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CUNA Mutual Insurance Society

May 31, 2006

Vermont Department of Banking, Insurance,
Securities and Health Care Administration
Mr. David Cassetty
Enforcement Attorney/Insurance Division
89 Main Street, Drawer 20
Montpelier, VT 05620-3101

Re: Market Conduct Examination Final Report
CUNA Mutual Insurance Society

Dear Mr. Cassetty:

This letter, on behalf of CUNA Mutual Insurance Society (hereafter, “CUNA Mutual” or “the Company”), is in response to your letter and Report of May 2, 2006. We thank you and your team for the professionalism you have displayed during the course of this examination and for the opportunity to express our opinions and concerns. Our objective is to reach an appropriate resolution to the issues raised in your report.

We have structured our response to follow the order of the recommendations made in Section titled “Summary of Recommendations” (page 49 of your report).

Prior to addressing specific issues, we would like to request a modification regarding the following item. On pages 13 and 43 of the report, there are references to specific customers. We would ask for confidentiality reasons that the names of the credit unions be removed and referenced by our contract numbers. We have provided the cross reference information in a separate email communication to Mr. Charles Piasecki to maintain customer confidentiality.

SUMMARY OF RECOMMENDATIONS AND CUNA MUTUAL’S RESPONSE

1. Page 19

The examiners recommend that the Company develop and implement procedures that will enable full compliance with Regulation 99-1 by developing methods whereby the Company has records of all transactions within the state of Vermont and that the

Company discontinues its reliance on the individual credit unions to maintain records which are subject to examination.

Company Response: We agree that during the course of this examination, there were incidents in which some records were not properly maintained by our credit union policyholders or could not be produced for the examiners. The Company agrees to develop and implement procedures to comply with Regulation 99-1. We respectfully disagree, however, that Regulation 99-1 requires the insurer to maintain record keeping procedures that do not rely upon related entities, such as in our business model, credit unions. We believe Regulation 99-1 recognizes that related entities may serve to maintain records subject to the Department's examination. Indeed, Regulation 99-1 §4A specifically describes records to be maintained by either the insurer or a related entity:

Regulation 99-1 §4: Records to be maintained

A. Each insurer or related entity doing business in this state shall maintain its books, records, documents and other business records so that the insurer's claims, rating, underwriting, marketing, complaint, and producer licensing records, rates and forms filings and other records subject to examination by the commissioner are readily available to the commissioner.

The term, "related entity" is defined in Regulation 99-1 §3G as "any person authorized to act on behalf of an insurer in connection with the business of insurance, but shall not include a producer." Producer is defined as "any person required to be licensed under Title 8 V.S.A. Chapter 131 and 142A, as agent, broker, managing general agent or reinsurance intermediary" (see, Regulation 99-1 §3F). Under the Company's business model, group policy holders, credit unions, fall within the definition of related entities. As such, we believe the Regulation explicitly provides for record maintenance by credit union policyholders.

In response to the examiner's recommendation, the Company regrets the record production experience incurred during the exam and proposes corrective action to ensure that credit unions implement and maintain record retention practices to comply with Regulation 99-1. The Company proposes to develop a corrective action plan to include the following:

- Credit union education and training on the requirements of Regulation 99-1.
- Initial audit of record retention practices 6 months after the completion of Regulation 99-1 training.
- Annual record retention audits beginning one year after the initial audit is completed.

The Company agrees to begin implementing the corrective action plan within 120 days of the final order arising from the examiner's report and to complete the implementation within 12 months thereafter. The Company believes that this plan will achieve the

objectives of Regulation 99-1 by putting into place record retention practices and an audit cycle to ensure future compliance.

2.

Page 19

The Company should take steps in order to assure that accurate counts (populations) of the Company's claim records are presented with regard to examination requests.

Company Response: The Company has already taken corrective action to address the accuracy and timeliness of claims record requests. On April 1, 2005, the Company assigned Kathy Graham to coordinate examiner requests, which dramatically improved the accuracy and timeliness of the Company responses. Ms. Graham's involvement also served to improve the communication between examiners and the Company. The examiners acknowledge (see, page 13 of the examiner's report) that the record production requests improved after Ms. Graham was assigned to provide this support.

The Company regrets the record production experience during this exam and accepts responsibility to implement and maintain corrective measures. For the record, however, we believe that some of the repeated requests and the inaccuracies arising there from, arose from miscommunication between the examiners and staff about information requested, how to interpret the reports, etc. Two brief examples illustrate our point:

- Credit Disability – reports were viewed as containing multiple entries for a single claim. The examiner's perception of inaccurate records resulted from our effort to comply with their request for payment dates as stated in the claims list. Credit disability claims typically have multiple payments. A separate line item appeared for each payment so that the payment dates could be displayed in the report. The Company expected that the report would be read in context (i.e., multiple payments for disability benefits as opposed to multiple entries for a single claim) but as it turned out, the examiners had a difficult time understanding the report format. Company agrees, that in the future, it may need to spend more time explaining report formatting capabilities so examiners can read the data in proper context thereby addressing the perception of inaccurate record production.
- Loan Protection/Credit Life Claims – incorrect claims type. In a handful of cases, data entry errors were made having the effect that claims were reported under an incorrect claim type. For example, a credit life claim was submitted when it should have been submitted as a loan protection claim, and vice versa. Upon discovery of the error, these claims were closed out in the original claim system and then entered into the proper claims system, resulting in a variance to claim counts in those instances.

We believe the Company's decision to assign a dedicated staff member to coordinate examiner requests demonstrated our desire to resolve the examiner's concerns. Further, we believe that this single-point of contact will serve to expedite the resolution of miscommunications and provide guidance to examiners on how to apply the reports we generate. We also agree that in future market conduct examinations, the Company will

attempt to inform the examiners of circumstances that may result in fluctuations in claims listings so they are better prepared to interpret the data.

3.

Page 19

The examiners recommend that the Vermont Department conduct a follow up examination within an eighteen (18) month period following the close of this market conduct examination, in order to ensure that the Company's procedures and practices are in full compliance with Regulation 99-1.

Company Response: The Company accepts the examiner's recommendation that the Department conduct a follow up examination in 18 months after the final order arising from this examiner's report to review the Company's compliance with Regulation 99-1.

4.

Page 19

It is recommended that the Company report actual certificate details in lieu of estimated figures in the state pages of their Annual Statement.

Company Response: The Company will develop and implement processes to enable reporting of actual certificate details in lieu of estimated figures. We propose development of the plan within 120 days of a final order arising from this examiner's report and completion of the plan 12 months thereafter.

5.

Page 21

The examiners recommend that the Company go back as far as the Vermont Department deems appropriate and pay with interest those amounts due to the beneficiaries of the affected insureds. Additionally, the examiners recommend that the Company implement procedures by which full compliance with 8 V.S.A. § 3665 (c) (2) and (d) is assured.

Company Response: The Company agrees to audit credit life insurance claims for a reasonably appropriate period as determined by the Department and to coordinate with credit unions the payment of interest on those amounts due. The Company agrees to complete the audit within 90 days of a final order arising from the examiner's report and to coordinate payment with the respective credit unions that originated the claims within 60 days thereafter. Additionally, the Company agrees to implement procedures to comply with 8 V.S.A. § 3665 (c) (2) and (d).

6.

Page 27

It is recommended that the Company reconsider payment of the claim identified by claim numbers 2041315651 (Loan # 71) and 2041315652 (Loan # 73).

Company Response: As indicated in the introduction of this letter, please note that the Company replaced the names of the credit unions referenced in the examiner reports with customer numbers, to protect privacy concerns.

The Company respectfully disagrees with the examiner's conclusions regarding the Company's findings on the above referenced claims. We continue to maintain that the examiners' review of these claims and the conclusions drawn as a result are flawed. However, as a statement of our desire to demonstrate good faith in the completion of this exam and in the interest of bringing resolution to this issue, the Company has decided to reverse its position regarding the denial of these claims and will process them for payment within 30 days of this letter.

7.

Page 28

The examiners recommend that, in the future, the Company obtain complete information from all doctors whom they have reason to believe might possess pertinent information before denying a claim.

Company Response: The Company has implemented procedures to obtain all pertinent medical information before denying a claim. When a claim is initiated, a member interview is conducted at which time the identity of all medical providers is obtained. In the event that medical records are needed to determine whether the claim is payable, complete information from all identified medical providers is obtained. Medical records are only requested when necessary to make a claim determination so that benefit payments are not delayed unnecessarily. As a result, we believe we have affirmatively responded to the examiner's recommendation.

8.

Page 30

The examiners recommend that the Department reconsider its approval of the Company's certificate of insurance which allows the Company to employ the effective date of the advance as the effective date of coverage, when determining the pre-existing condition restriction.

Company Response: The Company disagrees with this recommendation and reiterates its response to the criticism. The effective date of coverage on a given advance is the later of the date of the advance or the date that coverage is elected on the advance. Thus, application of the pre-existing condition restriction is properly determined based upon the effective date of coverage applicable to each separate advance.

We also believe that the examiner does not have a legitimate basis to question the validity of language that has been approved by the Department and is consistent with 8 V.S.A. § 4106 which states: "*The term of any credit life insurance or credit accident and health insurance shall, subject to acceptance by the insurer, commence on the date when the debtor becomes obligated to the creditor . . .*" This language has a practical effect which our certificate recognizes. A debtor does not become obligated by contract or legally

bound to make payment on an advance until money is advanced to him or her. Thus, the effective date of coverage on an advance is the later of the date of the advance or the date coverage is elected on the advance. Consequently, each advance has its own effective date of coverage to be used in determining the application of the pre-existing condition restriction. In short, the date that the debtor becomes obligated is the same as the date of the advance which in turn is the date the coverage is applied.

In light of the prior approval of the language and no grounds to suggest that a violation of Vermont insurance law has occurred, we believe it is inappropriate to characterize this matter as an exception or impropriety in this report. Therefore, we respectfully request that this reference be removed from the report and that the Department disregard the examiner's recommendation.

9.

Pages 36 & 37

The examiners recommend that the Company and the credit unions (contract numbers 044-0003-3 and 044-0016-9) collaborate in order to audit and refund the members who were overcharged and that the refunds be made under the auspices of the Vermont Department.

Company Response: The Company has already taken affirmative steps to address the examiner's recommendation. The Company and the credit unions have initiated the refund process to the members who were overcharged. The Company agrees to coordinate payment with the respective credit unions within 120 days of a final order arising from this examiner's report.

10.

Page 38

It is suggested that the Department may wish to reconsider its approval of the uninterpolated credit disability rates for the reasons discussed in this report.

Company Response: The Company does not take issue with the content of this recommendation. There are only two policyholder credit unions writing single premium coverage in Vermont. In 2005, single premium coverage represented only 2% of the gross written premium of CUNA Mutual.

Note however, that since this is a recommendation for revocation of approval of previously approved rates, we conclude that the use of the rates has not been proven to be a violation. Accordingly, we believe that it is inappropriate to characterize this issue as an exception or impropriety in the examiner's report. We respectfully request that this reference be removed from the report.

11.

Page 39

The Company should obtain approval from the Commissioner of any multiple account cases in the future.

Company Response: The Company has already taken action to address the examiner's recommendation. The Company's filing submitted on May 15, 2006 incorporates the examiner's recommendation.

12.

Page 40

The examiners recommend that the Company develop certificates of insurance that fully comply with the specific requirements of 8 V.S.A. §4107 (b) and seek approval from the Vermont Department for the use of such forms. The Company should also discontinue the use of the non-compliant certificates.

Company Response: The Company restates its response to the examiner's criticism. As stated in our previous responses, the information required under 8 V.S.A. §4107 (b) is included in the forms that have been approved by the Department and used in Vermont.

The examiner's recommendation does not address the principal issue in question on whether the certificate captures the customer's name and the premium amount. It is worth noting that we have reviewed the filings for certificate forms that the Company has submitted to the Department over the past 20 years. Section 4107(b) has never been included among the objections received from the Department. During this 20 year period, the Department has approved several iterations of our certificate forms that have not included the name(s) of the debtor or the amount of premium in the body of the certificate. In light of this history, we see no basis to now conclude that the forms need to be revised in order to comply with Section 4107(b).

The forms are designed so that the name(s) of the debtor and the premium are, however, included in the Member's Application for Credit Insurance. The Member's Application accompanies and by its own terms becomes a part of' the certificate. In most cases the Member's Application and the certificate are printed as attached documents. In instances where the two forms are not printed as attached documents, our credit union training program instructs the credit union to present both forms together to the insured member.

Taken together, we believe the Company's forms satisfy the requirements in Section 4107(b) and we respectfully request that this recommendation be removed from the report.

13.

Page 42

The examiners recommend that the Company either use the application forms approved on 11/06/89 or obtain the Department's approval of the forms that are currently being used.

Company Response: The Company has initiated corrective action in response to this recommendation. Use of the Statement of Insurability was discontinued in 2003, and replaced with the Enrollment/Certificate of Insurance forms. Copies of the filed and approved forms were previously produced to the examiners. We will also take necessary

action to discontinue use of the subsequent election contained on the Loanliner Subsequent Action form. In short, these actions adopt the examiner's recommendation.

14.

Pages 44 (& 23)

The examiners recommend that the Department conduct a follow up review of the Company's newly implemented program (as discussed in sections II (B) and (V) with respect to its non-compliance with Regulation 84-1 § 11, in order to assure that the self assessment practice employed by the Company is effective in assuring compliance with the insurance laws of Vermont and the regulation promulgated by the Commissioner.

Company Response: The Company has implemented a self assessment process which we believe is an effective method to evaluate credit union compliance with Vermont insurance laws. We are pleased to report that the Company has received responses to the self assessments from 100% of Vermont credit union policyholders. We believe this methodology presents many positive opportunities and we welcome a follow up review by the Department.

15.

Page 46

The examiners recommend that all persons engaged in the solicitation (selling) of insurance through the Company become duly licensed in accordance with 8 V.S.A. § 4813b and appointed as required by 8 V.S.A. § 4813l.

Company Response: At the outset, the Company wants to make it clear that it desires to comply with Vermont credit insurance licensing requirements and that it has attempted to seek clarification from the examiners as to the standards required under the state's licensing requirements. In our view, the examiner's recommendation is not only overly burdensome but also disregards existing Vermont insurance law.

We understand that the line between acts of "solicitation" and "non-solicitation" may not always be clear. Although we believe Vermont's group enrollment exception applies to the sale of group credit insurance, we also sought clarification to better apply Vermont licensing requirements. Accordingly, in our response to the examiners dated August 10, 2005 the Company proposed licensing each credit union and one of its employees based upon our understanding of 8 V.S.A. §4813d(2), and §4813f(2) which requires the business entity and one employee to be licensed. We have received no response to our proposal. The Company's August 10 proposal is based on the provisions of Vermont law contained in 8 V.S.A. § 4813d and §4813f and discussions by counsel with Mr. Charles Piasecki of the Vermont Department of Insurance. These discussions addressed entity and limited lines licenses for credit unions and their loan personnel and included consideration of the rental car rule applied to rental car insurance found in Regulation I-2002-02.

The rental car rule notwithstanding, Vermont insurance law provides for a group enrollment exception which we believe is appropriate for the Company's business model.

Our position is based upon 8 V.S.A. §4813d(2) which recognizes that a license is not required for “A person who secures and furnishes information for the purpose of group life insurance, group property and casualty insurance, group annuities, group or blanket accident and health insurance; or for the purpose of enrolling individuals under plans; issuing certificates under plans or otherwise assisting in administering plans; or performs administrative services related to mass marketed property and casualty insurance; where no commission is paid to the person for the service.”

Loan officers of credit unions who present our group credit insurance explain to borrowers that (1) the coverage is available; (2) the coverage is optional; (3) they have the option to elect credit life or credit disability and single or joint coverage (if available); and (4) the cost of the coverage. The loan officer also inquires if the borrower would like to enroll and if the member elects coverage, provides a certificate of insurance. Such activity clearly falls within the scope of securing and furnishing information for the purpose of group rate or group accident and health insurance. We believe all these activities fall within §4813d(2).

However, despite these statutory provisions, the examiner’s recommendation appears to be based on anecdotal circumstances derived largely, if not entirely, from the use of the term “selling” found in a document entitled “Instructions and Product Info Sheet.”

It is also worth noting that before the 2002 amendments to the Vermont producer licensing law (which were adopted to conform to national uniform producer licensing standards), Vermont did not require a “lending institution” as defined by 8 V.S.A. § 4811 (b)(1) to be licensed to offer or sell credit insurance coverage. Indeed, the Department’s Insurance Bulletin 117 acknowledges that the licensing and other requirements outlined in the bulletin “do not apply to the sale of credit insurance by banks under 8 V.S.A. § 4811.”

By definition, credit unions were “lending institutions” for the purposes of the licensing exception contained in the now repealed 8 V.S.A. § 4811, and so, like banks, credit unions had not been required to obtain licenses to offer credit insurance coverage. Although 8 V.S.A. § 4811 has been repealed, Bulletin 117 appears to be the only official written statement of the Department’s position on the requirements for the sale of credit insurance by lending institutions. As a result of the repeal and the apparent standing of Bulletin 117, a considerable amount of confusion has arisen as to applicable licensing standards and we respectfully request that the Department take this into account when evaluating the examiner’s recommendation.

To underscore this point, we understand that Commissioner Crowley has decided that the Department will draft a business entity licensing regulation for credit insurance. The new regulation will presumably clarify and define licensing standards. Accordingly, we respectfully request that the Department disregard the examiner’s recommendation in light of the anticipated new licensing regulation and allow the Company to postpone modifying its practices until the Department has issued a regulation with definitive licensing standards.

It should be clear that Company is most interested in adapting its licensing practices as soon as the requirements are clarified. To impose a change now is not only premature but would also unfairly create avoidable expenses and disruptions to our business which would not be imposed on, or incurred by, our competitors.

Alternatively, if the Department believes a new regulation is not forthcoming, we ask the Department to consider the Company proposal of August 10, 2005, which would entail the licensing of each credit union and one of its employees based upon 8 V.S.A. §4813d(2), and §4813f(2). We believe this is consistent with existing Vermont insurance law and would provide a reasonable interim if not permanent solution until the Department's regulation is finalized and clear guidance is provided.

CLOSING

In closing, we greatly appreciate the opportunity to respond to the examiner's recommendations and we trust that our responses have demonstrated a strong willingness to ensure that our practices comply with Vermont law. In many instances, we have already modified our business practices in line with the examiner's recommendations.

If after reviewing our responses further information or clarification is required, please contact our examination coordinator, Kathy Graham, at 1-800-356-2644, extension 7008.

Sincerely,

A handwritten signature in black ink that reads "Eric W. Verseman". The signature is written in a cursive style with a long horizontal flourish at the end.

Eric W. Verseman
Vice President – Corporate Compliance