

PUBLIC REPORT OF EXAMINATION OF THE CLAIMS

PRACTICES OF THE

LONE STAR LIFE INSURANCE COMPANY
NAIC # 65692 CDI # 1871-3

MISSION LIFE INSURANCE COMPANY
NAIC # 75388 CDI # 3125-2

AMERICAN MERCHANTS LIFE INSURANCE COMPANY
NAIC # 90948 CDI # 2403-4

AS OF JUNE 30, 1999

STATE OF CALIFORNIA



DEPARTMENT OF INSURANCE

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CALIFORNIA DEPARTMENT OF INSURANCE

Consumer Services and Market Conduct Branch
Market Conduct Bureau, 11th Floor
Ronald Reagan State Office Building
300 South Spring Street
Los Angeles, CA 90013



October 30, 2001

The Honorable Harry W. Low
Insurance Commissioner
State of California
45 Fremont Street
San Francisco, California 94105

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 practices and procedures in California of:

Lone Star Life Insurance Company

NAIC #65692

Mission Life Insurance Company

NAIC #75388

American Merchants Life Insurance Company

NAIC #90948

Hereinafter referred to as LSLIC, MLIC, and AMLIC or collectively as the Companies.

This report is made available for public inspection and is published on the California Department of Insurance web site (www.insurance.ca.gov) pursuant to California Insurance Code section 12938.

SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Companies during the period July 1, 1998 through June 30, 1999. The examination was made to discover, in general, if these and other operating procedures of the Companies conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

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 fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was primarily conducted at the Companies' claims office in Dallas, Texas.

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 only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

The alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The Market Conduct examiners reviewed files drawn from the category of Closed Claims for the period July 1, 1998 through June 30, 1999, commonly referred to as the “review period”. The examiners reviewed 73 Lone Star Life Insurance Company claim files which consisted of whole life insurance (WL) and accident & health, 47 Mission Life Insurance Company files which were whole life insurance (WL) files and 27 American Merchants Life Insurance Company claim files which consisted of whole life insurance (WL), term life insurance (TL), universal life insurance (UL) and deferred annuities (DA). The Market Conduct examiners cited 88 claims handling violations of the Fair Claims Practices Regulations and/or the California Insurance Code within the scope of this report.

Lone Star Life Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
WL Life	12	12	6
Accident & Health	61	61	73
TOTALS	73	73	79

Mission Life Insurance Company			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
WL Life	47	43	7
TOTALS	47	43	7

American Merchants Life Insurance Company

CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
WL Life	3	3	2
TL Life	3	3	0
UL Life	17	17	0
DA Annuities	4	4	0
TOTALS	27	27	2

TABLE OF TOTAL CITATIONS				
Citation	Description	LSLIC	MLIC	AMLIC
CCR §2695.11(b)	The Company failed to provide an explanation of benefits.	25	1	
CCR §2695.7(b)(1)	The Company failed to provide written basis for the denial of the claim.	20		
CCR §2695.7(b)(3)	The Company failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance.	15		
CCR §2695.5(e)(2)	The Company failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days.	9		
CCR §2695.3(b)(2)	The Company failed to record claim data in the file.	5	1	
CIC §790.03(h)(3)	The Company failed to adopt and implement reasonable standards for the prompt investigation and processing of claims.	1	3	
CCR § 2695.3(a)	The Company failed to properly document claim files.	1		
CCR §2695.7(f)	The Company failed to provide written notice of any statute of limitation sixty days prior to the expiration date.	1		
CCR §2695.6(b)	The Company failed to provide thorough and adequate training regarding these regulations to all their claims agents.	1	1	1
CCR §2695.6(b)(4)	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	1	1
Total Citations		79	7	2

SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS AND TOTAL RECOVERIES

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(s) that has or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. There were no recoveries resulting from the criticisms cited in this report.

1. The Companies failed to provide an explanation of benefits. In 25 instances for LSLIC and one instance for MLIC, the Companies failed to provide to the claimant an explanation of benefits including the name of the provider or services covered, dates of service, and a clear explanation of the computation of benefits. The Department alleges these acts are in violation of CCR § 2695.11(b).

Companies Response: All Third Party Administrators were trained in the regulations - - including training on this issue. A revised explanation of benefits form has been developed and is now being used.

2. The Companies failed to provide written basis for the denial of the claim. In 20 instances, LSLIC failed to provide written basis for the denial of the claim. The Department alleges these acts are in violation of CCR § 2695.7(b)(1).

Companies Response: All Third Party Administrators have been trained in the regulations including training on this issue. A denial letter will be sent in accordance with the regulations.

3. The Companies failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance. In 15 instances, LSLIC failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR § 2695.7(b)(3).

Companies Response: The Companies have inserted the required statement into their denial letters. All Third Party Administrators have been trained on this specific regulation as well.

4. The Companies failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days. In nine instances, LSLIC failed to provide necessary forms, instructions, and reasonable assistance within fifteen calendar days. The Department alleges these acts are in violation of CCR § 2695.5(e)(2).

Companies Response: The Companies have implemented “Service Standards” for their Third Party Administrators to address these issues. Additional training regarding this requirement and in the regulations has been provided.

5. The Companies failed to record claim data in the file. In five instances for LSLIC and in one instance for MLIC, the Companies failed to record the date the Companies received, date(s) the Companies processed and date the Companies transmitted or mailed every relevant document in the file. The Department alleges these acts are in violation of CCR § 2695.3(b)(2).

Companies Response: A Third Party Administration manual was developed and all administrative sites are required to properly document the file by using date stamps for all correspondence. Third Party Administrators have expanded electronic databases to incorporate dating claim documents. The project was completed at all sites June 2001. All Third Party Administrators were trained in the regulations.

6. The Companies failed to adopt and implement reasonable standards for the prompt investigation and processing of claims. In three instances for MLIC and in one instance for LSLIC, the Companies failed to adopt and implement reasonable standards for the prompt investigation and processing of claims. The Department alleges these acts are in violation of CIC §790.03(h)(3).

Companies Response: The Companies have implemented monitoring procedures to assure compliance with the Companies “Service Standards” for claim personnel and have implemented monitoring procedures to assure compliance with the Third Party Administrators regarding prompt investigation and processing of claims. All Third Party Administrators were trained in the regulations.

7. The Companies failed to properly document claim files. In one instance, LSLIC’s file(s) failed to contain all documents, notes and work papers. The Department alleges this act is in violation of CCR §2695.3(a).

Companies Response: The Companies continue to perform periodic training sessions with claims adjudicators to assure proper document recording of claim files. All Third Party Administrators were trained in the regulations.

8. The Company failed to provide written notice of any statute of limitation sixty days prior to the expiration date. In one instance, LSLIC failed to provide

written notice of any statute of limitation or other time period requirement not less than sixty days prior to the expiration date. The Department alleges this act is in violation of CCR § 2695.7(f).

Company Response: The Companies trained their Third Party Administrators on the regulations.

9. The Companies failed to provide thorough and adequate training regarding these regulations to all their claims agents. The Companies failed to provide thorough and adequate training regarding these regulations to all their claims agents. The Department alleges this act is in violation of CCR § 2695.6(b).

Companies Response: The Companies have recently trained their Third Party Administrators on the regulations.

10. The Companies failed to maintain a copy of the certification required by CCR §2695.6(b) (1), (2) or (3) at the principal place of business. The Companies 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 in violation of CCR § 2695.6(b)(4).

Companies Response: The Companies now maintain a copy of the certification required by § 2695.6 (b) (1), (2) or (3) at their principal place of business.