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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 HANDLING, RATING, AND UNDERWRITING PRACTICES OF**

**MERIT LIFE INSURANCE COMPANY
NAIC # 65951 CDI # 2021-4**

AS OF JUNE 30, 2015

ADOPTED APRIL 27, 2016

STATE OF CALIFORNIA



**CALIFORNIA DEPARTMENT OF INSURANCE
MARKET CONDUCT DIVISION**

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

Market Conduct Division
300 Capitol Mall
Sacramento, CA 95814



April 27, 2016

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 the California Insurance Code Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04; a limited examination was made of the claims handling, rating, and underwriting practices and procedures in California of:

Merit Life Insurance Company
NAIC # 65951
CDI # 2021-4

Hereinafter, the Company listed above also will be referred to as Merit or the Company. The California Department of Insurance will be referred to as 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

This limited desk examination covered the claims handling, rating, and underwriting practices of the aforementioned Company's Credit Life insurance and Disability Income insurance during the period July 1, 2014 through June 30, 2015. The limited 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 pertains to Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. A separate report pertains to laws other than Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

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 identified violations result in payments by the Company to policyholders or claimants, those amounts paid are identified as recoveries 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 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 specified guidelines, procedures, and forms adopted by the Company for use in California.
2. 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, 2014 through June 30, 2015; and a review of reports on the previous CDI market conduct examination of this Company; and a review of prior CDI enforcement actions.

This limited examination was conducted at the offices of the California Department of Insurance in San Francisco, California.

EXECUTIVE SUMMARY

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 findings resulting in alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695.1 et seq. that were identified in the course of the examination include failure to complete the annual certification of training regarding the Fair Claims Settlement Practices Regulations by the appropriate due date for both Credit Life and Disability Income. Additionally, in Credit Life insurance the Company failed to advise the beneficiary/beneficiaries that payments included interest and in Disability Income insurance the Company failed to provide a clear explanation of the computation of benefits in payment letters.

Merit Life Insurance Company reported \$2,012,566 in written premiums on Credit Life insurance coverage and \$2,448,637 in written premiums on Disability Income insurance coverage in California during 2014. The Company closed 136 Credit Life insurance and 536 Disability Income claims during 2014.

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

The market analysis and consumer complaint reviews did not identify any specific issues of concern within the scope of this report.

The previous examination was completed by the Field Claims Bureau and reviewed the period from May 1, 2002 through April 30, 2003. Within the scope of this report there were no specific areas of concern identified during the previous examination.

DETAILS OF THE CURRENT EXAMINATION

The following tables summarize the Company's responses, within the scope of this report, to the Department's data request and the alleged violations under Section 790.03 and title 10, California Code of Regulations, Section 2695.1 et seq. that resulted from the review of that data. All "NO" answers in the Areas of Review table are addressed in the Summary of Examination Results section of this report. A summary of each of the laws cited due to a "NO" answer is provided in the Cited Statutes and Regulations table.

CREDIT LIFE AREAS OF REVIEW		
SPECIFIC ISSUE REVIEWED	INDICATION OF COMPLIANCE (YES/NO)	SUMMARY OF RESULTS ITEM NUMBER
Certification of claims training by a principal – CCR §2695.6(b)(2) and (5) [CIC §790.03(h)(3)]	NO	1
Copy of written standards for claims – CCR §2695.6(a) [CIC §790.03(h)(3)]	YES	--
Compliance with Special Investigative Unit Regulations – CIC §1875.20 and CCR §§2698.30-2698.43 [CIC §790.03(h)(3)]	YES	--
Compliance with required fraud disclosure language -- CIC § 1879.2(a) [CIC §790.03(h)(3)]	YES	--
Compliance of letters and forms – CIC §880 [CIC §790.03(h)(3)]	YES	--
Compliance with requirement to explain benefits, coverage, etc. – CCR §2695.4(a) [CIC §790.03(h)(1)]	YES	--
Compliance with requirement to respond timely to communications – CCR §2695.5(b) [CIC §790.03(h)(2)]	YES	--

SPECIFIC ISSUE REVIEWED	INDICATION OF COMPLIANCE (YES/NO)	SUMMARY OF RESULTS ITEM NUMBER
Compliance with requirements for acknowledgement of claims CCR §2695.5(e)(1) [CIC §790.03(h)(2)]	YES	--
Compliance with requirements for reasonable assistance – CCR §2695.5(e)(2) [CIC §790.03(h)(3)]	YES	--
Compliance with requirement to begin investigation – CCR §2695.5(e)(3) [CIC §790.03(h)(3)]	YES	--
Compliance with requirement to send written denials – CCR §2695.7(b)(1) [CIC §790.03(h)(13)]	YES	--
Compliance with requirement to reference a CDI review on denial letters – CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	NO	2
Compliance with requirement to accept/deny in 40 days – CCR §2695.7(b) [CIC §790.03(h)(4)]	YES	--
Compliance with requirement to send additional time letters – CCR §2695.7(c)(1) [CIC §790.03(h)(4)]	YES	--
Compliance with requirement to tender payment in 30 days – CCR §2695.7(h) [CIC §790.03(h)(5)]	YES	--
Compliance with requirement to pay statutory interest from date of death for claims on contracts with a situs of California - CIC §10172.5(a) [CIC §790.03(h)(5)]	YES	--
Compliance with requirements to disclose statutory rate of interest – CIC §10172.5(c) [CIC §790.03(h)(3)]	NO	3
Compliance with requirement that creditors do not adjust claims – CIC §779.19 [CIC §790.03(h)(3)]	YES	--

DISABILITY INCOME AREAS OF REVIEW		
SPECIFIC ISSUE REVIEWED	INDICATION OF COMPLIANCE (YES/NO)	SUMMARY OF RESULTS ITEM NUMBER
Certification by a company principal of claims training – CCR §§2695.6(b)(1)(2)(3) and 2695.6(b)(5) [CIC §790.03(h)(3)]	NO	4
Copy of written standards for claims – CCR §2695.6(a) [CIC §790.03(h)(3)]	YES	--
Compliance with Special Investigative Unit Regulations – CIC §1875.20 and CCR §§2698.30 through 2698.43 [CIC §790.03(h)(3)]	YES	--
Compliance of letters and forms – CIC §1879.2(a) [CIC §790.03(h)(3)]	YES	--
Quality controls for compliance with – CCR §§2695.4(a), 2695.5(b), 2695.5(e)(1), (2), and (3), 2695.7(b)(1), 2695.11 (a), (b), and (g); and CIC §§10111.2(a), (b), and (c) [CIC §790.03(h)(3)]	NO	5
Acknowledgement of receipt of claim— CCR §2695.5(e)(1) [CIC §790.03(h)(2)]	YES	--
Compliance with requirements of HIPAA regulations on medical authorizations forms – CIC §791.06 [CIC §790.03(h)(3)]	NO	6
Compliance with requirement to reimburse insureds and providers for record copying expenses – CCR §2695.11(g) [CIC §790.03(h)(5)]	YES	--
Compliance with requirement to identify the factual and legal basis for denial – CCR §2695.7(b)(1) [CIC §790.03(h)(13)]	YES	--
Compliance with requirement to advise of possibility of CDI review of denials – CCR §2695.7(b)(3) [CIC §790.03(h)(3)]	YES	--
Compliance with requirement to pay benefits within 30 days – CIC §10111.2(a) [CIC §790.03(h)(4)]	YES	--

DISABILITY INCOME AREAS OF REVIEW		
SPECIFIC ISSUE REVIEWED	INDICATION OF COMPLIANCE (YES/NO)	SUMMARY OF RESULTS ITEM NUMBER
Compliance with requirement to pay interest on benefits paid over 30 days – CIC §10111.2(c) [CIC §790.03(h)(5)]	YES	--
Compliance with requirement avoid or not apply policy discretionary clauses – CIC §10291.5(b)(1) [CIC §790.03(h)(5)]	YES	--

CITED STATUTES AND REGULATIONS	
Citation	Description
CIC §791.06(g)(2)(A)	No insurance institution, agent or insurance-support organization may utilize as its disclosure authorization form in connection with insurance transactions a form or statement which authorizes the disclosure of personal or privileged information about an individual, unless specific requirements as stated in this code section are met including the length of time that the authorization shall remain valid.
CIC §10172.5(c)	(c) In any case in which interest on the proceeds of, or payments under, any policy of life insurance, credit life insurance, or accidental death insurance becomes payable pursuant to subdivision (a), the insurer shall notify the named beneficiary or beneficiaries at their last known address that interest will be paid on the proceeds of, or payments under, that policy from the date of death of the named insured.
CCR §2695.6(b)(2)	A licensee shall demonstrate compliance with this subsection by the following methods: where the licensee is an entity, the annual written certification shall be executed, under penalty of perjury, by a principal of the entity.
CCR 2695.6(b)(5)	The annual certification required by this subsection shall be completed on or before September 1 of each calendar year.
CCR §2695.7(b)(3)	Written notification pursuant to this subsection shall include a statement that, if the claimant believes all or part of the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance, and shall include the address and telephone number of the unit of the Department which reviews claims practices.
CCR §2695.11(b)	With each claim payment, the insurer shall provide to the claimant and assignee, if any, an explanation of benefits which shall include, if applicable, the name of the provider or services covered, dates of service, and a clear explanation of the computation of benefits.

**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 its insurance policies.

SUMMARY OF EXAMINATION RESULTS

The following is a brief summary of the practices, within the scope of this report, that were alleged to be non-compliant during the course of this limited examination. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695.1 et seq.

In response to each of the Department's allegations of non-compliance, the Company was 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 and maintained.

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 indicates that it will implement the corrective actions in all jurisdictions where applicable.

Within the scope of this report, there were no claims recoveries or return premium as a result of the issues described in this report.

CREDIT LIFE

1. The examination revealed that the Company was not in compliance with the California Fair Claims Settlement Practices Regulations as specified in the California Code of Regulations as the certificate regarding adjuster training provided was not signed under penalty of perjury and failed to indicate that the certification was completed by the September 1st deadline as required. CCR §§ 2695.6(b)(2) and 2695.6(b)(5), and CIC § 790.03(h)(3)

Summary of Company Response: The Company completed a revised California Fair Claims Settlement Practices Regulation Certificate form on March 1, 2016. Merit Life Insurance Company advised that it will have the Certifications completed and executed prior to September 1st of each year as required by the California Code of Regulations.

2. The examination revealed that the Company's denial letter is not in compliance with the California Insurance code or California Code of Regulations as the insured is directed to the Claims Services Division and not to the Claims Services Bureau.
CCR § 2695.7(b)(3) and CIC § 790.03(h)(3)

Summary of Insurer Response: Merit's denial letter was revised to direct insureds to the CDI's Claims Services Bureau. The new form was implemented on November 9, 2015.

3. The examination revealed that when a claim was not paid within 30 days after the date of the death of the insured, the Company payment letters did not notify the beneficiary/beneficiaries of the additional interest that was paid at a rate not less than the current rate of interest computed from the insured's date of death.
CIC §§ 10172.5(c) and 790.03(h)(3)

Summary of Insurer Response: The Company determined that there were seven credit life claims processed during the review period where a benefit paid included interest. The letters sent to those seven recipients failed to notify the beneficiary/beneficiaries that the payment included interest due to a processing error. The Company advised that it sent out letters to these seven beneficiary/beneficiaries explaining the interest that was paid upon discovery of the omission, which was as a result of this examination. Additional training was provided to the claims processors on October 1, 2015.

DISABILITY INCOME

4. The examination revealed that the Company was not in compliance with the California Fair Claims Settlement Practices Regulations as specified in the California Code of Regulations as the certificate regarding adjuster training was not signed under penalty of perjury and failed to indicate that the certification was completed by the September 1st deadline as required.
CCR §§ 2695.6(b)(2) and 2695.6(b)(5), and CIC § 790.03(h)(3)

Summary of Insurer Response: The Company completed a revised California Fair Claims Settlement Practices Regulation Certificate form on March 1, 2016. Merit Life Insurance Company advised that it will have the Certifications completed and executed prior to September 1st of each year as required by the California Code of Regulations.

5. The Company's Disability Income payment letter fails to provide a clear explanation of the computation of benefits as prescribed in the California Code of Regulations and is therefore not in compliance with the California Insurance Code.
CCR § 2695.11(b) and CIC § 790.03(h)(3)

Summary of Insurer Response: Merit updated its disability income payment letter to comply with the cited laws. The revisions were implemented on November 30, 2015.

6. The examination revealed that the Company's authorization for health insurance benefits is not in compliance with the California Insurance Code as the form limits the duration of the authorization form to one year from the date the authorization is given.
CIC §§ 791.06(g)(2)(A) and 790.03(h)(3)

Summary of Insurer Response: Merit will amend its limitation for authorization from one year on its claim forms and added language indicating the authorization for a disability claim is valid for the term of the insurance coverage. The revised authorization form was implemented on January 31, 2016.