

**[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**

**NATIONAL WESTERN LIFE INSURANCE COMPANY
NAIC # 66850 CDI # 1795-4**

AS OF JANUARY 31, 2015

ADOPTED OCTOBER 22, 2015

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



October 22, 2015

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:

**National Western Life Insurance Company
NAIC # 66850**

Group NAIC # 0000

Hereinafter, the Company listed above also will be referred to as NWL or the Company and California Department of Insurance will be referred to as CDI or the Department.

This report is made available for public inspection and is published on the California Department of Insurance website (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's Life and Annuity claims closed during the period from February 1, 2014 through January 31, 2015. 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.

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. While this report contains violations of law that were cited in this report by the examiner, additional violations of CIC § 790.03, or other laws, not cited in this report may also apply to any or all of the non-compliant or problematic activities that are described herein.

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 February 1, 2014 through January 31, 2015; and a review of previous CDI market conduct claims examination reports on this Company; and a review of prior CDI enforcement actions.

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 and Annuity claims reviewed were closed from February 1, 2014 through January 31, 2015, referred to as the “review period”. The examiner randomly selected 62 claims files for examination. The examiner cited 7 alleged claims handling violations of the California Insurance Code and other specified codes from this sample file review.

Findings of this examination included a failure to pay interest on a claim that remained unpaid longer than 30 days from the date of death.

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

The results of the market analysis review revealed that an enforcement action was taken against the Company in the State of New Jersey under NJ Dept. Insurance Order #E14-03, dated January 6, 2014. The action was due to NWL agents' misrepresentation in the sale of annuity products to New Jersey residents.

The Company was the subject of eight California consumer complaints and inquiries closed from February 1, 2014 through January 31, 2015, in regard to the lines of business reviewed in this examination. The CDI alleged three violations of law pertaining to suitability of annuity sales to seniors. The CDI determined three complaints were justified. Suitability of annuity sales was not within the scope of this examination.

The previous limited desk examination covered the claims handling, rating, and underwriting practices of the Company's life and annuity line of business during the period October 1, 2008 through September 30, 2009. This desk examination was limited in scope to market analysis information, including California consumer complaint information, to national enforcement activity and to information provided by the Company in response to the Department's data request. There was no review of underwriting or claims files during this examination. The primary finding that was identified in the course of the examination was the use of a claim denial letter that did not include required language regarding the insured's right to have the denial reviewed by the Department. 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:

NWLIC SAMPLE FILES REVIEW			
LINE OF BUSINESS / CATEGORY	CLAIMS IN REVIEW PERIOD	SAMPLE FILES REVIEWED	NUMBER OF ALLEGED VIOLATIONS
Life / Individual Life	142	37	6
Life / Individual Annuity	534	25	1
TOTALS	676	62	7

TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	Number of Alleged Violations
CIC §10172.5(a) *[CIC §790.03(h)(5)]	The Company failed to pay interest on a claim that remained unpaid longer than 30 days from the date of death.	5
CCR §2695.5(b) *[CIC §790.03(h)(2)]	The Company failed to respond to communications within fifteen (15) calendar days.	1
CCR §2695.7(d) *[CIC §790.03(h)(3)]	The Company failed to conduct and diligently pursue a thorough, fair and objective investigation of a claim	1
Total Number of Alleged Violations		7

*DESCRIPTONS OF APPLICABLE UNFAIR CLAIMS SETTLEMENT PRACTICES

- CIC §790.03(h)(2) The Company failed to acknowledge and act reasonably promptly upon communications with respect to claims arising under insurance policies.

- 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)(5) The Company failed to effectuate prompt, fair and equitable settlements of claims in which liability had become reasonably clear.

TABLE OF ALLEGED VIOLATIONS BY LINE OF BUSINESS

LIFE 2014 Written Premium: \$17,244,709 AMOUNT OF RECOVERIES \$2,532.82	NUMBER OF ALLEGED VIOLATIONS
CIC §10172.5(a) [CIC §790.03(h)(5)]	4
CCR §2695.5(b) [CIC §790.03(h)(2)]	1
CCR §2695.7(d) [CIC §790.03(h)(3)]	1
SUBTOTAL	6

ANNUITY 2014 Written Premium: \$132,248,593 AMOUNT OF RECOVERIES \$3,649.55	NUMBER OF ALLEGED VIOLATIONS
CIC §10172.5(a) [CIC §790.03(h)(5)]	1
SUBTOTAL	1

TOTAL	7
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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 states that it has no reason to believe these noncompliant practices violate the law in other jurisdictions. The Company will not implement these corrective actions in other jurisdictions.

Money recovered within the scope of this report was \$781.52 as described in section numbers 1 and 4 below. Following the findings of the examination, a closed claims survey as described in section 1 and 4 below was conducted by the Company resulting in additional payments of \$5,400.85. As a result of the examination, the total amount of money returned to claimants within the scope of this report was \$6,182.37.

LIFE

1. **In four instances, the Company failed to pay interest on a claim that remained unpaid longer than 30 days from the date of death.** The Company's practice is to access the Social Security Death Master Index file (DMF) on a quarterly basis to identify deceased policyholders on their life policies, and to contact the beneficiaries for settlement. In three instances pertaining to this DMF review, the Company transferred the life settlement funds to its "Unclaimed Funds Account" due to a lack of response from the beneficiaries. Upon subsequent receipt of proof of claim on these DMF files, the Company reopened the claims and issued payments made more than 30 days from the date of death, without paying the applicable interest.

In the last instance, the Company failed to include interest on death settlement proceeds for a beneficiary residing in Louisiana. The Department alleges these acts are in violation of CIC §10172.5(a) and are unfair practices under CIC §790.03(h)(5).

Summary of the Company's Response: NWL states that it does not agree with the Department's rationale for including claims identified through DMF. However, the Company acknowledges the findings and has reopened the three DMF claim files to issue interest accrued on the proceeds of the claims from the date of the insured's death to the date the Company tendered the policy proceeds total payments \$174.17. As a result of the examination, the Company has amended its life claims manual to specify that future payments to beneficiaries from the Company's "Unclaimed Funds" account will include the applicable interest.

In the last instance, Company has issued interest payment in the amount of \$0.68 to a beneficiary residing in Louisiana. National Western Life agrees that payment was made more than 30 days from date of death and as the policy was issued in California, interest was owed.

The Company conducted a self-survey of life claims from its "Unclaimed Funds" account during the examination window period. This survey identified claims unpaid longer than 30 days from the date of death that did not include interest. The Company reported the results of the survey to the Department. Of the 13 DMF life claims in the window period, three claim payments did not include statutory interest. The Company issued an additional \$2,357.97 in interest to the claimant beneficiaries.

2. In one instance, the Company failed to respond to communications within fifteen (15) calendar days. A beneficiary's written request for the return of the original certified death certificate was not acknowledged. The beneficiary had to contact the Company two months later reiterating the return of the death certificate before the Company complied with the request. The Department alleges this act is in violation of CCR §2695.5(b) and is an unfair practice under CIC §790.03(h)(2).

Summary of the Company's Response: The Company disagrees it violated CIC § 790.03(h)(2). However, the Company acknowledges failure to respond to communications within the regulatory timeline. The Company states that it is routine practice for NWL Claims Processors to return original copies of the death certificate to claimants upon request. However, the file does not reflect that the original document was returned to the claimant as originally requested on May 13, 2014. On August 1, 2014, a letter on file shows the transmittal of the original death certificate was made in response to the follow-up request of July 30, 2014. The Company has counseled its Benefit Processors to reinforce their compliance to respond timely to all communications.

3. In one instance, the Company failed to conduct and pursue a thorough, fair and objective investigation of a claim. The Company failed to conduct a diligent investigation to locate the two remaining beneficiaries on a claim. The Department alleges

this act is in violation of CCR §2695.7(d) and is an unfair practice under CIC §790.03(h)(3).

Summary of the Company's Response: The Company disagrees it violated CIC § 790.03(h)(3). However, the Company acknowledges that its Claims Processors failed to contact all beneficiaries on a policy and has addressed this matter with pertinent staff. As a remedial measure, the Company has immediately initiated a diligent search to locate the remaining beneficiaries. As a result of the examination, the Company's Vice President of Policy Benefits will continue to monitor and review the work of its Benefit Processors to ensure a thorough investigation, including activities to locate all beneficiaries for the settlement of benefits.

ANNUITY

4. **In one instance, the Company failed to pay interest on a claim that remained unpaid longer than 30 days from the date of death.** The Company's practice is to access the Social Security Death Master Index file (DMF) on a quarterly basis to identify deceased policyholders on their annuity policies, and to contact the beneficiaries for settlement. In one instance pertaining to this DMF review, the Company transferred the life settlement funds to its "Unclaimed Funds Account" due to a lack of response from the beneficiary. Upon subsequent receipt of proof of claim on this policy, the Company reopened the claim and issued payment made more than 30 days from the date of death, without paying the applicable interest. The Department alleges this act is in violation of CIC §10172.5(a) and is an unfair practice under CIC §790.03(h)(5).

Summary of the Company's Response: NWL states that it does not agree with the Department's rationale for including claims identified through DMF. However, the Company acknowledges the finding and has reopened one claim to issue payment of \$606.67 interest. As a result of the examination, the Company has amended its life/annuity claims manual to specify that future payments to beneficiaries from the Company's "Unclaimed Funds" account will include the applicable interest.

The Company has also conducted a self-survey of annuity claims from its "Unclaimed Funds" account during the examination window period. This survey identified claims unpaid longer than 30 days from the date of death that did not include interest. The Company reported the results of the survey to the Department. Of the 20 DMF annuity claims in the window period, six claim payments did not include the statutory interest. The Company issued an additional \$3,042.88 to the claimant beneficiaries.