

TARGET EXAMINATION REPORT
OF THE
MARKET CONDUCT AFFAIRS
OF THE
MONUMENTAL LIFE INSURANCE COMPANY

NAIC # 66281

BY

**VERMONT DEPARTMENT OF BANKING,
INSURANCE, SECURITIES AND HEALTH CARE
ADMINISTRATION**

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April 30, 2003

The Honorable John Crowley
Commissioner
Vermont Department of Banking, Insurance,
Securities and Health Care Administration
89 Main Street, Drawer 20
Montpelier, Vermont 05620

Dear Commissioner Crowley:

Pursuant to your instructions and in compliance with the provisions of 8 V.S.A. § 3565 et seq. and procedures promulgated by the National Association of Insurance Commissioners, an examination of the market conduct activities has been conducted of:

Monumental Life Insurance Company
Two East Chase Street
Baltimore, Maryland 21202

The report thereon, as of December 31, 1999 is respectfully submitted.

SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

The examination of Monumental Life Insurance Company hereinafter referred to as "Monumental" or the "Company", unless specifically mentioned by name, was conducted pursuant to Vermont statutes and applicable regulations.

STATUTORY HOME OFFICE

Two East Chase Street
Baltimore, Maryland 21202

EXAMINATION SITUS

The examination was conducted off-site. Information, documents and materials were provided directly to the Department examiners in both hard copy and on computer disks. The Company gave its full cooperation to the Vermont Department during the course of this examination and responded to all inquiries.

TIME FRAME

The examination commenced on October 11, 2000 and generally covered the period from January 1, 1996 through December 31, 1999.

WRITTEN PREMIUMS

Written premiums in Vermont for credit life and accident and health for the years indicated are as follows:

Monumental Life Insurance Company:

	1997	1998	1999
Credit Life(Group & Individual)	4,015	10,431	11,676
Credit Accident & Health (Group & Individual)	6,723	22,858	21,963
Totals	\$10,738	\$33,289	\$33,639

MATTERS EXAMINED

This market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties are indicated.

The examination was a limited examination targeting the Company's credit business. The examination included, but was not limited to the following areas:

Premium rates

Statutory filings

Terminated credit refunds

Complaints

Claims procedures and processing

METHODOLOGY

The examiners used random sampling techniques for selection of samples expected to achieve a 95% confidence rating with an error no greater than 5%.

HISTORY

Monumental Life Insurance Company was originally incorporated on March 3, 1858 as a mutual company under the title Maryland Mutual Life and Fire Insurance Company and commenced business on May 22, 1860. In 1870 the title was revised to Mutual Life Insurance Company of Baltimore and during 1935 the present title was adopted. In 1928, the Company was converted to a stock legal reserve company.

Monumental Life Insurance Company is a wholly owned subsidiary of AEGON N.V., a Netherlands-based multinational financial services conglomerate. AEGON N. V. is a publicly traded stock company with total assets of over \$200 billion USD.

AEGON USA Inc. operates through 17 affiliated companies in the U.S., one of which is Monumental Life Insurance Company.

Monumental is licensed in the District of Columbia, Guam, Puerto Rico and all states except New York. The Company is also licensed on United States military installations in foreign countries.

POLICY FORM FILINGS

The Company used a combined “Certificate Schedule” and “Short Form Health Statement for Credit Insurance” bearing the form no. L1001 89-0292 MGIC (VT), throughout the examination period. However, they failed to furnish any evidence that the form was ever filed with the Commissioner for approval as required by 8 V.S.A § 4108 and Regulation I-84-1 § 4. A sample of the form is included in this report as Appendix I-A.

The certificate schedule, which was approved by the Commissioner on September 12, 1991, bore form no. 89-0292 MGIC (VT). A sample of the approved form is included in this report as Appendix I-B.

A comparison between the two forms revealed that the “Important Notice” was omitted from the form that was actually used. Also, the short form health statement for credit insurance was not included in the approved form as well as certain changes in the wording of the schedule from the approved version.

The examiners reviewed a random sample of fifty-one (51) forms and found that the Company had used the unapproved version in fifty (50) cases and had erroneously used a Life Investors form for the remaining one (certificate No. 6413065). Thus, there were a total of fifty-one (51) violations of 8 V.S.A. § 4108 and Regulation I-84-1 § 4 out of a sample of fifty-one (51). Applying this percentage to the total population of one hundred & forty-three (143) life insurance certificates issued during the examination period gives a projected number of one-hundred & forty-three (143) total violations of 8 V.S.A § 4108. Additionally, deletion of the “Important Notice” from the certificates would result in violations of Vermont Regulation I-84-1 § 6 (2) (e). Thus, there were an estimated number of one hundred & forty-three (143) violations of this regulation as well.

Further, use of these unapproved policy forms would also constitute an additional one hundred & forty-three (143) estimated violations of 8 V.S.A. § 4724 (19).

TERMINATED LIFE & ACCIDENT & HEALTH REFUNDS

Vermont Regulation I-84-1 § 8 (1) requires that refund formulas which any insurer desires to use must be filed with the Commissioner for approval prior to use. Further, subsection (3) states that the requirements of the Credit Insurance Law that refund formulas be filed with the Commissioner shall be fulfilled if the refund formulas are set forth in the certificate filed with the Commissioner.

Monumental's certificate of insurance states that refunds will be calculated by the Rule of Anticipation for decreasing life and disability insurance and that level term life refunds will be calculated on a pro rata basis. It is noted however, that the actual calculations which the Company used for refunds based on the Rule of Anticipation were only approximations and do not equate to actual amounts calculated by the Rule of Anticipation as defined in Vermont Regulation I-84-1 § 8 (1) (b). In some cases the actual amounts refunded were greater than required by the regulation and in some cases the actual refunds were lower. The examiners recommend that the Company recalculate each of the refunds by the Rule of Anticipation precisely as defined in the regulation and refund any additional amounts of refunds (which exceed one dollar (\$1.00) due these former insureds). All future refunds should be calculated in accordance with the regulation.

There were forty-two (42) terminated credit life certificates and thirty-two (32) terminated credit accident and health certificates recorded during the exam period. The examiners reviewed all the certificates and note the following violations of Vermont regulations and statutes in addition to those noted above.

- Nine (9) certificates contained premium refunds based on the pro rata method of calculation even though the coverages involved were both decreasing life and disability insurance, violations of Vermont Regulation I-84-1 § 8 and 8 V.S.A. § 4724 (19).
- The refund for certificate # 2399862Z was incorrectly calculated by the Rule of 78 method resulting in an underpayment to the insured, in violation of Vermont Regulation I-84-1 § 8 and 8 V.S.A. § 4724 (19).
- **RE: certificates # 6258870, 6258869, 6258868 and 6258872**
Four (4) of the forty-two (42) terminated credit life certificates were written on Life Investors forms, containing a provision that prescribes the pro rata refund method. However, the refund was incorrectly calculated using the Rule of Anticipation method, violations of Vermont Regulation I-84-1 § 8 and 8 V.S.A. § 4724 (19). Refer to the section entitled System Irregularities & Records Maintenance in this report for a discussion regarding the use of Life Investors forms.

- Certificate # 2399815 clearly indicates that the coverage is level term credit life, however the refund method used was not pro rata as the provision in the certificate requires, but the Rule of Anticipation. The Company's response was that the option of level term life was not available for this particular account and that level term life was mistakenly listed as the type of coverage. The Company could not furnish an endorsement reflecting a change in the description of coverage. Refer to the section entitled **System Irregularities & Records Maintenance**.

The examiners reviewed the Company's written instructions to the dealers for accuracy and compliance with Vermont regulations and statutes. It was noted that the instructions regarding refund methods incorrectly stated that the method used for life refunds should be the Rule of Anticipation and for disability, the Actuarial Method.

Thus, representing a conflict with the provisions of the certificate which require that the pro rata method be used for calculating level term life and the Rule of Anticipation method for determining refunds for net pay off (decreasing term) life and disability.

The Company responded by stating that a correction would be made to the instructions.

RATES AND UNDERWRITING

Group Credit Life Insurance

The examiners selected a random sample of fifty-five (55) group credit life insurance certificates for use in testing rates and underwriting from a total of one hundred forty-three (143) credit life insurance certificates issued in Vermont during the examination period. The following violations were noted.

Certificate # 6413065- issued on a Life Investors form although the coverage was coded to Monumental Life.

Certificate # 6576251- the certificate shows that level term is being provided although the decreasing term rate was charged.

Certificate # 6576255- the Company used \$20,312,94 as the amount of insurance, however, the present value of sixty (60) payments of \$416.67 at an APR of 11.75% would make the initial amount of insurance \$18,838.23. This would create an overcharge of premium in the amount of \$35.88.

Certificate # 6619528- the health questions were left unanswered although both credit life and disability were provided.

Certificate # 6619534 the rate is incorrect for a 6.96 APR loan. Apparently the Company used a lower APR in calculating the premium.

Certificate # 6619550- the Company used the wrong amount of insurance in calculating the premium. (Should have used \$ 13,136.54 rather than \$13,854.56 resulting in an overcharge of \$14.53)

Certificate # 6619569- the health question pertaining to the co-insured was not answered although joint life was provided.

All seven (7) of the errors cited above constitute violations of 8 V.S.A § 4724 (19). Applying the percentage of violations from the sample (seven (7) out of fifty-five (55)= 12.7%) to the total number of life insurance certificates issued during the examination (one hundred forty-three (143) gives a projected number of eighteen (18) total violations of 8 V.S.A. § 4724 (19).

Credit Disability Insurance

The examiners selected a random sample of fifty (50) credit disability certificates from a total population of one hundred twenty-three (123) credit disability certificates issued in Vermont during the examination period. The following violation was noted.

Certificate # 6619501- the Company used an incorrect rate which should have been 83% of prima facie rather than 94% of prima facie, resulting in an overcharge of \$13.68.
Violation of 8 V.S.A. § 4724 (19).

SYSTEM IRREGULARITIES-- RECORDS MAINTENANCE

System Irregularities

During the review of the terminated life and accident and health certificates the examiners observed inconsistencies between the actual refund produced by the Company's computer system and the manual calculation using the formula for the Rule of Anticipation.

The Company's explanation (in pertinent part) regarding the refund discrepancy follows:

A computer system performs these calculations. It is not typical to perform these calculations by hand by plugging components into the formula. The calculations made on the computer system will use different rounding or different decimal point components. The system will pull the premium information from a rate chart also in the system. As we previously discussed with the department when we hand calculate premium using the formula, a different number is derived than that calculated by the computer system. The attributes assigned to the program will vary the results of the calculation. The hand calculations produced a reasonable approximation of the amounts calculated by the system. In no case was the amount calculated consistently higher or lower than that calculated by hand. As such, there is no problem indicated.

The differences noted were as much as \$5.36. It is the examiners opinion that the use of different rounding or different decimal point components would result in only slight differences (cents) in the amounts calculated by the system and those calculated by hand using the same formula. It appears the Company's system for determining refunds based on filed rates is not consistent.

Records Maintenance

During the review of the terminated life and accident and health files the examiners observed a number of instances where the Company failed to maintain accurate records as detailed below.

- **Certificate # 2399815**

As discussed in the section of this report entitled “Terminated Life & Accident & Health Refunds”, the certificate indicates a coverage that the Company states was not available to the insured. Further the Company states that the benefit is listed on the incorrect line and that the certificate would have been endorsed at the time it was received. The Company has no record of the endorsement and thus could not provide a copy to the examiners.

- The Company could not furnish a copy of the following terminated credit life certificates:

2399869 (The Company provided a “status sheet” rather than a certificate for the same insured under certificate # 2399818)

2399671

- **Certificate # 2399553**

Initially, a copy of the certificate was not available to the examiners for review, only the screen print was provided. The examiners observed from the information provided on the screen print and the listing of terminated life and accident and health refunds, that the Company paid a premium refund for life and disability based on the pro rata method of calculation. The examiners requested a copy of the certificate in order to verify if the coverage was for level term life, thus allowing for the pro rata method, with regard to the life refund. The disability premium should have been based on the Rule of Anticipation method previously discussed in this report.

The Company later responded to the examiners initial request by furnishing a copy of the “cancel copy” of this certificate. The Company stated that the “only option was net life coverage and that the certificate incorrectly lists the monthly disability benefit.” Also, that the “Debtor Account number is incorrect”.

The “cancel copy” of the certificate indicates the following information:

Coverages:	Premium Charge
Single life net payoff	\$166.43
Monthly Disability benefit	\$321.90

- **Certificates # 6258870, 6258868, 6258872 and 6258869**

Use of Life Investors forms

As discussed in the section entitled Terminated Life and Accident and Health Refunds, these certificates were listed on the Company's computer printout of terminated credit life cases recorded during the exam period supposedly underwritten by Monumental. The examiners questioned why Life Investors forms were used

The Company's response follows:

An error occurred in the original set up of the Account Master for certificates 0006258868, 0006258869 and 0006258870 as a result of a keying error. As you can see from reviewing the files, the certificates were issued sequentially by the Connecticut River Bank. Connecticut River Bank was issued a Life Investors insurance Company of America Group Policy and supplied with Life Investors certificates, claim forms, etc. The keying error was noted in June of 1997 and the Carrier change was made to the system with an effective date of April 11, 1997. The change to the system should have been effective on the inception date of the group policy, October 1, 1996. The Account Master was corrected and the remainder of the certificates issued by this account were properly recorded as LIICA certificates. The Account master was not corrected to change these three certificates. These certificates would have been canceled off the MLIC system record and rewritten as LIICA certificates. Unfortunately, this was not done.

The examiners further inquired as to why the refunds (in these cases) were not based on the pro rata method of calculation as required by the LIICA certificate. The Company's response in pertinent part follows:

if they terminated early, they would then have been on the LIICA system and would fall into the audit performed for LIICA. The certificates were shown on the Mon Life system and therefore canceled in accordance with the MLIC system. We have no way of knowing if there are any other certificates written on LIICA certificates which were coded as Monumental Life without looking at the hard copy of the certificate.

- **Certificates # 2398889 & 619544**

These certificates were altered in that the initial amount of insurance was changed without being initialed by the certificate holder.

CONSUMER COMPLAINTS

The number of complaints reported by the Company as being received during the examination were as follows:

1996	1997	1998	1999
0	0	2	1

The Company failed to file annual reports of consumer complaints for the years 1996 and 1997 as required by Vermont Regulation 76-1 §5.

SUMMARY OF RECOMMENDATIONS

1. Page 6

It is recommended that the Company cease and desist from issuing any policy forms which have not been filed with and approved by the Commissioner and/or amending any previously approved forms and using them without re-filing the amended version with the Commissioner and obtaining approval prior to using them in Vermont.

2. Page 7

The examiners recommend that the Company recalculate each of the refunds using the Rule of Anticipation precisely as defined in Vermont Regulation I-84-1 § 8 (1) (b) and refund any amounts which exceed the actual refund by more than one dollar (\$1.00).

3. Page 7

All future refunds should be calculated precisely as defined in Vermont Regulation I-84-1 § 8 (1) (b).

4. Page 8

Corrections should be made in the Company's written instructions to the dealers regarding the correct refund methods.

5. Page 9 & 13

The Company should cease and desist from issuing Monumental coverage using Life Investors' policy forms and should grant persons in that category the most favorable conditions of the two companies' forms in every instance.

6. Page 9 & 12

It is recommended that the Company exercise more care to assure that level term coverage is not indicated on the certificates when the insureds have applied and paid for decreasing term.

7. Page 9

The Company should exercise more care to insure that no certificates are issued without the insureds having answered all of the health questions in the applications.

8. Page 9

The examiners recommend that the Company exercise care to assure that the initial amounts of life insurance do not exceed the present value of the loan payments over the term period discounted at the appropriate APR.

9. Page 13

The Company should cease and desist from altering any information on certificates without gaining certificate holder approval and issuing the appropriate approved amendment forms.

10. Page 14

The Company should exercise greater care to insure that annual reports of consumer complaints are filed every year pursuant to Vermont Regulation 76-1 § 5.

APPENDIX I-A

SEE ATTACHED

APPENDIX I-B

SEE ATTACHED