</b>	<b>SAMPLE FILES REVIEWED</b>	<b>NUMBER OF ALLEGED CITATIONS</b>
Life / Group	351	70	3
Life / Individual	11	3	0
Life / General	---	---	3
<b>TOTALS</b>	362	73	6

## TABLE OF TOTAL CITATIONS

Citation	Description of Allegation	5SL Number of Alleged Citations
CIC §10172.5(b) *[CIC §790.03(h)(5)]	The Company delayed payment for a period longer than reasonably necessary.	1
CCR §2695.7(b) *[CIC §790.03(h)(4)]	The Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.	1
CCR §2695.7(c)(1) *[CIC §790.03(h)(3)]	The Company failed to provide written notice of the need for additional time or information every 30 calendar days.	1
CCR §2695.6(b) *[CIC §790.03(h)(3)]	The Company failed to provide thorough and adequate training regarding these regulations to all its claims agents.	1
CCR §2695.6(b)(3) *[CIC §790.03(h)(3)]	The Company failed to annually certify in a declaration executed under penalty of perjury that thorough and adequate training regarding these regulations was provided to all its claims agents.	1
CCR §2695.6(b)(4) *[CIC §790.03(h)(3)]	The Company failed to maintain a copy of the certification required by CCR §2695.6(b)(1), (2) or (3) at the principal place of business.	1
<b>Total Number of Citations</b>		<b>6</b>

### \*DESCRIPTONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

- |                   |  |
|-------------------|--|
| CIC §790.03(h)(3) | The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims arising under insurance policies.             |
| CIC §790.03(h)(4) | The Company failed to affirm or deny coverage of claims within a reasonable time after proof of loss requirements had been completed and submitted by the insured. |
| CIC §790.03(h)(5) | The Company failed to effectuate prompt, fair, and equitable settlements of claims in which liability had become reasonably clear.                                 |

**TABLE OF CITATIONS BY LINE OF BUSINESS**

<p align="center"><b>LIFE</b>                      2012 Written Premium: \$7,384,007                      Recoveries \$0</p>	<p align="center"><b>NUMBER OF CITATIONS</b></p>
CIC §10172.5(b) [CIC §790.03(h)(5)]	<p align="center">1</p>
CCR §2695.7(b) [CIC §790.03(h)(4)]	<p align="center">1</p>
CCR §2695.7(c)(1) [CIC §790.03(h)(3)]	<p align="center">1</p>
CCR §2695.6(b) [CIC §790.03(h)(3)]	<p align="center">1</p>
CCR §2695.6(b)(3) [CIC §790.03(h)(3)]	<p align="center">1</p>
CIC §2695.6(b)(4) [CIC §790.03(h)(3)]	<p align="center">1</p>
<p align="center"><b>SUBTOTAL</b></p>	<p align="center"><b>6</b></p>

<p align="center"><b>TOTAL</b></p>	<p align="center"><b>6</b></p>
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## SUMMARY OF EXAMINATION RESULTS

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report.

In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. The Company is obligated to ensure that compliance is achieved.

Any noncompliant practices identified in this report may extend to other jurisdictions. The Company was asked if it intends to take appropriate corrective action in all jurisdictions where applicable. The Company intends to implement corrective actions in all jurisdictions.

There were no recoveries discovered within the scope of this report.

### LIFE

1. **In one instance, the Company delayed payment for a period longer than reasonably necessary.** In this instance, the claim was paid on the 72<sup>nd</sup> day after proof of claim was received. The Department alleges this act is in violation of CIC §10172.5(b) and is an unfair practice under CIC §790.03(h)(5).

**Summary of the Company's Response:** The Company agrees with this finding. The Company is exploring new automated claims processing and work management systems to replace their current manual processes and the expected implementation is in year 2015. The Company also hired an additional claims processor to provide more assistance in processing claims.

2. **In one instance, the Company failed, upon receiving proof of claim, to accept or deny the claim within 40 calendar days.** In this instance, the Company accepted the claim on the 72<sup>nd</sup> day after proof of claim was received. The Department alleges this act is in violation of CCR §2695.7(b) and is an unfair practice under CIC §790.03(h)(4).

**Summary of the Company's Response:** The Company agrees with this finding. The Company is exploring new automated claims processing and work

management systems to replace their current manual processes and the expected implementation is in year 2015. The Company also hired an additional claims processor to provide more assistance in processing claims.

**3. In one instance, the Company failed to provide written notice of the need for additional time or information every 30 calendar days.** In this instance, status letters were not provided as required within regulatory timelines. The Department alleges this act is in violation of CCR §2695.7(c)(1) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with this finding. The Company is exploring new automated claims processing and work management systems to replace their current manual processes and the expected implementation is in year 2015. The Company also hired an additional claims processor to provide more assistance in processing claims.

**4. In one instance, the Company failed to provide thorough and adequate training regarding the Fair Claims Settlement Practices regulations to all its claims agents.** The Company did not conduct the required annual training to all its claims agents for the period ending August 31, 2012. The Department alleges this act is in violation of CCR §2695.6(b) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with this finding. It is the Company's standard practice to provide annual training regarding these regulations to all its claims agents. Although the training was not completed for the period ending August 31, 2012, the training was conducted in the period ending August 31, 2013 as required by this regulation.

**5. In one instance, the Company failed to annually certify in a declaration executed under penalty of perjury that thorough and adequate training regarding these regulations was provided to all its claims agents.** The Department alleges this act is in violation of CCR §2695.6(b)(3) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with this finding. It is the Company's standard practice to annually certify that thorough and adequate training regarding these regulations were provided to all its claims agents. Although the training was not completed for the period ending August 31, 2012, the training was conducted in the period ending August 31, 2013 as required by this regulation and certification was executed for that session.

**6. In one instance, the Company failed to maintain a copy of the certification required by §2695.6(b)(1), (2) or (3) at the principal place of business.** The Department alleges this act is a violation of CCR §2695.6(b)(4) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company agrees with this finding. It is the Company's standard practice to maintain a copy of the annual training certification at its principal place of business. Although the training was not completed for the period ending August 31, 2012, the training was conducted in the period ending August 31, 2013. The certification has also been maintained for the period ending August 31, 2013 as required by this regulation.