MARKET CONDUCT EXAMINATION REPORT

of

UNIVERSAL UNDERWRITERS LIFE INSURANCE COMPANY

of

OVERLAND PARK KANSAS

As of

December 31, 2002

By

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

TABLE OF CONTENTS

TITLE	PAGE
Salutation	1
Foreword	2
Scope of Examination	3
Previous Examinations	4
Executive Summary	5
Company Profile	8
Claims Procedures and Processing	9
Canceled/Rejected/Amended Certificates	13
Sales and Marketing	16
Rates and Related Issues	21
Producer Licensing	29
Fines, Penalties & Forfeitures	31
Summary of Recommendations	32
Appendices	35

April 11, 2006

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:

Universal Underwriters Life Insurance Company, NAIC # 70173

Mail Address:
7045 College Boulevard
Overland Park, Kansas 66211

Statutory Home Office:
7045 College Boulevard
Overland Park, Kansas 66211

The report thereon, as of December 31, 2002, is respectfully submitted.

FOREWORD

This target market conduct examination report is written generally by exception and references to additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were observed.

Universal Underwriters Life Insurance Company is referred to throughout this report as the "Company" or UULIC, unless specifically mentioned by name. The Vermont Department of Banking, Insurance, Securities and Health Care Administration is referred to as the "Department" or the "Vermont Department".

The Company's responses, with respect to the findings of this examination, will be made available upon written request to the Vermont Department.

The examiners wish to acknowledge the exceptional cooperation of the Company's Vice President of Governmental Affairs, D. Scott McMillin, in facilitating the examination process.

SCOPE OF EXAMINATION

EXAMINATION AUTHORITY

The examination of Universal Underwriters Life Insurance Company was conducted pursuant to applicable Vermont statutes and regulations.

TIME FRAME

The examination generally covers the period from January 1, 2000 through December 31, 2002.

SAMPLING METHODOLOGY

The examiners used random sampling techniques, utilizing ACL software.

EXAMINATION SITUS

The Company's statutory home office is located at 7045 College Boulevard, Overland Park, Kansas 66211, however, this examination was conducted entirely off-site. Information, documents and other materials were provided directly to the examiners in hard copy and/or computer diskettes.

MATTERS EXAMINED

- Marketing and sales
- Use of properly filed rates and forms
- Supervision of Credit Lenders
- Claims administration

PREVIOUS EXAMINATIONS

The Vermont Department did not conduct an examination of the Company during the last five years.

EXECUTIVE SUMMARY

This was a target market conduct examination focused primarily on credit life and disability claims and rating procedures covering the period from January 1, 2000 through December 31, 2002.

Out of a sample of sixty (60) credit life insurance claim files, forty-five (45), i.e. seventy-five percent (75%), consisted of underpayments ranging from $10.56 to $7,190.12, with an average underpayment of $548.60. Twelve (12) i.e. twenty percent (20%), consisted of overpayments ranging in amount from $18.10 to $2,043.98, with an average overpayment of $276.49. The remaining three (3) amounts were correct. The total underpayments in the sample amounted to $24,687.23.

A majority of the incorrect payments can be attributed to the Company's procedure for calculating the life insurance benefits, which did not comport with the policy language as explained in detail under section I (B) of this report.

At the examiners' request the Company recalculated the claim benefits for each of the claims in the sample. The Company's revised methodology was similar to that recommended by the examiners except that the Company included an additional refinement, which increases the death benefit by adding the amount of scheduled interest earned on the loans between the last scheduled loan payment and the date of death. In most cases the "corrected values" shown in Appendix I (A) of this report are those recalculated by the Company and reviewed and accepted by the examiners.

The examiners are recommending that the Company immediately correct its procedures for calculating decreasing credit life insurance claim amounts in addition to recalculating all such claims paid during the preceding five (5) years and remit all additional sums due the beneficiaries together with interest from the date of death to the date of payment.

The Company's master policy provides that insurance will not become effective if, according to the Company's underwriting rules, the borrower is found unacceptable as an insurance risk or if the amount to be insured exceeds the maximum amounts established by the Company provided that the borrower is notified of termination of coverage and a refund of the premium paid is made within seventy-five (75) days of the effective date of coverage.

Out of the examiners' sample of sixty (60) claim files for denied claims, forty-nine (49) were denied and coverage was canceled as of the effective date without the Company having notified the borrower and returning the premium within seventy-five (75) days of the effective date. All of these constitute violations of 8 V.S.A. § 4724 (19).

The examiners have recommended that the Company pay all of the claims which were denied due to their failure to terminate coverage within the seventy-five (75) day period, in violation of 8 V.S.A. § 4724 (19).

Other miscellaneous claim violations are noted in the report.

The Company discontinued the practice of auditing the dealers, in violation of Regulation 84-1 § 11 (1), after 1994 and did not reinstitute the practice until May, 2003. Beginning in May, 2003, the Company audited twenty-two (22) of the approximately sixty-five (65) dealers, which revealed situations where the dealers failed to refund sums due the customers, by reason of cancellation of coverage, until after the Company requested a copy of the check to the customer. The examiners also found twelve (12) cases where no refund checks were issued until the examiners requested proof of payment.

In addition, many refunds took unreasonable amounts of time to be paid as can be observed from Appendix III (D).

The examiners found considerable premium errors. Out of a sample of one hundred ninety-eight (198) credit life premiums, the examiners found seventy-seven (77) certificates, i.e. thirty-nine percent (39%), with premium differences in excess of a five (5) dollar threshold. Of the seventy-seven (77) certificates, seventy-two (72) were overcharges constituting violations of 8 V.S.A. § 4109 (a).

Out of a sample of one hundred fifty-six (156) credit disability premiums, the examiners found twelve (12), i.e. seven percent (7%), with premium overcharges in excess of a five (5) dollar threshold constituting further violations of 8 V.S.A. § 4109 (a).

The examiners are recommending that all overcharged amounts discovered to date be remitted to the appropriate persons and, in view of the number of errors disclosed in the examiners' review, that the Company audit every certificate issued during and after the examination period and make all appropriate refunds together with interest. Such audit should be performed under the auspices of the Vermont Department in accordance with a plan approved by the Department. It should be noted that the Company informed the examiners that certain of these overcharges (as discussed in the report) have already been returned.

Subsequent to the examination period, a review of the Company's rate filings revealed that the Company implemented rates which had been disapproved by the Vermont Department in violation of 8 V.S.A. § 4109 (a). The examiners are recommending that the Company refund the premium overcharges to those affected consumers together with interest.

Persons who solicit the credit life and credit disability insurance are not licensed by the Vermont Department in violation of 8 V.S.A. § 4813b, nor were these putative licensees appointed by the Company in violation of 8 V.S.A. § 4813l. The examiners are recommending that all persons engaged in solicitation 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.

There were various other violations in addition to those highlighted in this summary, as noted throughout the report.

In conclusion, it is the examiners' opinion that the results of the Company's own audits and the examiners' rate and refund review, as detailed in this report, indicate a strong and immediate need for the Company to make comprehensive audits of all of the dealers from the beginning of the examination period and continue to make periodic audits on an ongoing basis.

COMPANY PROFILE

HISTORY

UULIC was incorporated under the laws of the State of Missouri on December 21, 1964 and commenced business on October 1, 1965. In 1984, UULIC and its parent company, Universal Underwriters Insurance Company, were purchased by Zurich Holding Company of America, Inc., an intermediate holding company of Zurich Insurance Company, Zurich Switzerland. On April 1, 1998, UULIC redomesticated to the State of Kansas.

UULIC primarily markets credit life and credit disability insurance and some ordinary life insurance through its direct multi-line agency system. Distribution of the credit insurance is through automobile and other vehicle dealerships.

The Company is licensed in the District of Columbia and all states with the exception of New York.

STATUTORY HOME OFFICE

7045 College Boulevard
Overland Park, Kansas 66211

VERMONT REPORTED PREMIUMS

Written premiums in Vermont for the years indicated are as follows:

	2000	2001	2002
Ordinary Life	58,834	71,130	66,912
Credit Life	603,357	646,967	622,330
Credit Disability	966,909	960,666	849,591
Totals	$1,629,100	$1,678,763	$1,538,833

The Company's premium writings in Vermont consist almost entirely of single premium group credit life and disability insurance written to cover the outstanding balance of automobile or other vehicle loans.

(I) CLAIMS PROCEDURES AND PROCESSING

(A) CREDIT LIFE PAID CLAIMS SAMPLE

The examiners requested a listing of all the credit life claims paid from January 1, 2000 through December 31, 2002. The listing contained a total of one hundred and thirty-seven (137) records/payments. A sample of sixty (60) was selected for review in order to determine compliance with Vermont's statutes and regulations.

Vermont Reported Death Benefits Paid (Credit Life - Group and Individual)

Year	Death Benefits
2000	$154,151
2001	$244,429
2002	$217,444

(B) RESULTS OF CREDIT LIFE PAID CLAIMS REVIEW

Out of the sixty (60) life insurance claims in the sample, forty-five (45) claims consisted of underpayments ranging from $10.56 to $7,190.12 with an average underpayment of $548.60. Twelve (12) consisted of overpayments ranging in amounts from $18.10 to $2,043.98 with an average overpayment of $276.49. The total underpayments in the sample amounted to $24,687.23.

A majority of the underpayments can be attributed to the Company's procedure for calculating the life insurance benefits, which does not comport with the policy language for the reason explained below. Failure to pay credit life and credit disability claims in accordance with the contract constitutes violations of 8 V.S.A. § 4111 (a).

The policy language requires that the Company base the calculation of decreasing term life insurance benefits on the "scheduled" amount owed and not the actual amount owed. The language makes this point very clear when it states that the calculation must be based on amounts that "should have" been paid to the creditor, as opposed to amounts that were actually paid to the creditor.

The Company's original calculations are based on a mixture of "scheduled" and "actual" figures. They correctly took the "scheduled" amount of monthly payments that would be remaining had the insured paid what should have been paid at the time of death, however, they then subtracted a figure that the creditor purported to be the actual (as opposed to scheduled) unearned interest. It is neither logical nor reasonable to subtract actual (as opposed to scheduled) unearned interest from scheduled (as opposed to actual) monthly

loan payments. This results in a subtraction of "apples from oranges" situation because figures based on actual unearned interest and those based on scheduled loan payments are not mathematically congruent.

The examiners pointed out this problem and requested that the Company recalculate the amounts for each of the claims in the sample and, in those cases where they wished to correct or otherwise revise their original calculations, to do so with a clear explanation as to how and why they were making the revisions. The Company did furnish recalculated values on worksheets showing their revised methodology. The Company's revised methodology was similar to that recommended by the examiners except that they included an additional refinement, which increased the death benefit slightly by adding the amount of scheduled interest earned on the loan between the last scheduled loan payment and the date of death. In most of the cases the "corrected values" shown in Appendix I (A) are those recalculated by the Company and checked and accepted by the examiners.

The formula used for calculating the corrected life insurance benefits is as follows:

$$\left(MP \times a_{\overline{R}|}\right)\left(1+\frac{S \times \text{APR}}{365}\right)\left(1+\frac{.06t}{365}\right)$$

Where:

	MP	= Amount of monthly loan payment
	R	= Number of monthly loan payments remaining
	S	= Number of days from last scheduled loan payment to date of death
	t	= Number of days from date of death to date of claim payment
	$a_{\overline{R}\|}$	= Present value of a series of payments of $1 for "$R$" months at A.P.R.
	A.P.R.	= Annual percentage rate for the loan, expressed as a decimal

It is recommended that the Company immediately correct its procedure for calculating decreasing credit life insurance claims in addition to recalculating all such claims paid during the preceding five (5) years and remit all additional sums due the beneficiaries together with interest from the date of death to the date of payment.

See Appendix I (A)

(C) FAILURE TO REFUND UNEARNED DISABILITY PREMIUMS

The review revealed that the Company failed to refund unearned disability premiums in eight (8) cases in violation of Regulation 84-1 § 3 (9) (a). It should be noted that the Company, in obtaining the documents for the sample review, discovered that the unearned premium refunds were not made and responded that "these premium refunds have now been made." The date of that letter was January 16, 2004.

See Appendix I (B)

(D) VIOLATION OF 8 V.S.A. § 3665 (d)

The examiners reviewed all twenty-two (22) complaint files that involved a claim dispute. The review led examiners to request claim file # C01005046 for further examination. The examiners criticized the Company for not paying the claim within thirty (30) days from date of receipt of proof of loss and not applying the penalty rate of 12% pursuant to 8 V.S.A. § 3665 (d). **Note: Date of death was 8-21-01, date proof of loss received was 9-21-01 and date the company paid the claim was 2-27-02.**

(E) DENIED CLAIMS

The Company reported that an approximate total of one hundred and eleven (111) credit disability and life claims were denied during the examination period. Thirteen (13) were life claims and ninety-eight (98) were disability claims. A sample of sixty (60) claim files was randomly selected for review in order to determine compliance with Vermont's statutes and regulations. The review revealed that forty-nine (49) claim files contained violations of Vermont Regulation 84-1 § 3 (11) (b) and 8 V.S.A. § 4724 (19) as described below.

Of the sixty (60) claim files reviewed, the examiners observed that forty-nine (49) claims were denied and canceled flat (canceled as of the effective date of the insurance) beyond the seventy-five (75) day limit as specified in Vermont Regulation 84-1 § 3 (11) (b). The Regulation requires: *notice of such adjustments or cancellation must be mailed by the insurer to the creditor and the debtor at his last known address within seventy-five (75) days of the effective date of coverage.*

Further, the Company's master policy specifies under the Approval of Risks provision that; *if according to the underwriting rules of the Company, the Borrower is found to be unacceptable as an insurance risk or if the amount to be insured exceeds the maximum amounts established by the Company, the insurance shall not become effective if the Borrower is notified of termination of coverage and a refund of the premium paid is made within 75 days of the effective date of coverage.* (Emphasis added) The Company's action of canceling the certificates without submitting proper notice to the insured debtor is contrary to the language in the referenced policy provision. Thus, the

Company failed to comply with *forms filed with the commissioner* in violation of 8 V.S.A. § 4724 (19). (Emphasis added)

See Appendix I (C)

The examiners recommend that the Company pay all of the claims which were denied due to their failure to terminate coverage within the seventy-five (75) day period, in violation of 8 V.S.A. § 4724 (19).

(II) CANCELED/REJECTED/AMENDED CERTIFICATES

(A) VIOLATIONS OF 8 V.S.A. § 4724 (19)

(1) Listing of Canceled/Rejected and Amended Certificates (First Listing)

The examiners requested a listing of certificates that were canceled or rejected due to underwriting reasons. The initially provided listing contained approximately two hundred and thirty-five (235) records identifying, among other information, the effective date of the certificate and the activity date (date the Company canceled, rejected or **amended** the certificate). An irregularity appeared with regard to six (6) certificates contained in the listing in that the number of days between the effective date and date of activity was considerably longer than the other certificates. The examiners requested these six (6) certificates for further examination. The review revealed that four (4) of the six (6) certificates represented violations of 8 V.S.A. § 4724 (19) as discussed below.

With respect to certificate numbers 2083094 and 9768824, the disability coverage exceeded the amount allowed under the **Maximum Monthly Benefit** provision of the master policy. The Company amended the benefits to reflect the maximum allowable amount of $600 per month. Regarding certificate number 2083111, the examiners observed that the insured's age exceeded 64 (which is the maximum allowable age according to the age eligibility requirement) therefore, the Company rejected the certificate and refunded the premium. The **Approval of Risks** provision of the master policy states: *if according to the underwriting rules of the Company, the Borrower is found to be unacceptable as an insurance risk or if the amount to be insured exceeds the maximum amounts established by the Company, the insurance shall not become effective if the Borrower is notified of termination of coverage and a refund of the premium paid is made within 75 days of the effective date of coverage*. The Company failed to notify the insureds of the amended certificates (2083094 and 9768824) and refund the excess premiums paid as a result of the amendments within the seventy-five (75) day limit, or to notify the insured of the termination of coverage for certificate number 2083111 within seventy-five (75) days. The Company's failure to adhere to the language of the policy provision, **Approval of Risks**, is in violation of 8 V.S.A. § 4724 (19) in that they did not *comply with any rates, rules, regulations or forms filed with the commissioner.* (Emphasis added) The Company's response to the examiners' criticism was that the employee of the dealership who wrote these three (3) certificates is no longer employed by the dealership and the department supervisor has been made aware of the need to comply.

Similarly, the insured's age was incorrectly recorded on certificate number 9640244 by the issuing dealership and the incorrect age exceeded the maximum allowable age of 64. The Company, unaware that the age was incorrect, failed to notify the insured of the

termination of coverage within seventy-five (75) days of the effective date of the coverage, contrary to the language in the policy provision, which is a violation of 8 V.S.A. § 4724 (19). The Company did, however, reissue the coverage under a new certificate after discovering that the insured's correct age made him eligible for coverage.

An additional problem was observed with certificate number 9768824 (discussed above), in that when the rejection of excess coverage occurred, the employee of the dealership reduced it to the tolerance maximum of $625 rather than the dealer's limit of $600 in accordance with the language contained in the master policy. The Company stated that for a period of time their system had a $25 dollar tolerance on the maximum monthly payment, and thus provided greater coverage than was allowable in the master policy in violation of 8 V.S.A. § 4724 (19) which requires compliance with *any rates, rules, regulations or forms filed with the Commissioner.* (Emphasis added)

The examiners observed an irregularity with respect to certificate number 2257798. In this case, the insured was erroneously issued a certificate that was intended for use with installment loans. The customer had a lease which required a different certificate. The Company informed the customer that the coverage was being canceled effective 1-21-03 (almost three months after the effective date of 10-31-02) and that he needed to contact the dealership within eighteen (18) days of the date on the notice in order for a new certificate to be issued. The Company stated that procedures have been implemented so that when an insured is given an incorrect form it will not be treated as a rejection, instead, they propose to mail a new completed certificate to the customer along with a letter explaining the error.

(2) Listing of Canceled/Rejected Certificates and Underwriting Processes (Second/revised Listing)

As discussed in section **(II) (A) (1)**, the examiners requested a listing of certificates that were canceled or rejected by the Company due to underwriting reasons. The initial listing did not provide the specified information the examiners were seeking in that the listing included all amended certificates as well as those that were canceled or rejected. Subsequently, the Company furnished a revised listing with a population of forty-three (43) records representing certificates which had been canceled or rejected by the Company due to underwriting reasons. The purpose of the inquiry was to determine the nature of the Company's involvement regarding its underwriting practices and procedures.

The Company offered the following information in part as to the details of their underwriting processes.

The primary place where underwriting occurs is at the automobile dealership when the product is being presented to the customer. The areas that are considered at this time are: age of the debtor, amount of coverage, the meeting of the health insurability conditions, and the employment status. When there is any uncertainty dealership employees call our underwriting manager for assistance.

The results of the review of the revised listing are detailed below.

- Thirty (30) cases rejected due to over age limit
- Six (6) cases rejected due to being a prior claimant
- Three (3) cases rejected due to coverage over term limit
- One (1) case rejected due to not meeting underwriting guidelines
- One (1) case rejected due to coverage amount over published limits
- One (1) case rejected due to incorrect form used
- One (1) case rejected due to over aggregate limit

Certificate # 2081645
The Company's master policy specifies under the **Approval of Risks** provision that *If according to the underwriting rules of the Company, the Borrower is found to be unacceptable as an insurance risk or if the amount to be insured exceeds the maximum amounts established by the Company, the insurance shall not become effective if the Borrower is notified of termination of coverage and a refund of the premium paid is made within 75 days of the effective date of coverage.*

In the case referenced above (which was canceled/rejected due to the age limit), the effective date of coverage was January 26, 2001. The notice of termination was dated April 20, 2001, eighty-four (84) days beyond the effective date, contrary to the language in the policy provision and in violation of 8 V.S.A. § 4724 (19) which bars *failure to comply with forms filed with the Commissioner.* (Emphasis added)

The examiners recommend that the Company take steps to ensure that certificate holders are afforded proper notice within seventy-five (75) days of the effective date of coverage in the event coverage is rejected, canceled or amended by the Company in accordance with the policy language contained in the master policy.

(III) SALES AND MARKETING

(A) MODE OF OPERATION

The Company markets credit life and credit disability insurance through automobile and motorcycle dealers by means of group policies. The group master policies are issued to the dealers who serve as group policyholders.

The dealers' duties and responsibilities, as well as the amount of their compensation, are specified in written "Policyholder's Agreements" entered into with the Company. The dealer's responsibilities include sales of credit life and disability insurance, calculation of single premiums from monthly rates provided by the Company, collection of premiums, issuance of Certificates of Insurance, calculation of refunds resulting from early terminations and payment of the refunds to the customer.

(B) FAILURE TO SUPERVISE CREDIT INSURANCE OPERATIONS

Vermont Regulation 84-1 § 11 (1) reads as follows:

(1) Each insurer transacting credit insurance in this state shall be responsible to conduct a thorough periodic review of creditors with respect to their credit insurance business with such creditors to assure compliance with the insurance laws of this state and the regulation promulgated by the Commissioner.

The Company discontinued the practice of auditing the dealers (creditors) after 1994 and did not reinstitute the practice until May, 2003.

Beginning in May, 2003, the Company audited twenty-two (22) of the approximately sixty-five (65) dealers, which revealed situations where the dealers failed to refund sums due the customer, by reason of cancellation of coverage, until after the Company requested a copy of the check to the customer. There were situations of premium overcharges where the excess premium refund was not made until after the Company requested verification of the refund and other situations where the dealers took up to seven (7) months to refund sums due the customers. The audits covered the preceding one year period.

A summary of the audit results is contained in the following tables.

(Cancellations) Refunds made after company requested a copy of the check to the debtor	**(Premium Overcharges) Excess premium refund made after company requested verification of refund**	**(Cancellations) Refunds that were not timely**	**(Premium Overcharges) Excess premium refund was not timely**
Total=8	Total=6	1 took 7 mos. (check issued by company). 2 took 5 mos. 1 took 4 mos. 4 took 3 mos.	1 took 5 mos.

Of the 22 accounts (dealers) that were audited, these are the collective results of the individual accounts:

Number of Accounts that refunded cancellation checks after request by company	**Number of Accounts that refunded premium overcharges (excess premium) after request by company**
Total=5	Total=6

It is apparent from the circumstances described above that the Company failed to conduct periodic reviews of creditors as required by Vermont Regulation 84-1 § 11 (1). The results of the Company's audits and the examiners' rate review as described in the section of this report entitled "**Rates and Related Issues**" suggest a strong need to audit all of the dealers from the beginning of the examination period with appropriate refunds being paid to consumers with interest. Appendix II contains two charts, which represent the number of premium errors found by the examiners and percentage of errors out of the sample for each dealer in the issued sample for credit life insurance, and a separate chart for disability insurance. The last column indicates the audit date.

It should be noted that failure of an agent or insurer to pay or transmit in a timely manner those sums of money to the persons to whom it is owed constitutes a violation of 8 V.S.A. § 4724 (12) (A). Further, 8 V.S.A. § 4724 (17) is violated by any failure of an employer or principal engaged in the business of insurance to instruct or supervise any agent or employee after that employer or principal has knowledge of a deceptive or unfair act or practice prohibited by the statute, which was committed by the agent or employee.

(C) DEALERSHIP ACCOUNT # 44X00206

The examiners observed that the Company encountered numerous problems with account (dealership) # 44X00206 as discussed below.

The Company requires dealerships to report all credit life business sold or canceled during each month by the 10th of the month following the transaction. This account has not been reporting business to the company on a timely basis. For example, a file note dated 10-21-03 indicates that eleven (11) certificates dating as far back as 6-23-03, were submitted past the approval of risk period.

Further, in a notation dated 12-19-03, the examiners observed the following comment:

This account is sending in apps past the approval of risk. (I just rec some business from March-May). They also have a life rating error, they are rating high.

An additional notation dated 8-16-01, states that as of May, 2001, life rates (retail and lease) were "wrong again".

A Company summarization of these issues dated 12-17-03, indicates that the account continues to use incorrect rates.

The examiners inquired as to what procedures the Company initiated in order to correct these troublesome issues with this account. The Company's response was that they "have been working with the dealership and the computer programmer to correct the problem." Additionally, the Company responded in a separate statement dated 2-9-04, that the dealership with the *greatest number of problems is (Account # 44X00206). This dealership continues to be a problem. In our most recent communication to our regional manager responsible for Vermont, we advised that if the premium and refund problems are not corrected we may cancel their agreement with us.*

The Company is in violation of 8 V.S.A. § 4724 (17) in that the rating and refund violations and failure of the Company's agent (account # 44X00206) to submit business on a timely basis (a violation of 8 V.S.A. § 4724 (12) (A)), all of which has been occurring since 2001, have still not been corrected.

(D) DEALERSHIP ACCOUNT # 44X00251

The Company audits, which were performed during 2003, included charts identified as "Problem Logs". The following notation dated 1-3-03, was observed:

Per customer conversation, customer ————(Certificate # 2433098) declined insurance at time it was offered. Signature forged on certificate and customer was charged for insurance. Customer has since canceled certificate and is seeking full (flat) cancellation since insurance was never consented to. Note: The certificate was effective 12-3-01.

The examiners inquired as to what action the Company took with respect to disciplining the dealership and whether there had been a follow-up review of the account in order to prevent another such occurrence. The Company's response follows:

First, regarding the comment that a certificate was forged. The individual making this comment was just filling-in while the person normally assigned to this account was gone. She could not remember the details but the dealership was contacted in September, 2003. We were informed that all certificates were canceled. Our note in the problem log indicates that the customer wanted a full refund. We are contacting the dealership to determine what actually happened with this certificate and the cancellation. The Company further stated that *there have been no written complaints about the dealership and that other than the notation by a substitute service person, there is no proof that any forgery occurred.*

The above response was dated 2-16-04, i.e., more than a year after the problem was observed. The Company further advised that account # 44X00251 discontinued doing business with them June 2002.

(E) FAILURE TO ESTABLISH TRUST ACCOUNTS (COMMINGLING OF FUNDS)

Vermont Regulation 95-1 § 5 provides that every third party recipient which accepts funds intended to offset insurance policy obligations of the remitter is a fiduciary for those funds and that such third parties who do not immediately remit the funds to the insured or insurer for whom the funds are intended shall deposit the funds in a trust account. Section 6, of the Regulation sets forth the specific accounting requirements for the trust accounts.

The Company failed to require the dealers to establish such trust accounts and the dealers are in violation of this regulation.

The Company responded that they would be sending a letter to each of their active accounts informing them of the requirements of the Regulation and that the requirement of establishing trust accounts would be incorporated into their dealer guide.

The examiners recommend that the Company follow up to insure that each of the dealers actually establish trust accounts as required.

(IV) RATES AND RELATED ISSUES

(A) USE OF LOSS RATIO AT PRIMA FACIE RATES TO ADJUST RATES

The examiners note that the Company's approved rates based on the 1998 and the 2001 experience were calculated using the Loss Ratio At Prima Facie Rates whereas the rates based on the experience for 2000 and 2002 were calculated using the Adjusted Loss Ratio. All of the rates should have been calculated by using the Adjusted Loss Ratio inasmuch as the Adjusted Loss Ratio reflects the consideration of investment income and would therefore result in lower rates.

The Company's actuary stated that while he was aware of the requirement, the incorrect numbers were taken from his compilation worksheet. A similar error occurred with the Company's latest rate filing; however, it was detected by the Department's consulting actuary. The Company stated that their actuary will be exercising greater care in which values are being used to adjust their rates.

(B) CERTIFICATE REVIEW FOR GROUP CREDIT LIFE AND CREDIT DISABILITY

The examiners reviewed a sample of two hundred (200) group certificates for credit life and/or credit disability insurance. Credit life and credit disability were issued on the same certificate but a customer could purchase credit life insurance only or credit disability insurance only. The review included calculations of the amount of premium(s) charged, the amount of insurance, and completeness of the certificate.

(1) Credit Life Premium Errors

Out of a sample of two hundred (200) group certificates reviewed by the examiners, one hundred ninety-eight (198) certificates contained credit life insurance (the remaining two (2) certificates contained only credit disability insurance). The examiners calculated the credit life insurance premiums using the formula that was approved by the Vermont Department and then compared the calculated premiums with the premiums that the dealership charged the insured.

The results of the credit life premium review of the sample of one hundred ninety-eight (198) are summarized in Appendix III (A). Due to the complexity of the formula, the number of parameters involved in the calculation, and the effects of rounding, the examiners elected to use a materiality threshold of five dollars (5) when citing premium errors. Therefore, only premium errors greater than five dollars (overcharged or undercharged) have been included in this report. Out of one hundred ninety-eight (198) credit life premiums, the examiners found seventy-seven (77) certificates with credit life

premium differences in excess of the five dollar threshold. Of these seventy-seven (77) certificates, seventy-two (72) were overcharges constituting violations of 8 V.S.A. § 4109 (a), which states that *no insurer shall issue any credit life insurance policy or credit accident and health insurance policy for which the premium rate exceeds that determined by the schedules of such insurer as then on file with the commissioner.*

The examiners recommend that the Company refund all of the credit life premium overcharges shown in Appendix III (A) directly to the insured's lienholder or, in cases where the loan has been satisfied, directly to the insured. The Company may exclude any refunds for which the dealer can provide proof, in a timely manner, that have already been paid.

In addition, the Company has acknowledged that fifty (50) of the overcharges, marked in Appendix III (A) with an asterisk, were caused by a misprint of the rate deviation on a deviation schedule that it provided. The Company stated that they had reviewed all of the certificates affected by this misprint (not just the fifty (50) indicated in this report) and refunded all of the premium overcharges.

In view of the number of errors disclosed in the examiners' review, it is recommended that the Company audit every certificate issued during the examination period and make other appropriate refunds, together with interest. Such audit should be performed under the auspices of the Vermont Department in accordance with a plan approved by the Department.

(2) Credit Disability Premium Errors

The same sample of two hundred (200) group certificates discussed in B (1) above contained one hundred fifty-six (156) with credit disability insurance. The examiners calculated the credit disability insurance premiums for these and compared their calculated premiums with the premiums that the dealership charged the insured.

The results of the credit disability premium review of a sample of one hundred fifty-six (156) certificates are summarized in Appendix III (B). The examiners elected to use a materiality threshold of five dollars (5) when citing errors. Therefore, only premium errors greater than five dollars (5) (overcharged or undercharged) have been included in this report. Out of one hundred fifty-six (156) credit disability premiums, the examiners found sixteen (16) certificates with credit disability premium differences in excess of the five dollar (5) threshold. Out of these sixteen (16) certificates, twelve (12) were overcharges constituting violations of 8 V.S.A. § 4109 (a) which states that *no insurer shall issue any credit life insurance policy or credit accident and health insurance policy for which the premium rate exceeds that determined by the schedules of such insurer as then on file with the commissioner.*

The examiners recommend that the Company refund all of the credit disability premium overcharges shown in Appendix III (B), with interest, directly to the insured's lienholder

or, in cases where the loan has been satisfied, directly to the insured. The Company may exclude refunds for which the dealer can provide proof, in a timely manner, that have already been paid. The Company stated that four (4) of the twelve (12) overcharges (as indicated by an asterisk in Appendix III (B)) have since been refunded.

In view of the number of errors disclosed in the examiners' review, it is recommended that the Company audit every certificate issued during the examination period and make other appropriate refunds, together with interest. Such audit should be performed under the auspices of the Vermont Department in accordance with a plan approved by the Department.

(C) FAILURE TO AMEND CERTIFICATES FOR PREMIUM OVERCHARGES

The credit life and credit disability insurance premiums are calculated and collected by dealership personnel. The dealer then forwards the certificates and premiums (less the dealer's commission) to UULIC. UULIC's computer system is programmed to determine when a premium is incorrect and to provide a correct premium.

If UULIC determines that the dealer has overcharged an insured, the dealer is refunded the overcharge and entrusted to refund it to the customer's lienholder for crediting to the loan. UULIC's own audits, discussed in section III (B) of this report, revealed that in six (6) cases, six (6) dealers out of twenty-two (22) which, were audited failed to issue refunds for overcharged premiums until after the audit exposed the errors.

UULIC does not send the insured an amended certificate or issue an endorsement when a correction of a premium error is made. This violates 8 V.S.A. § 4107 (b) which states in pertinent part that: *each individual policy or group certificate of credit life insurance or credit accident and health insurance shall, in addition to other requirements of law, set forth* ……*the premium or amount of payment, if any, by the debtor separately for credit life insurance and credit accident and health insurance, [and] a description of the coverage including the amount and term thereof.* (Emphasis added)

The examiners recommend that when premium overcharges occur, UULIC notify the insureds in a letter that they are due a refund and issue an amended certificate or an endorsement to the insured reflecting the corrected premium. This procedure would meet the requirements of 8 V.S.A. § 4107 (b) as well as reducing the chance that the excess premiums would not be refunded to the insured by the dealer, since the insured would be on notice of the overcharge.

(D) HANDWRITTEN CHANGES

The Company allows the dealers to submit group certificates for credit life and credit disability insurance which contain handwritten changes to various items including the insurance amount, term, effective dates and premiums. These changes are not required to be initialed by the insured, thus, UULIC cannot ensure that the changes were made to the certificate before the insured signed it.

In addition, UULIC does not issue an amended certificate or endorsement when changes are made by UULIC after submittal by the dealers. During the examination, the examiners found four (4) certificates that UULIC had changed however; the copies provided to the examiners did not reflect the changes. Those certificates are listed in the following chart:

2482058	Initial life insurance amount was increased
2481890	Initial life insurance amount was decreased
2601323	Disability premium was decreased
2478137	Disability benefit was decreased

8 V.S.A. § 4107 (b) requires that *each individual policy or group certificate of credit life insurance or credit accident and health insurance shall, in addition to other requirements of law, set forth the name and home office address of the insurer, the name or names of the debtor, the premium or amount of payment, if any, by the debtor separately for credit life insurance and credit accident and health insurance, a description of the coverage including the amount and term thereof, and any exceptions, limitations, or restrictions*..... Therefore, these four (4) certificates, listed in the chart above, represent violations of 8. V.S.A. § 4107 (b) by failing to reflect the correct amounts of coverage or premium(s) as detailed in the chart.

The Company indicated that, if coverage is changed so that it is less favorable to the insured debtor, they notify the debtor, however, most of the files did not contain any evidence of such notification.

The examiners recommend that UULIC require the dealers to have the insured initial any handwritten changes on the certificate. In addition, UULIC should mail an amended certificate or endorsement directly to the insured in all cases where either the certificate has handwritten and initialed changes made by the dealer and/or in cases where UULIC makes changes to the certificate.

(E) FAILURE TO VERIFY AMOUNT OF CREDIT LIFE INSURANCE

UULIC does not receive a copy of the insured's finance contract with the lending institution when it issues credit life or credit disability insurance. Regulation 84-1 § 3 (10) (a) (i) states that *Credit life insurance may provide benefits for which premiums are computed not exceeding the total amount payable, as defined in Section 2 (6), plus two monthly payments.* Without a copy of the finance contract, the Company does not have a way to verify compliance with this regulation.

The following certificates have credit life insurance amounts that exceed the amount financed plus two payments in violation of Regulation 84-1 § 3 (10) (a) (i).

2600842	2482065	2480770	1785112
2480694	2600768	2480037	

The Company indicated to the examiners during the examination that the following certificates have an incorrect initial insurance coverage amount:

Credit life:

2257018	2257809
2601323	

In addition, the Company acknowledged during the examination that errors in the term of coverage were made on the following certificates:

Credit Life:		Credit Disability:	
2480037		2603796	2079707
2482065		2480037	

The examiners recommend that UULIC require the dealers to submit a copy of the finance contract with the insurance certificate so that they can ensure that the amounts of insurance are compliant and may also detect other errors in the insurance amounts and terms of insurance.

(F) ERROR IN THE SINGLE PREMIUM LIFE FACTOR FORMULA IN THE *DEALER GUIDE*

UULIC's credit life and credit disability insurance is sold by automobile and other vehicle dealerships. UULIC supplied each dealership with a *Dealer Guide,* which details rules and procedures that dealership personnel are required to follow.

The *Dealer Guide* contains a formula for dealers to use in order to convert their approved credit life insurance rate to a single premium life factor for decreasing life coverage. This factor is multiplied by the amount of insurance in order to derive a premium. The formula in the *Dealer Guide* contains an error and appears as follows:

$$SP_L = \left[\frac{(O_P)(1.0054)}{1000(a_{\overline{n}|}+2)}\right]\left[\frac{a_{\overline{n}|} - a_{\overline{n}|.54} + 2(a_{\overline{n}|.54})}{.0054 - i}\right]$$

The formula approved by the Vermont Department, however, is as follows:

$$SP_L = \left[\frac{(O_P)(1.0054)}{1000(a_{\overline{n}|}+2)}\right]\left[\frac{a_{\overline{n}|} - a_{\overline{n}|.54}}{.0054 - i}\right] + 2(a_{\overline{n}|.54})$$

The examiners recommend that the Company correct the error in the single premium life factor formula in the *Dealer Guide* and furnish the corrected guides to the dealers, pointing out the correction.

(G) CREDIT LIFE AND DISABILITY INSURANCE TERMINATIONS

(1) Refund of Premiums

The examiners reviewed two hundred (200) files with credit life and/or credit disability insurance refunds due to termination of coverage. Of these two hundred (200) files, one hundred eight-one (181) contained enough information to calculate the refund amounts. The examiners' reasons for reviewing these files were (1) to verify that the refunds were calculated correctly using the formulas approved by the Vermont Department and (2) to verify that the refunds were actually made to the insured debtor or to the creditor to be credited to the debtors' account.

Out of the one hundred eighty-one (181) files reviewed by the examiners, six (6) files contained refunds that were calculated incorrectly. These six (6) files contained nine (9) incorrect refunds, which are detailed in Appendix III (C). Out of the nine (9) refunds with errors, six (6) refunds are cases in which the insured was due a larger amount than they received.

The Company contends that the calculated refund for certificate # 2083094 is correct stating: *We disagree with the examiners' refund amount. The examiner used the original premium of $664.16 to calculate the refund. We underinsured this certificate and endorsed the premium to $584.06 and based the insured's refund on the reduced premium amount.* However, the amount credited to the dealership's account was based

on the original premium matching the examiners' calculated refund. The dealership remitted the lesser amount (a difference of $226.06) to the insured.

The six (6) incorrect refunds detailed in Appendix III (C) represent violations of Regulation 84-1 § 3 (8) (a) & (b), which requires that the appropriate credit life and credit disability refund be paid to the debtor or credited to the debtors account in accordance with the method filed and approved by the Commissioner.

The examiners recommend that the Company refund the underpaid amounts, with interest, directly to the insured's lienholder to be applied to their loan, or in cases where the loan has been satisfied, directly to the insured. The Company stated that two (2) of the refunds (as indicated by an asterisk in Appendix III (C)) have since been made.

Appendix III (D) shows the results of the examiners' comparison of the Company's refund calculations with the checks that were issued in payment of the refunds. While the examiners requested copies of the refund checks for all two hundred (200) terminations in their sample, only seventy-two (72) legible copies of checks were furnished to date. The examiners recorded the effective date of the cancellations and compared those dates with the dates on the checks and then calculated the number of days elapsed between the cancellation date and the date on the refund checks.

It can be seen from Appendix III (D) that an inordinate amount of time elapsed in many cases between the date of cancellation and the date of the refund checks. There were twelve (12) cases out of the seventy-two (72), 16.7%, that were in excess of one (1) year. Four (4) of those were in excess of three (3) years. Twelve (12) of the cases were paid after the examiners requested proof of payment. It is likely that the refunds would have never been paid had the examiners not required such proof.

In view of these findings it is recommended that the Company conduct a complete audit of all refunds resulting from cancellations over the past five (5) years, and in every case where there is insufficient proof of payments, such payment should be made together with interest from the date of cancellation to the date of payment.

Failure to make appropriate refunds in cases of prepayment of indebtnesses constitutes violations of Vermont Regulation 84-1 § 3 (8) (a) and/or (b) and 8 V.S.A. § 4724 (12) (A).

(2) Use of Unapproved Refund Formula

UULIC used the rule of 78's refund formula to compute refunds on credit life and credit disability insurance on lease transactions. This formula was not filed with the Commissioner, in violation of Regulation 84-1 § 8 (1).