

**[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**

**PROTECTIVE LIFE INSURANCE COMPANY  
NAIC #68136 CDI #2068-5**

**WEST COAST LIFE INSURANCE COMPANY  
NAIC #70335 CDI #0448-1**

**AS OF DECEMBER 31, 2014**

**ADOPTED APRIL 27, 2016**

**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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## FOREWORD

This 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 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 Companies’ responses, if any, have not undergone a formal administrative or judicial process.

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).

## **SCOPE OF THE EXAMINATION**

Under the authority granted in Part 2, Chapter 1, Article 4, Sections 730, 733, and 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 claim handling practices and procedures in California of:

**Protective Life Insurance Company  
NAIC #68136**

**West Coast Life Insurance Company  
NAIC #70335**

**Group NAIC #0458**

Hereinafter, the Companies listed above also will be referred to individually as PLIC, WCLIC, or the Company, or collectively as the Companies.

This examination covered the claim handling practices of the aforementioned Companies on Life and Annuity claims closed during the period from January 1, 2014 through December 31, 2014. The examination was made to discover, in general, if these and other operating procedures of the Companies conform to the contractual obligations in the policy forms, the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Companies for use in California including any documentation maintained by the Companies 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 claim files and related records.

3. A review of the California Department of Insurance's (CDI) market analysis results; and if any, a review of consumer complaints and inquiries about these Companies closed by the CDI during the period January 1, 2014 through December 31, 201, a review of previous CDI market conduct claims examination reports on these Companies; and a review of prior CDI enforcement actions.

The review of the sample of individual claim files was conducted at the offices of the California Department of Insurance in Sacramento, California.

## **EXECUTIVE SUMMARY**

The Life and Annuity claims reviewed were closed from January 1, 2014 through December 31, 2014, referred to as the “review period”. The examiners randomly selected 95 PLIC and WCIC claim files for examination. The examiners cited 90 alleged claims handling violations of the California Insurance Code and the California Code of Regulations from this sample file review.

Findings of this examination included: the failure to notify the beneficiary of the specified rate of interest paid on the death benefit; the failure to provide a clear explanation of the computation of benefits; the failure to pay the appropriate interest on a claim that remained unpaid longer than 30 days from the date of death; and the failure to provide a prominent disclosure on the claim form that, in the absence of a choice by the beneficiary, payment of policy benefits shall be made through establishment of a retained asset account on the beneficiary’s behalf if a retained asset account is the default option.

## DETAILS OF THE CURRENT EXAMINATION

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

<b>PLIC 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 VIOLATIONS</b>
Life / Individual Life	771	45	42
Annuity / Individual Annuity	146	25	30
<b>TOTALS</b>	917	70	72

<b>WCLIC 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 VIOLATIONS</b>
Life / Individual Life	377	25	18
Annuity / Individual Annuity	1	0	0
<b>TOTALS</b>	378	25	18

## TABLE OF TOTAL ALLEGED VIOLATIONS

Citation	Description of Allegation	PLIC Number of Alleged Violations	WCLIC Number of Alleged Violations
CIC §10172.5(c) *[CIC §790.03(h)(3)]	The Company failed to notify the beneficiary of the specified rate of interest paid on the death benefit.	21	7
CCR §2695.11(b) *[CIC §790.03(h)(3)]	The Company failed to provide a clear explanation of the computation of benefits.	14	8
CIC §10172.5(a) *[CIC §790.03(h)(5)]	The Company failed to pay appropriate interest on a claim that remained unpaid longer than 30 days from the date of death.	16	0
CIC §10170(f) *[CIC §790.03(h)(1)]	The Company failed to provide a prominent disclosure on the claim form that, in the absence of a choice by the beneficiary, payment of policy benefits shall be made through establishment of a retained asset account on the beneficiary's behalf if a retained asset account is the default option	7	2
CCR §2695.11(b) *[CIC §790.03(h)(3)]	The Company failed to provide an explanation of benefits.	9	0
CIC §10509.934 *[CIC §790.03(h)(1)]	The Company failed to provide the beneficiary, at the time a claim is made, written information describing the settlement options available under the policy and any other option available to the beneficiary for the receipt of proceeds, including retained asset accounts, and how to obtain specific details relevant to those options.	2	1
CIC §880 *[CIC §790.03(h)(3)]	The Company failed to conduct its business in its own name.	2	0
CCR §2695.3(a) *[CIC §790.03(h)(3)]	The Company failed to maintain all documents, notes and work papers which reasonably pertain to each claim in such detail that pertinent events and the dates of the events can be reconstructed.	1	0
<b>Total Number of Alleged Violations</b>		<b>72</b>	<b>18</b>

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

- CIC §790.03(h)(1) The Company misrepresented to claimants pertinent facts or insurance policy provisions relating to any coverages at issue.
- 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**

<b>LIFE</b> 2014 Life Written Premium: \$261,594,122  <b>AMOUNT OF RECOVERIES: \$0.00</b>	<b>NUMBER OF ALLEGED VIOLATIONS</b>
CCR §2695.11(b) [CIC §790.03(h)(3)]	22
CIC §10172.5(c) [CIC §790.03(h)(3)]	21
CIC §10170(f) [CIC §790.03(h)(1)]	9
CIC §10509.934 [CIC §790.03(h)(1)]	3
CCR §2695.11(b) [CIC §790.03(h)(3)]	3
CIC §880 [CIC §790.03(h)(3)]	2
<b>SUBTOTAL</b>	<b>60</b>

<b>ANNUITY</b> 2014 Annuity Written Premium: \$124,959,125  <b>AMOUNT OF RECOVERIES: Pending</b>	<b>NUMBER OF ALLEGED VIOLATIONS</b>
CIC §10172.5(a) [CIC §790.03(h)(5)]	16
CIC §10172.5(c) [CIC §790.03(h)(3)]	7
CCR §2695.11(b) [CIC §790.03(h)(3)]	6
CCR §2695.3(a) [CIC §790.03(h)(3)]	1
<b>SUBTOTAL</b>	<b>30</b>

<b>TOTAL</b>	<b>90</b>
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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 Companies are required to identify remedial or corrective action that has been or will be taken to correct the deficiency. The Companies are obligated to ensure that compliance is achieved.

Any noncompliant practices identified in this report may extend to other jurisdictions. The Companies should address corrective action for other jurisdictions when applicable.

Pursuant to the findings of the examination as described in section numbers 7(a) and 7(b), the Company (PLIC) is conducting closed claim surveys. The results of the surveys and additional payments, if any, shall be reported to the Department by July 29, 2016. The instances identified in the examination will be included in the surveys in the corresponding summary sections.

### LIFE

1. **In 22 instances, the Companies failed to provide a clear explanation of the computation of benefits.** In the files reviewed, the following situations were observed.

- a) In 13 instances, the beneficiary settled via a retained asset account. In these instances, the Companies' settlement letters to the beneficiary did not provide the beneficiary with information on how interest was calculated (*e.g.*, your share of the proceeds includes interest from the date of the insured's death).
- b) In eight instances, the beneficiary settled via a lump sum settlement. In these instances, the Explanation of Benefits (EOBs) to the beneficiary did not provide the beneficiary with information on how interest was calculated (*e.g.*, your share of the proceeds includes interest from the date of the insured's death). In three of these eight instances, the resident state was not

California. In two of these eight instances, the beneficiary resided in a foreign country.

- c) In one instance, the first check issued to the beneficiary came back as undeliverable and the reissued payment and EOB did not include an explanation of the computation of benefits.

The Department alleges these acts are in violation of CCR §2695.11(b) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Companies' Response:** The Companies responded to the following situations below:

- a) In 13 instances, the Companies acknowledge these findings. To ensure future compliance, the Companies included the appropriate language explaining the interest rate and calculation with a programming change effective December 31, 2014.
- b) In eight instances, the Companies acknowledge these findings. To ensure future compliance in seven of these instances, the Companies included the appropriate language explaining the interest rate and calculation with a programming change effective December 31, 2014. Additionally, in the five instances in which the resident state was not California or the beneficiary resided in a foreign country, the Companies updated its programming to include a statement for the rate of interest and calculation based upon the issue/resident/claimant for California. Prior to December of 2014 the statement for the rate of interest was only included on the EOB for the resident state. The Company discovered the error and corrected its programming to include the statement for issue/resident/claimant interest paid in California. When calculating Post Mortem Claim Interest (PMI), the Company's system calculates the amount of interest on the issue state, resident state and contract rate. The issue state is the state of issue for the policy. The resident state is the resident state of the insured. The contract rate is the rate stipulated in the contract, if applicable. Once all three rates are calculated, the system pays the highest rate.

In one instance involving a Third Party Administrator (TPA) handled claim, the Company acknowledges this finding. As of June 1, 2015, the TPA has been creating manual EOBs showing the correct "to" and "from" dates related to interest in conjunction with adding the interest rate. The TPA is in the process of having this automated in its claims system.

- c) WCLIC, whose claim was it issue in this finding, agrees with the observation. Reissued EOBs are input manually and do not have the applicable language and post mortem interest notification. As a result of this finding, the Company

provided an EOB to the beneficiary detailing payment of the assignment. Effective December 1, 2015, the Company implemented a manual process to provide an EOB to the beneficiary for payment of full assignments. A programming request has been submitted which will allow the Company to systematically provide EOBs to the beneficiary for both partial and full assignments when the Company's new claims administration system comes on line in the fourth quarter of 2016.

**2. In 21 instances, the Companies failed to notify the beneficiary of the specified rate of interest paid on the death benefit.** Thirteen instances pertain to retained asset settlements. Eight instances pertain to lump sum settlements. Specifically, although interest was included in the payment to each beneficiary, the Companies failed to notify each beneficiary of the specified rate of interest paid on each share of the death benefit. The Department alleges these acts are in violation of CIC §10172.5(c) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Companies' Response:** The Companies acknowledge these findings in 20 instances and agree the disclosure of interest was not provided. To ensure future compliance for lump sum payments and retained asset accounts, the Companies updated programming to include a statement for the rate of interest and calculation based upon the issue/resident/claimant for California. Prior to December of 2014 the statement for the rate of interest was only included on the EOB for the resident state. The Companies discovered the error and corrected its programming to include the statement for issue/resident/claimant interest paid in California. When calculating Post Mortem Claim Interest (PMI), the Companies' system calculates the amount of interest on the issue state, resident state and contract rate. The issue state is the state of issue for the policy. The resident state is the resident state of the insured. The contract rate is the rate stipulated in the contract if applicable. Once all three rates are calculated the system pays the highest rate. Effective December 31, 2014, the Companies included the appropriate language explaining the interest rate and calculation with a programming change.

In one instance involving a Third Party Administrator (TPA) handled claim, the Company acknowledges this finding. As of June 1, 2015, the TPA has been creating manual EOBs disclosing the interest rate. The TPA is in the process of having this automated in its claims system.

**3. In nine instances, the Companies failed to provide a prominent disclosure on the claim form that, in the absence of a choice by the beneficiary, payment of policy benefits shall be made through establishment of a retained asset account on the beneficiary's behalf if a retained asset account is the default option.** In six instances, claim form PL-CS-AE-2013 provided the disclosure that in the absence of a choice by the beneficiary, payment of policy benefits shall be made through establishment of a retained asset account on the beneficiary's behalf; however, this disclosure is not in bold type or in at least 12-point font pursuant to the referenced code.

In three instances, claim form 02-4/2012 provided the disclosure, in bold, that in the absence of a choice by the beneficiary, payment of policy benefits shall be made through establishment of a retained asset account on the beneficiary's behalf; however, this disclosure is not in at least 12-point font type pursuant to the referenced code. The Department alleges these acts are in violation of CIC §10170(f) and are unfair practices under CIC §790.03(h)(1).

**Summary of the Companies' Response:** The Companies acknowledge these findings in all identified instances. To ensure future compliance, the Companies initiated a request to fix and resolve both issues. Programming was completed October, 2015.

4. **In three instances, the Companies failed to provide the beneficiary, at the time a claim is made, written information describing the settlement options available under the policy and any other option available to the beneficiary for the receipt of proceeds, including retained asset accounts, and how to obtain specific details relevant to those options.** The Department alleges these acts are in violation of CIC §10509.934 and are unfair practices under CIC §790.03(h)(1).

**Summary of the Companies' Response:** The Companies acknowledge these findings. The Companies handle these claims under its Quick Response Team (QRT) process for claims under \$50,000.00. The Companies strive to pay the claim within 10 days of receipt of report of death based on applicable criteria (e.g., two independent sources verifying the death) under this process. As such, the Companies do not require claim forms, which contain information about the settlement options.

However, to ensure future compliance, a written statement, which includes settlement options, will be mailed (electronically or otherwise) to the beneficiary prior to paying the claim. Implementation of this process will occur in the second quarter of 2016. Once the forms have been developed, copies will be forwarded to the California Department of Insurance along with any written procedures.

5. **In three instances, the Company (PLIC) failed to provide an explanation of benefits.** Specifically, while the Company provided an EOB to the funeral home in all three instances, the Company failed to provide an EOB to each beneficiary. The Department alleges these acts are in violation of CCR §2695.11(b) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** While the Company believes the EOBs provided to the funeral home were appropriate pursuant to the referenced statute and regulation, as a result of the findings of the examination, the Company provided an EOB for this partial assignment to the beneficiary detailing payment of the assignment. Effective December 1, 2015, the Company implemented a manual process to provide an EOB to the beneficiary for payment of full assignments. A programming request has been submitted which will allow the Company to systematically provide EOBs to the

beneficiary for both partial and full assignments when the Company's new claims administration system comes on line in the fourth quarter of 2016.

**6. In two instances, the Company (PLIC) failed to conduct its business in its own name.** Specifically, a third party administrator (TPA) was involved in the handling of two PLIC claims. The TPA failed to reference PLIC in its claim checks and/or EOBs. The Department alleges these acts are in violation of CIC §880 and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company acknowledges these findings. Effective June 23, 2015, the TPA identified, isolated and revised programming still in place to replace it with reference to the TPA as administrator for PLIC.

## **ANNUITY**

**7. In 16 instances, the Company (PLIC) failed to include the appropriate interest on a claim paid beyond 30 days from date of death.** The Department alleges these acts are in violation of CIC §10172.5(a) and are unfair practices under CIC §790.03(h)(5).

**7(a).** In 12 instances, the Company failed to pay statutory interest through and including the date of payment. Instead, the Company calculated interest through the Annuity termination date versus the check issuance date.

**Summary of the Company's Response to 7(a):** The Company acknowledges that the interest payments were not calculated properly. The Company corrected its process to pay statutory interest through the check issuance date. Additionally, to ensure future compliance, the Company conducted training and updated its procedures on December 10, 2015.

In response to a concern that statutory interest was not included through the check issuance date, the Company is conducting an internal survey of closed Annuity claims from January 1, 2014 through December 15, 2015. The Company expects to complete its review by June 30, 2016. The Company will report the results and provide supporting documentation no later than July 29, 2016. The 12 identified instances will be included in the survey.

**7(b).** In four instances, the contractual interest rate was lower than the statutory interest rate. The Company paid a contractual interest rate that was less than the then current rate of interest on death proceeds left on deposit calculated from the date of death through the date of payment.

**Summary of the Company's Response to 7(b):** The Company acknowledges that the interest payments were not calculated properly. The Company agreed to

implement a change in its handling by March 31, 2016. To ensure future compliance, the Company will review this item as part of its audit process. The Company will produce training materials and training dates to the Department no later than July 29, 2016.

In response to a concern that other claims were settled based on a lower interest rate than the statutorily required rate, the Company is conducting an internal survey of closed Annuity claims from January 1, 2014 through the date the Company implements its change in claim handling. The Company expects to complete its review by June 30, 2016. The Company will report the results and provide supporting documentation no later than July 29, 2016. The four identified instances will be included in the survey.

**8. In seven instances, the Company (PLIC) failed to notify the beneficiary of the specified rate of interest paid on the death benefit.** The Department alleges these acts are in violation of CIC §10172.5(c) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company acknowledges these findings. Effective December 1, 2015, the claims processing team began sending a "Settlement Letter" which discloses the rate of interest paid on the death proceeds.

**9. In six instances, the Company (PLIC) failed to provide an explanation of benefits.** Specifically, the Company failed to provide an EOB to each beneficiary involving variable annuities. The Department alleges these acts are in violation of CCR §2695.11(b) and are unfair practices under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company acknowledges these findings. To ensure future compliance, effective December 1, 2015, the claims area began sending confirmation of payment to all beneficiaries when payment has been made.

**10. In one instance, the Company (PLIC) failed to maintain all documents, notes and work papers which reasonably pertain to each claim in such detail that pertinent events and the dates of the events can be reconstructed.** Specifically, e-mails, letters, forms, etc. that pertain to pertinent events were not maintained in the claim file. The Department alleges this act is in violation of CCR §2695.3(a) and is an unfair practice under CIC §790.03(h)(3).

**Summary of the Company's Response:** The Company acknowledges that documentation in the claim file cannot be produced. This claim involved an acquired block of business. Subsequent to the handling of this claim, the Company implemented an automated process in which documents are kept in the claim file to ensure future compliance.