

1 of Examination of the Market Conduct Affairs of LLIC (the
2 "Report"). The period covered by the on-site examination was
3 from January 1, 1990 through December 31, 1992.

4 3. The Examiner reviewed thirty (30) of the 584 Arizona
5 life policies issued by LLIC during the period covered by the
6 Examination. As to these, the Department contends LLIC failed
7 to:

8 a. obtain the mandated HIV Testing and Consent Form
9 from five (5) applicants where an HIV blood test was completed;

10 b. obtain and require on two (2) files a statement
11 signed by the applicant as to whether or not such insurance will
12 replace existing life insurance;

13 c. obtain and require on one (1) file a statement
14 signed by the agent as to whether or not the agent knows
15 replacement is or may be involved in the transaction;

16 d. present to five (5) applicants a form of
17 "IMPORTANT NOTICE REGARDING REPLACEMENT OF LIFE INSURANCE" which
18 complied with Exhibit A of A.A.C.R 4-14-215;

19 e. provide one (1) applicant with a complete summary
20 of rights upon an adverse underwriting decision.

21 4. The Examiner reviewed five (5) of the seventeen (17)
22 Arizona life policies declined by LLIC during the period covered
23 by the Examination. As to these, the Department contends LLIC
24 failed to:

25 a. obtain mandated HIV Testing and Consent Form on
26 one (1) file where an HIV blood test was completed;

27 b. provide one (1) applicant with a complete summary
28 of rights upon an adverse underwriting decision.

1 5. The Examiner reviewed fifteen (15) of the 138 Arizona
2 life application files which involved the replacement of
3 existing life insurance by LLIC during the period covered by the
4 Examination. As to these, the Department contends LLIC failed
5 to:

6 a. present two (2) applicants with a "NOTICE
7 REGARDING REPLACEMENT OF LIFE INSURANCE" not later than at the
8 time of taking the application, and failed to submit to the
9 replacing insurer with the application a copy of such Notice
10 signed by the applicant. As to the remaining thirteen (13)
11 applicants, LLIC presented to the applicants a form of
12 "IMPORTANT NOTICE REGARDING REPLACEMENT OF LIFE INSURANCE" that
13 did not comply with Exhibit A of A.A.C.R 4-14-215. However, the
14 notice provided by LLIC had been submitted to and approved by
15 the ADOI;

16 b. send to the existing insurer on six (6) files a
17 "NOTICE REGARDING REPLACEMENT OF LIFE INSURANCE" within three
18 (3) working days of the date the application was received at
19 LLIC's home or regional office;

20 6. The Examiner reviewed fourteen (14) of the seventy
21 (70) Arizona life claims paid by LLIC during the period covered
22 by the Examination. As to these, the Department contends LLIC
23 failed to:

24 a. acknowledge receipt of five (5) notifications of
25 claim within ten (10) working days of receipt thereof;

26 b. date stamp initial notices of claim in two (2)
27 files;

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1 c. advise two (2) first party claimants of the
2 acceptance or denial of the claim within fifteen (15) working
3 days after receipt of properly executed proofs of loss;

4 d. notify three (3) first party claimants within
5 fifteen (15) working days after receipt of properly executed
6 proofs of loss that LLIC needed more time to determine whether
7 the claim should be accepted or denied;

8 e. complete the investigation of two (2) claims
9 within thirty (30) days after notification of the claim.

10 CONCLUSIONS OF LAW

11 1. By failing to obtain the mandated HIV Testing and
12 Consent Form from applicants where an HIV blood test was
13 completed, the Department contends that LLIC violated A.R.S.
14 § 20-448.01.

15 2. By failing to obtain and require a statement signed by
16 the applicant as to whether or not the insurance will replace
17 existing life insurance, the Department contends that LLIC
18 violated A.A.C. R4-14-215(E)(1)(a) and A.A.C. R4-14-215(F)(2)(a).

19 3. By failing to obtain and require a statement signed by
20 the agent as to whether or not the agent knows replacement is or
21 may be involved in the transaction, the Department contends that
22 LLIC violated A.A.C. R4-14-215(E)(1)(b) and A.A.C.
23 R4-14-215(F)(2)(b).

24 4. By failing to present to applicants an "IMPORTANT
25 NOTICE REGARDING REPLACEMENT OF LIFE INSURANCE" in the form as
26 described by Exhibit A of A.A.C.R 4-14-215, the Department
27 contends that LLIC violated A.A.C. R4-14-215(E)(2)(a).

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1 5. By failing to provide an applicant with a complete
2 summary of rights upon an adverse underwriting decision, the
3 Department contends that LLIC violated A.R.S. § 20-2110(A).

4 6. By failing to present to applicants a "NOTICE
5 REGARDING REPLACEMENT OF LIFE INSURANCE" not later than at the
6 time of taking the application, and by failing to submit to the
7 replacing insurer with the application a copy of the Notice
8 signed by the applicant, the Department contends that LLIC
9 violated A.A.C. R4-14-215(E)(2)(a) and A.A.C. R4-14-215(E)(2)(c).

10 7. By failing to send to the existing insurer a "NOTICE
11 REGARDING REPLACEMENT OF LIFE INSURANCE" within three (3)
12 working days of the date the application was received at LLIC's
13 home or regional office, the Department contends that LLIC
14 violated A.A.C. R4-14-215(F)(3)(c).

15 8. By failing to acknowledge receipt of notifications of
16 claim within ten (10) working days of receipt thereof, the
17 Department contends that LLIC violated A.R.S. § 20-461(A)(2) and
18 A.A.C. R4-14-801(E)(1).

19 9. By failing to maintain files which contained all notes
20 and work papers pertaining to the claim in such detail that
21 pertinent events and dates of events can be reconstructed, the
22 Department contends that LLIC violated A.A.C. R4-14-801(C).

23 10. By failing to advise claimants of the acceptance or
24 denial of the claim within fifteen (15) working days after
25 receipt of properly executed proofs of loss, the Department
26 contends that LLIC violated A.R.S. § 20-461(A)(5) and A.A.C.
27 R4-14-801(G)(1)(a).

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1 11. By failing to notify claimants within fifteen (15)
2 working days after receipt of properly executed proofs of loss
3 that LLIC needed more time to determine whether the claim should
4 be accepted or denied, the Department contends that LLIC
5 violated A.R.S. § 20-461(A)(3) and A.A.C. R4-14-801(G)(1)(b).

6 12. By failing to complete the investigation of claims
7 within thirty (30) days after notification of the claim, the
8 Department contends that LLIC violated A.R.S. § 20-461(A)(3) and
9 A.A.C. R4-14-801(F).

10 13. Grounds exist for the entry of the provisions of the
11 following Order.

12 ORDER

13 LLIC, having admitted the jurisdiction of the Director to
14 enter the Order set forth herein, having waived the Notice of
15 Hearing and the hearing, having waived any and all rights to
16 appeal this Order, and having consented to the entry of the
17 Order set forth hereafter, and there being no just reason for
18 delay:

19 IT IS HEREBY ORDERED THAT:

20 1. LLIC shall:

21 (a) obtain the mandated HIV Testing and Consent Form
22 from applicants where an HIV blood test was completed;

23 (b) obtain and require a statement signed by the
24 applicant as to whether or not the insurance will replace
25 existing life insurance;

26 (c) obtain and require a statement signed by the
27 agent as to whether or not the agent knows replacement is or may
28 be involved in the transaction;

1 (d) present to applicants the required "IMPORTANT
2 NOTICE REGARDING REPLACEMENT OF LIFE INSURANCE" in the form as
3 described by regulation;

4 (e) provide an applicant with a complete summary of
5 rights upon an adverse underwriting decision;

6 (f) present to applicants a "NOTICE REGARDING
7 REPLACEMENT OF LIFE INSURANCE" not later than at the time of
8 taking the application, and submit to the replacing insurer with
9 the application a copy of the Notice signed by the applicant;

10 (g) send to the existing insurer a "NOTICE REGARDING
11 REPLACEMENT OF LIFE INSURANCE" within three (3) working days of
12 the date the application was received at LLIC's home or regional
13 office;

14 (h) maintain files which contain all notes and work
15 papers pertaining to the claim in such detail that pertinent
16 events and dates of events can be reconstructed;

17 (i) advise claimants of the acceptance or denial of
18 the claim within fifteen (15) working days after receipt of
19 properly executed proofs of loss;

20 (j) notify claimants within fifteen (15) working days
21 after receipt of properly executed proofs of loss that LLIC
22 needs more time to determine whether the claim should be
23 accepted or denied;

24 (k) complete the investigation of claims within
25 thirty (30) days after notification of the claim unless such
26 investigation cannot reasonably be completed within such time;

27 (l) acknowledge receipt of notification of claim
28 within ten (10) working days of receipt thereof.

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2. Within thirty (30) days of the filed date of this Order, LLIC shall develop and file with the Director an action plan, including a bulletin in a form acceptable to the Director, for training all agents representing LLIC in Arizona as to the legal requirements for replacement of life insurance, including the provisions of A.A.C. R4-14-215.

3. LLIC shall develop a written action plan to monitor and ensure that its personnel process claims in accordance with A.R.S. §§ 20-461 and 20-462 and A.A.C. R4-14-801. This Action Plan shall provide for on-going training of LLIC's claims personnel and shall address, but not be limited to, the alleged violations of A.R.S. §§ 20-461 and 20-462 and A.A.C. R4-14-801 cited in the Report and in this Order. The Action Plan, including memoranda to be distributed to claims personnel, shall be filed with the Director for approval within thirty (30) days of the filed date of this Report.

4. The ADOI shall be permitted, through an authorized representative, to verify that LLIC has complied with all provisions of this Order, and the Director may separately order LLIC to comply.

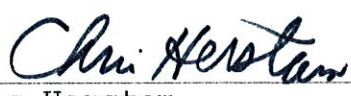
5. LLIC shall pay a civil penalty of FOUR THOUSAND DOLLARS (\$4,000) to the Director for remission to the State Treasurer for deposit in the State General Fund in accordance with A.R.S. § 20-220(B). This civil penalty shall be provided to the Market Conduct Examinations Division of the ADOI on or before December 2, 1994.

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6. The Report of Examination of the Market Conduct
Affairs of LLIC as of December 31, 1992, including the
objections of LLIC thereto, shall be filed with the ADOI.

DATED at Phoenix, Arizona this 13th day of December, 1994.



Chris Herstam
Director of Insurance

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COPY of the foregoing mailed/delivered
this 13th day of December , 1994, to:

- Gay Ann Williams
Deputy Director
- Gregory Y. Harris
Chief Administrative Law Judge
- Erin Klug
Manager
Market Conduct Examinations Division
- Saul Saulson
Supervisor
Examinations Section
- Shirley Polzin (L&D Orders only)
Supervisor
Life and Disability Section
- Deloris E. Williamson
Assistant Director
Rates & Regulations Division
- Gary Torticill
Assistant Director and Chief Financial Examiner
Corporate & Financial Affairs Division
- Cathy O'Neil Assistant Director
Consumer Services and Investigations
- Mary Butterfield (L&D Orders only)
Manager
Health Policy Division

DEPARTMENT OF INSURANCE
2910 North 44th Street, Suite 210
Phoenix, AZ 85018

Ralph L. Ogden, President
Liberty Life Insurance Company
P.O. Box 789
Greenville, South Carolina 29602-0789

S. David Childers, Esq.
Low & Childers, P.C.
1221 East Osborn Road, Suite 104
Phoenix, Arizona 85014

