

**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

In Re:)
)
CMFG LIFE INSURANCE COMPANY) **Market Conduct Exam No. 1106-18-TGT**
(f/k/a CUNA MUTUAL INSURANCE)
SOCIETY) (NAIC # 62626))

ORDER OF THE DIRECTOR

NOW, on this 21st day of July, 2016, Director John M. Huff, after consideration and review of the market conduct examination report of CMFG Life Insurance Company f/k/a CUNA Mutual Insurance Society (NAIC #62626) (hereafter referred to as "CMFG"), report number 1106-18-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3)(a), and the Stipulation of Settlement and Voluntary Forfeiture ("Stipulation"), does hereby adopt such report as filed. After consideration and review of the Stipulation, report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director's findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §374.205.3(4), §374.280, and §374.046.15. RSMo (Cum. Supp. 2013), is in the public interest.

IT IS THEREFORE ORDERED that CMFG and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

IT IS FURTHER ORDERED that CMFG shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place CMFG in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that CMFG shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$81,500.00 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 21st day of July, 2016.



John M. Huff
Director

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SOCIETY) (NAIC # 62626))

STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter “the Division”) and CMGF Life Insurance Company f/k/a CUNA Mutual Insurance Society (NAIC #62626) (hereinafter “CMFG”), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, “the Department”), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri;

WHEREAS, CMFG has been granted a certificate of authority to transact the business of insurance in the State of Missouri;

WHEREAS, the Division conducted a Market Conduct Examination of CMFG and prepared report number 1106-18-TGT; and

WHEREAS, based on the Market Conduct Examination report of CMFG, the Division alleges that:

1. In several instances, CMFG through various compensation programs, paid compensation exceeding forty percent of the rates specified under § 385.050.2, RSMo.¹
2. CMFG failed to file affidavits with the Department for the years 2006-2011 in

violation of §384.070 and 20 CSR 600-2.100(10)(B).

3. In several instances, policy files did not contain information sufficient to determine the identity of the insurance producer in violation of §374.205.2 (2) and 20 CSR 100-8.040.

4. In one instance, an application found in file CL050 was not approved for use in the State of Missouri in violation of §385.045.

5. In numerous instances, CMFG failed to use the actuarial method to refund premium for disability policies in violation of §385.050.2, RSMo.

6. CMFG made an inaccurate statement and entry in its May 23, 2013 correspondence to the Department in violation of §374.210.1(2).

7. In several instances, CMFG failed to promptly pay refunds within thirty days of submission of proof of death in violation of §385.050.2.

8. In several instances, CMFG did not maintain its books, records, documents and other business records in a manner so that the claims handling and payment could be readily ascertained during the Market Conduct Examination in violation of §374.205.2(2) and 20 CSR 100-8.040(2) and 20 CSR 100-8.040(3)(B).

9. In several instances, CMFG did not maintain its policy record files to show clearly the policy period in violation of §374.205.2(2) and 20 CSR 100-8.040(3)(A).

10. In several instances, CMFG continued to charge joint borrowers premiums after they reached the policy's maximum age in violation of §§375.1007(1), (3) and (4).

11. In several instances, CMFG failed to acknowledge receipt of notification of the claim within 10 working days in violation of §375.1005, §375.1007(2), and 20 CSR 100-1.030(2).

12. CMFG failed to maintain records pursuant to the terms of its policy with its credit

1 All references, unless otherwise noted, are to Missouri Revised Statutes 2000, as amended.

unions in violation of §375.445.1(2).

13. In several instances, premium was improperly charged after the insured member's date of death in violation of §375.445.1(2).

14. In several instances, CMFG continued charging joint borrowers premium after the borrowers reached the maximum age for continuing coverage in violation of §375.445.1(2).

15. In several instances, CMFG, after auditing credit unions, failed to follow-up with the credit unions to ensure corrective measures recommended by the audit were taken and that refunds recommended by the audit were paid, in violation of §375.445.1(2).

16. CMFG failed to provide a timely response to some information requests in violation of §374.205.2(2) and 20 CSR 100-8.040(6).

WHEREAS, the Division and CMFG have agreed to resolve the issues raised in the Market Conduct Examination Report as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** CMFG agrees to take remedial action bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those remedial actions at all times, to reasonably assure that the errors noted in the above-referenced Market Conduct Examination Report do not recur. Such remedial actions shall include, but not be limited to, the following:

1. CMFG agrees to make a Credit Life and Disability Rate Filing with the Department utilizing the actuarial method referenced in §385.050.2 for refund calculations.

2. CMFG agrees to immediately cease its practice of charging premium after the date of death of an insured member.

3. CMFG agrees to issue refunds due to the estate or beneficiary of the deceased members whom were improperly charged premiums after their date of death, along with nine percent (9%) interest per annum that is required pursuant to §408.020 and 20 CSR 100-1.050(H) from the date of death of the insured until the date the claim was paid. A letter must be included with the payment, indicating that "as a result of a Missouri Market Conduct Examination," it was found that an additional payment was owed on the claims.

4. CMFG agrees to properly maintain and provide to the Department, upon request, books, records, documents, basic identifying information for each claimant, and other business records in compliance with §374.205.2(2) and 20 CSR 100-8.040(2) and (3)(B). CMFG additionally agrees to adjust its systems and file maintenance so as to be able to timely respond to a Department request as required by Missouri law.

5. CMFG agrees to regularly review and/or evaluate its credit unions to determine: (1) compliance with the insurance laws and regulations; (2) contracts are being administered in good faith and in accordance with the provision of the contracts (including the credit union's contract with CMFG); (3) claims are being properly and timely handled; (4) if its credit unions are maintaining their records and files pursuant to the terms of their contracts with CMFG; and (5) that its credit unions are escalating any compliance, record keeping, or contract issues that might impact multiple consumers and that those issues are properly handled. CMFG shall follow up with its credit unions

to determine if any problems discovered in its reviews or issues escalated to CMFG were resolved. If any problem or issues escalated impacted multiple consumers, CMFG shall take steps to, determine the root cause, take appropriate steps to address and fix the problem or issued escalated and avoid any reoccurrence. For the purposes of this provision, to “regularly review” shall mean to review at least once every four years and if problems are found conducting a follow up review within 12 months.

6. CMFG agrees to immediately cease its practice of charging joint borrowers premium after they have reached the policy’s maximum age.

C. **Compliance.** CMFG agrees to file documentation with the Division within 90 days of the entry of a final order of all remedial action taken to implement compliance with the terms of this Stipulation and to document the payment of restitution required by this Stipulation.

D. **Voluntary Forfeiture.** CMFG agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$81,500, such sum payable to the Missouri State School Fund, in accordance with §374.049, RSMo Supp. 2013 and §374.280, RSMo Supp. 2013.

E. **Other Penalties.** The Division agrees that it will not seek penalties against CMFG, other than those agreed to in this Stipulation, for the conduct found in Market Conduct Examination No. 1106-18-TGT.

F. **Non-Admission.** Nothing in this Stipulation shall be construed as an admission by CMFG, this Stipulation being part of a compromised settlement to resolve disputed factual and legal allegations arising out of the above-referenced Market Conduct Examination.

G. **Waivers.** CMFG, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity

for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the above-referenced Market Conduct Examination.

H. **Changes.** No changes to this Stipulation shall be effective unless made in writing and agreed to by all signatories to the Stipulation.


I. **Governing Law.** This Stipulation of Settlement and Voluntary Forfeiture shall be governed and construed in accordance with the laws of the State of Missouri.

J. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation of Settlement and Voluntary Forfeiture.

K. **Effect of Stipulation.** This Stipulation of Settlement and Voluntary Forfeiture shall not become effective until entry of a Final Order by the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereinafter the "Director") approving this Stipulation.

L. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation of Settlement and Voluntary Forfeiture and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 7/14/2016



Angela L. Nelson
Director, Division of Insurance
Market Regulation

DATED: 7/14/2016



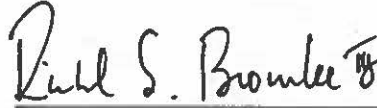
Stewart Freilich
Senior Regulatory Affairs Counsel
Division of Insurance Market Regulation

DATED: 7-11-16



Richard Trace
Vice President
CMFG Life Insurance Company
f/k/a CUNA Mutual Insurance Society

DATED: 7-13-2016



Richard S. Brownlee, III
CMFG Life Insurance Company
f/k/a CUNA Mutual Insurance Society

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
Life and Health Business of

CUNA Mutual Insurance Society
NAIC # 62626

MISSOURI EXAMINATION # 1106-18-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M50

July 14, 2016

5910 Mineral Point Road
P.O. Box 391
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FOREWORD

This is a *targeted* market conduct examination report of the CUNA Mutual Insurance Society (Company), NAIC Code #62626. This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP.

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “Company” or “CUNA” refers to CUNA Mutual Insurance Society;
- “CSR” refers to the Missouri Code of State Regulation;
- “DIFP” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “NAIC” refers to the National Association of Insurance Commissioners;
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified;
- “SP” refers to single premium policies;
- “MOB” refers to monthly outstanding balance policies.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, §§374.110, 374.190, 374.205, 375.445, 375.938, 375.1009, and 385. et seq., RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and DIFP regulations and to consider whether the Company's operations are consistent with the public interest. The primary period covered by this review is January 1, 2006, through October 24, 2011, unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination was a targeted examination involving the following business functions and lines of business:

Credit Contracts:

- Producer licensing
- Underwriting
- Claims handling
- Complaints

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews that applied a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Pursuant to §376.384, prompt payment reviews of health claims are subject to a five percent (5%) error rate. Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, the examiners only reviewed a sample of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

COMPANY PROFILE

The following company profile was provided to the examiners by the Company.

CUNA Mutual Insurance Society (“CMIS”) is a mutual life insurance company and as such is controlled by its policyholders. CUNA Mutual is duly authorized and licensed to do a life and health insurance business in all 50 states, the District of Columbia, and in foreign countries.

In 1990, CMIS and CUNA Mutual Life Insurance Company (“CMLIC”), formerly an Iowa mutual life insurance company with life and health and accident authority, entered into an Agreement of Permanent Affiliation. The affiliation helped both companies expand market share and gain efficiencies through shared operations. As a result of the affiliation, the two companies had identical Boards of Directors and senior management, and their operations and liabilities were largely shared.

The Boards of Directors of CMIS and CMLIC approved the merging of the two companies. Policyholders of CMIS and policyholders of CMLIC approved merging the two entities on April 20, 2007, and August 2, 2007, respectively. CMIS was domiciled in Wisconsin until May 3, 2007 when it changed to Iowa. The Iowa Division of Insurance announced its approval of the merger on September 6, 2007. Effective December 31, 2007, CMLIC merged with and into CMIS.

CMIS is the parent company for an extensive holding company system that includes life and health insurers, property and casualty insurers, and non-insurance operating companies. The subsidiary companies engage in diverse insurance, financial, and management product and services businesses serving various credit union industry market segments. Over the last five years, product offerings have expanded beyond the credit union market. Ownership and control of the company is vested in CMIS’ policyholders, whom are comprised primarily of credit union institutions, individual members of credit unions and other individual policyholders.

On June 2, 2011, the Board of Directors of CMIS, unanimously approved and adopted a Plan of Reorganization (the “Plan”). Pursuant to the terms of the Plan, CMIS proposes to reorganize into a mutual insurance holding company structure whereby CMIS would reorganize from a mutual life insurance company into a stock life insurance company that will be an indirect subsidiary of the newly formed mutual insurance holding company (the “Reorganization”).

The Annual Meeting of policyholders of CMIS is scheduled for September 7, 2011. At such meeting, CMIS’ policyholders will vote upon a proposal to approve and adopt the Plan. Following the Annual Meeting, the Iowa Commissioner of Insurance will hold a public hearing on the Plan. It is presently expected that the Plan will become effective on in the first quarter of 2012.

In connection with the Reorganization, CMIS' name will change to "CMFG Life Insurance Company" upon the effective date of the Plan.

The Company is licensed by the DIFP under Chapter 376, RSMo, to write Life and Health insurance as set forth in its Certificate of Authority.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of CUNA Mutual Insurance Society. The examiners found the following principal areas of concern:

- The examiners found seven instances where the Company paid compensation to a creditor for the sale of any policy, certificate, or other contract of credit insurance which exceeded forty percent of the rates specified under Section 385.070.
- The Company failed to annually file a compensation report with the Department for years 2006 – 2011.
- In seven instances, the Company's policy files did not contain information to determine the identity of the employee acting as the insurance producer.
- In one instance, the Company used a form not filed and approved for use by CUNA Mutual Insurance Society.
- In 25 instances, the Company paid a refund that was not the amount of refund required under the actuarial method.
- During the course of the exam, the Company made inaccurate statements to the Department.
- In 12 instances, the Company did not conduct a follow up with its credit union agents to confirm that refunds were paid in instances where audits indicated that premiums were charged to deceased members and premium refunds were due. As a result, the Company failed to promptly process and pay refunds owed to certificate holders.
- In eight instances, the Company did not maintain its books, records, documents and other business records in a manner so that the claims handling and payment could be readily ascertained during the market conduct examination.
- In five instances, the Company did not maintain its policy record files so as to show clearly the policy period, basis for rating and any imposition of additional exclusions from or exceptions to coverage.
- In two instances, joint borrowers were charged premiums after reaching the policy's maximum age, as the joint borrowers' ages were not recognized in the credit unions' systems.
- In three instances the Company failed to acknowledge the complaint within 10 working days, as required by 20 CSR 100-1.030(2).

Various non-compliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

EXAMINATION FINDINGS

I. PRODUCER LICENSING & COMPENSATION

A. Licensing of Producers and Producer Entities

Missouri law requires the company to sell its insurance products through individuals and entities which the DIFP licenses. The Missouri licensing process intends to protect the public interest by requiring sales persons to pass examinations in order to qualify for a license. This process seeks to ensure that the prospective producer is competent and trustworthy.

The examiners found no errors during this review.

B. Producer Compensation

The Company utilized various compensation programs to provide compensation to its credit union agents, including a Marketing Allowance, Forms Allowance, Lender Development Program and Administrative Reimbursement. In the following instances, the Company, through these programs, paid compensation to the identified creditor for the sale of any policy, certificate, or other contract of credit insurance which exceeded forty percent of the rates specified under Section 385.070.

1. 024-0234-7: In 2009, the credit union earned \$28,909 in the Company's Experience Refund Program ("ERP"). \$19,184 of the total amount was paid in 2009, while the remaining \$9,725 was placed in the stabilization reserve. This amount was then removed and provided to the Company in 2010. Although payment was deferred until 2010, this \$9,725 was compensation for the sale of credit insurance in 2009. As such, the Company violated the forty percent maximum for 2009. [$\$19,184$ (ERP) + $\$9,725$ (ERP) + $\$7,970$ (admin reimbursement for 2009)] / $\$171,228$ (premiums) = 64.78%
2. 024-0268-0: The Company violated the forty percent maximum for this credit union for 2008. In that year, the credit union earned \$87,023 in the ERP. \$39,142 of it was paid in 2008 and \$47,881 was placed in the stabilization reserve. \$33,221 was removed from the stabilization reserve in 2010 and paid to the credit union. [$\$39,142$ + $\$33,221$ + $\$46,128$ (admin reimbursement for 2008)] / $\$230,639$ = 51.4%
3. 024-0324-9: The Company violated the forty percent maximum for this credit union for 2006. In that year, the credit union earned \$69,180 in the ERP. \$24,781 of it was paid in 2006 and \$44,399 was placed in the stabilization reserve. \$15,231 was removed from the stabilization reserve in 2010 and paid to the credit union. [$\$24,781$ + $\$15,231$ + $\$52,437$ (admin reimbursement for 2006)] / $\$209,742$ = 44.1%

4. 024-0401-5: The Company violated the forty percent maximum for this credit union for 2006. In that year, the credit union earned \$48,038 in the ERP. \$16,246 of it was paid in 2006 and \$31,792 was placed in the stabilization reserve. \$17,213 was removed from the stabilization reserve in 2007 and paid to the credit union. [$\$16,246 + \$17,213 + \$19,984$ (admin reimbursement for 2006)] / $\$109,489 = 48.8\%$
5. 024-0497-6: The Company violated the forty percent maximum for this credit union for 2009. In that year, the credit union earned \$77,240 in the ERP. \$17,950 of it was paid in 2009 and \$59,290 was placed in the stabilization reserve. In 2010, the credit union earned \$68,911 in the ERP. \$19,552 of it was paid in 2010 and \$49,359 was placed in the stabilization reserve. \$63,438 was removed from the stabilization reserve in 2011, \$24,508 of which was paid to the credit union and \$38,930 was applied to the program deficit. [$\$17,950 + \$24,508 + \$68,277$ (admin reimbursement for 2009)] / $\$274,601 = 40.3\%$
6. 024-0736-8: The Company violated the forty percent maximum for this credit union for 2006. In that year, the credit union earned \$50,168 in the ERP. \$27,653 of it was paid in 2006 and \$22,515 was placed in the stabilization reserve. \$18,448 was removed from the stabilization reserve in 2007 and paid to the credit union. [$\$27,653 + \$18,448 + \$8,405$ (admin reimbursement for 2006)] / $\$84,051 = 64.8\%$
7. 024-0102-1: It appears the company made a revision to cell K11 of the spreadsheet for this credit union. A prior version of the spreadsheet provided to the Department shows the company placing \$9,291 into the stabilization reserve in 2010. This amount was not in the most recent version of the spreadsheet, although it appears it should be, as that amount is the difference between the Experience Refund earned and paid in 2010, and that amount was removed from the stabilization reserve in 2011. Assuming the Company placed the \$9,291 into the stabilization reserve in 2010, and then removed it in 2011, the Company violated the forty percent maximum in 2010. [$\$35,819$ (ERP split between 2010 and 2011) + $\$37,170$ (admin reimbursement for 2010)] / $\$171,228 = 42.6\%$

Reference: § 385.070.2, RSMo

II. UNDERWRITING AND RATING PRACTICES

This section of the report is designed to provide a review of the Company's underwriting and rating practices. These practices included the use of policy forms, adherence to underwriting guidelines, assessment of premium, and procedures to decline or terminate coverage. Examiners reviewed how the Company handled new and renewal policies to ensure that the Company underwrote and rated risks according to its own underwriting guidelines, filed rates, and Missouri statutes and regulations.

Because of the time and cost involved in reviewing each policy/underwriting file, the examiners utilize sampling techniques in conducting compliance testing. A policy/underwriting file is reviewed in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.930 – 375.948 and §375.445) and compared with the NAIC benchmark error rate of ten percent (10%). Error rates in excess of the NAIC benchmark error rate are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

The examiners also reviewed the Company's procedures, rules, and forms filed by or on behalf of the Company with the DIFP. The examiners randomly selected the policies for review from a listing furnished by the Company.

An error can include, but is not limited to, any miscalculation of the premium based on the information in the file, an improper acceptance or rejection of an application, the misapplication of the Company's underwriting guidelines, incomplete file information preventing the examiners from readily ascertaining the Company's rating and underwriting practices, and any other activity indicating a failure to comply with Missouri statutes and regulations.

A. Forms and Filings

The examiners reviewed the Company's policy and contract forms to determine its compliance with filing, approval, and content requirements to ensure that the contract language is not ambiguous or misleading and is adequate to protect those insured. Other required filings were also reviewed.

The examiners found the following errors during their review:

Companies writing credit insurance are required to annually file an affidavit with the Department that provides the amount of compensation paid to agents collectively in the preceding calendar year and states that compensation was not paid to any creditor agent that exceeded 40% of the rates specified in §385.070, RSMo, or of the rates subsequently established by the Director. Such affidavit is to be signed by a company officer and submitted to the Department before April 1 of each year.

The Company failed to file the affidavit with the Department for the years 2006 – 2011.

Reference: § 385.070, RSMo and 20 CSR 600-2.100(10)(B)

Missouri policy records must bear a clearly legible means by which an examiner can identify any insurance producer involved in the transaction. The following seven files did not contain information to determine the identity of the employee acting as the insurance producer.

- CD013
- CD439
- CD443
- CL012
- CL042
- CL047
- CL050

Reference: §374.205.2(2), RSMo, and 20 CSR 100-8.040

All policies, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements, and riders delivered or issued for delivery in Missouri must be filed with the Director prior to use. The application included in the following file was not approved for use by CUNA Mutual Insurance Society in the State of Missouri. The application included in the file names a different insurer and does not include the Company's maximum age requirements or provide the correct rate information.

- CL050

Reference: §385.045, RSMo

B. Underwriting and Rating

The examiners reviewed Single Premium (SP) and Monthly Outstanding Balance (MOB) coverages that were in-force during the examination time frame to determine the accuracy of rating and adherence to prescribed and acceptable underwriting criteria. The Company explained in their response to a request for MOB data sent February 1, 2012 that the record keeping practices of credit unions made providing complete MOB data problematic.

Refunds

The Company's refund calculations were reviewed to determine compliance with Section 385.050, RSMo. The examiners found the following errors during their review:

The Company submitted 53 disability records on the sample data submission that were coded as cancelled. The examiners' data test using the actuarial method for these records yielded the following results:

For 25 records, the refund calculated under the actuarial method was different than the refund calculated by the Company.

The Company indicated in a response to the examiners that it applied the Pro Rata method of refunds from January 1, 2006, through October, 31, 2008. The proper refund

methodology during that time period was the Actuarial Method, as found in Section 385.050.

CMG_ID	Refund Issued	Refund Calculated	Underpayment/(Overpayment)
SPCD068	\$6.02	\$0.33	(\$5.69)
SPCD087	\$17.16	\$2.32	(\$14.84)
SPCD123	\$163.90	\$88.59	(\$75.31)
SPCD140	\$56.15	\$21.25	(\$34.90)
SPCD141	\$80.64	\$45.77	(\$34.87)
SPCD146	\$41.60	\$18.31	(\$23.29)
SPCD148	\$34.30	\$6.49	(\$27.81)
SPCD151	\$84.17	\$50.05	(\$34.12)
SPCD153	\$17.09	\$4.79	(\$12.30)
SPCD154	\$39.74	\$8.59	(\$31.15)
SPCD160	\$53.40	\$25.63	(\$27.77)
SPCD189	\$95.46	\$69.66	(\$25.80)
SPCD194	\$124.39	\$100.85	(\$23.54)
SPCD211	\$7.26	\$2.79	(\$4.47)
SPCD214	\$85.99	\$66.57	(\$19.42)
SPCD267	\$3.44	\$0.53	(\$2.91)
SPCD276	\$111.01	\$81.00	(\$30.01)
SPCD436	\$121.92	\$45.98	(\$75.94)
SPCD513	\$131.99	\$89.19	(\$42.80)
SPCD533	\$24.82	\$7.94	(\$16.88)
SPCD541	\$142.74	\$104.17	(\$38.57)
SPCD603	\$136.57	\$88.59	(\$47.98)
SPCD608	\$137.31	\$96.49	(\$40.82)
SPCD610	\$93.79	\$45.63	(\$48.16)
SPCD245	\$73.92	\$66.88	(\$7.04)

Reference: §§385.050.2, and 408.020, RSMo.

The Company uses an audit program known as the Credit Insurance Compliance Program (CICP) to assess current policy holder practices and provide instruction on the administration of its credit life and credit disability insurance products. Credit unions participate in either web-based or on-site assessments. In materials explaining how the CICP audit process works, the Company provided false statements to the Department, as set out below.

In a request dated 12/12/2012, the examiners requested copies of the most recent Credit Insurance Compliance Program (CICP) files for 15 credit union policyholders. The

Company responded on December 19, 2012 and provided the latest CICP audits for the 15 credit union policyholders. Five of the audits were conducted as on-site audits and ten were web-based audits.

In a request dated 1/9/2013, the examiners asked follow-up questions regarding the CICP audits:

1. How does the Company determine whether a particular credit union will take part in a web-based or in-depth assessment in a particular year?
 - a. Is every credit union subject to an in-depth assessment?
 - b. With what frequency does the Company conduct in-depth assessments?
2. Does the Company utilize a follow-up review process to determine whether a credit union has implemented the required actions set forth in the CICP audit reports? If so, please provide a description of such process in detail.
3. In order to give us a better idea as to the audit process in general, please provide the following information for Credit Union 02404109:
 - a. All documents that were reviewed for the credit union's latest CICP audit
 - b. All documents related to any follow-up review of Credit Union 02404109, if one was conducted after the latest CICP audit

The Company responded on 1/18/2013 with an in-depth description of the CICP process. In its response, the Company stated that "The Program contains a procedure if the [credit union's] response is unacceptable which in effect, is an escalation process to appropriately address the matter." The Company provided no further detail of any follow-up or escalation process and did not provide any of the documents requested in number 3.

In a request dated March 21, 2013, the examiners asked the Company to provide all CICP audit reports that occurred during the examination period. The Company provided the reports in its response dated April 3, 2013. Each audit file included a closing letter from the Risk Management Consultant to Credit Union Protection Risk Management and Credit Insurance Underwriting. The letters all state that the credit union responses "indicated that they are addressing the various issues identified", and then direct the file to be closed. There is no discussion of any follow up to be conducted with the credit union.

In a request dated 5/2/2013, the examiners asked for additional information regarding the CICP audits. Among other things, the examiners asked what type of follow-up the Company conducts with its credit union policyholder agents and whether, in situations where a refund of premium may be owed, the Company merely relies upon the credit union's response to the audit report to determine that refunds were ultimately paid. In its response, dated 5/23/2013, the Company stated, in part, that it "does not merely rely on the credit union's response to the CICP report because corrective action measures are referred to the appropriate business unit within the Company to directly engage with the credit union how the measure is to be resolved. As noted above, if the matter was not receiving sufficient attention, it would be escalated involving product and sales staff to

meet with the account to have it resolved.”

In a request dated 12/16/13, the examiners identified seven credit unions where audit materials seemed to indicate that premiums were charged to some deceased members. The examiners requested the Company provide the premium records for the deceased members and evidence that the refunds were ultimately paid.

In its response, dated 1/15/14, the Company stated that it did not find any instances where credit union premium was charged on a loan after the date of an insured member’s death in two of the seven credit unions. In the remaining five credit unions, there were eight claims, encompassing twelve loans, where premium was improperly charged after the date of death in violation of §375.445.1(2). In all 12 instances, identified below, the Company failed to send these findings on for further review and/or initiate a refund.

Credit Union	Claim Number	Loan #	Date of Death	Loan Pay Off Date	Premium after Date of Death	Loan Interest Rate	Premium w/Loan Interest	*Total Refund
02403249	207627708902	4	8/1/2007	10/12/2007	14.31	17.99	14.82	23.47
02403249	210659744601	2	5/4/2010	6/8/2010	35.09	5.70	35.28	47.12
02405234	210664737601	4	9/21/2010	11/3/2010	18.01	4.69	18.11	23.56
02404109	211673881201	61	8/24/2011	12/9/2011	23.64	7.25	24.14	29.40
02404109	211673881201	25	8/24/2011	12/9/2011	2.66	14.75	2.78	3.39
02404109	208635244301	31	2/19/2008	3/18/2008	15.00	11.00	15.13	23.21
02404206	211672001101	1	5/31/2011	7/7/2011	10.31	8.99	10.40	12.89
02407368	207622375101	G	12/25/2006	2/6/2007	224.49	8.75	226.80	371.47
02407368	210666379601	I	11/30/2010	3/3/2011	9.55	9.68	9.79	12.57
02407368	210666379601	E	11/30/2010	3/3/2011	8.10	5.27	8.21	10.54
02407368	210666379601	F	11/30/2010	3/3/2011	46.52	8.10	47.48	60.96
02407368	210666379601	C	11/30/2010	3/3/2011	17.84	11.90	18.38	23.60

The Company is currently in the process of refunding the premium collected, plus interest owed, based upon 20 CSR 100-1.050(H).

The Company’s response to the Department dated May 23, 2013 contained inaccurate statements. It appears that the Company consistently relied upon the credit unions’ responses to the audit reports to determine that refunds were paid. This is also reflected in the closing letters found in the CICP audit files that merely indicate that the credit union expressed that it was going to take corrective action and do not indicate any follow-up from the Company.

Reference: § 374.210.1(2), RSMo

The following chart provides the date identified on each of the CICP audits for the above credit unions, along with the date that the Company stated that it was processing the refunds. In each instance, it has taken the Company over a year to begin processing and paying the refund. As such, the Company failed to promptly pay these refunds.

Credit Union	Claim Number	Date of CICP Audit Report	Date Refund Initiated
02403249	207627708902	3/1/2012	1/15/2014
02403249	210659744601	3/1/2012	1/15/2014
02405234	210664737601	1/25/2012	1/15/2014
02404109	211673881201	7/26/2012	1/15/2014
02404109	211673881201	7/26/2012	1/15/2014
02404109	208635244301	7/26/2012	1/15/2014
Credit Union	Claim Number	Date of CICP Audit Report	Date Refund Initiated
02404206	211672001101	7/12/2012	1/15/2014
02407368	207622375101	2/16/2012	1/15/2014
02407368	210666379601	2/16/2012	1/15/2014
02407368	210666379601	2/16/2012	1/15/2014
02407368	210666379601	2/16/2012	1/15/2014
02407368	210666379601	2/16/2012	1/15/2014

Reference: § 385.050.2 RSMo

III. CLAIMS HANDLING

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed how the Company handled claims to determine the timeliness of handling, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, the examiners reviewed a statistical sampling of the claims processed. The examiners requested a listing of claims paid and claims closed without payment during the examination period for the line of business under review. The review consisted of Missouri claims selected from a listing furnished by the Company with a date of closing from January 1, 2005, through April 21, 2011.

A claim file is reviewed in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with laws that apply a general business practice standard (e.g., §§375.1000 – 375.1018 and §375.445) and compared with the NAIC benchmark error rate of seven percent (7%). When testing health claims for compliance with the prompt payment laws (§§376.383 – 375.384) an error rate of five percent (5%) is applied. Error rates in excess of the NAIC [or statutory] benchmark error rate[s] are presumed to indicate a general business practice contrary to the law. Errors indicating a failure to comply with laws that do not apply the general business practice standard are separately noted as errors and are not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim.
- An unreasonable delay in the investigation of a claim.
- An unreasonable delay in the payment or denial of a claim.
- A failure to calculate claim benefits correctly.
- A failure to comply with Missouri law regarding claim settlement practices.

The examiners reviewed the claim files for timeliness. In determining timeliness, examiners looked at the duration of time the Company used to acknowledge the receipt of the claim, the time for investigation of the claim, and the time to make payment or provide a written denial.

Missouri statutes require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials must be given to the claimant in writing, and the Company must maintain a copy in its claim files.

A. Claims Time Studies

To test for compliance with timeliness standards, the examiners reviewed claim records and calculated the amount of time taken by the Company for claims processing. They reviewed the Company's claims processing practices relating to (1) the acknowledgement of receipt of notification of claims; (2) the investigation of claims; and (3) the payment of claims or the providing of an explanation for the denial of claims.

DIFP regulations require companies to abide by the following parameters for claims processing:

- Acknowledgement of the notification of a claim must be made within 10 working days.
- Completion of the investigation of a claim must be made within thirty 30 calendar days after notification of the claim. If more time is needed, the Company must notify the claimant and send follow-up letters every 45 days.
- Payment or denial of a claim must be made within fifteen 15 working days after investigation of the claim is complete.

The examiners discovered no issues or concerns.

B. Unfair Settlement and General Handling Practices

In addition to the Claim Time Studies, examiners reviewed the Company's claim handling processes to determine compliance with contract provisions and adherence to unfair claims statutes and regulations. Whenever a claim file reflected that the Company failed to meet these standards, the examiners cited the company for noncompliance.

The examiners noted the following exceptions during their review.

The Company did not maintain its books, records, documents and other business records in a manner so that the claims handling and payment could be readily ascertained during the market conduct examination. The following claim files did not contain enrollment forms, loan note and disclosure, and transactional history.

- CL063
- CL284
- CL853
- CL973

The following claim files did not contain enrollment forms and the loan note and disclosure.

- CL185
- CL383

The following file did not contain the transactional history for the claim.

- CL333

The following file did not contain a copy of the original enrollment form.

- CL678

The Company responded that claim files CL063, CL284, CL853, CL383, CL333 and CL678 were past the retention deadline required under Missouri law. However, the above files fell within the six-year record retention period imposed by CUNA on its credit union agents. The Company provided no explanation as to why the applicable credit unions were unable to produce the full claim file during the active retention period.

Reference: § 374.205.2(2), RSMo and 20 CSR 100-8.040

The Company did not maintain its policy record files so as to show clearly the policy period, basis for rating and any imposition of additional exclusions from or exceptions to coverage. The following single premium policy files did not contain the actual, completed application for each contract.

- SPCL041
- SPCL061
- SPCL074
- SPCL078
- SPCL092

The Company responded that the above claims files were outside of the record retention requirements required under Missouri law. However, these files fell within the six-year record retention period imposed by CUNA on its credit union agents. The Company

provided no explanation as to why the applicable credit unions were unable to produce the full policy files during the active retention period.

Reference: § 374.205.2(2), RSMo and 20 CSR 100-8.040

Field Size: 937

Sample Size: 47

Number of Errors: 2

Error Ratio: 4.3%

The company had 937 life claims during the examination period. The company provided the date of birth for 47 claims that were over the maximum age. The company did not refund premiums paid by insureds when an insured reached the maximum age.

In the following two claim files, joint borrowers were charged premiums after reaching the policy's maximum age, as the credit union's system could not recognize joint borrowers' birthdays.

- CL284
- CL321

According to the Company, 19 data processors served 99 credit union policyholders in Missouri during the period of the examination. The joint borrower age issue was corrected in 18 of the 19 data processors by July, 2009. The Company verified an acceptable code change on September 23, 2013 with the final data processor, and the Company claimed it is now working with that data processor to initiate the system changes in eight credit unions.

The Company, as a course of business, did not attempt to identify joint borrowers who were issued coverage and/or charged premiums after reaching the maximum issue age. The Company continued to charge premium to those joint borrowers who had reached the maximum age during the time periods set out above.

As such, the Company did not abide by the age limits set in its policy forms and misrepresented to insureds relevant facts or policy provisions relating to coverages at issue.

Reference: § 375.1007(1), (3), and (4), RSMo

IV. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the Company.

The examiners verified the company's complaint registry, dated January 1, 2005 through December 31, 2008. The registry contained a total of 20 complaints. They reviewed all 14 that went through DIFP and all 6 that went directly to the Company.

The review consisted of a review of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by §375.936(3), RSMo, and 20 CSR 300-2.200(3)(D).

Field Size: 20
Sample Size: 20
Number of Errors: 3
Error Ratio: 15%

The examiners noted the following exceptions during their review:

The complaint log revealed that the following claims were not acknowledged within 10 working days, as required by 20 CSR 100-1.030(2).

Claim Number	Date Received	Date Acknowledged	Days Elapsed
2076331149	04/09/2008	04/25/2008	13
2076254408	06/21/2007	07/10/2007	13
2056084112 & 2056093320	07/09/2006	07/28/2006	15

Reference: §375.1007(2), RSMo and 20 CSR 100-1.030(2)

V. ADMINISTRATION OF CREDIT LIFE AND CREDIT DISABILITY PRODUCTS

CUNA Mutual provides Monthly Outstanding Balance credit life and credit disability products to credit union members through group credit insurance policies issued to credit unions. These group products are administered by each credit union on behalf of CUNA Mutual according to a contract CUNA has with each credit union. As such, each credit union acts as an agent for CUNA.

As part of their contractual agreement with CUNA, each credit union maintains transactional records (i.e. amount of premium, loan term, effective date of coverage, etc.) on the credit union's data processing system. Although CUNA works with the credit union data processors, the company states that it does not control the data processing environment. However, CUNA's agreements with its credit unions require the credit unions to "keep appropriate records in accordance with all applicable federal

and state laws and regulations.” Even under this structure, and CUNA’s delegation of these functions, CUNA is ultimately responsible for maintaining and providing records to the Department upon request and in a timely manner, as well as ensuring the credit union’s actions are appropriate.

During the course of the exam, the examiners discovered numerous failures related to the Company’s system of administering its credit union products through credit unions it contracts with. The following is a summary of some of those failures.

Record Keeping

During the course of the exam, CUNA indicated that it had concerns with its ability to provide the requested data regarding its Monthly Outstanding Balance products, as the credit unions’ reporting formats and capabilities varied on a credit union by credit union basis. Initially, CUNA identified two of the 10 credit unions selected by the examiners as having system constraints impacting its data production ability.

In order to accommodate these constraints, the examiners amended the data request to reflect the minimum of data fields needed to conduct a review. In a follow-up with the Department, CUNA later identified four credit unions that had limited capabilities to produce information in the prescribed format.

In addition, during the course of the exam, the examiners found that CUNA did not maintain its books, records, documents and other business records in a manner that the claims handling and payment could be readily ascertained during the market conduct examination. Specifically, some claim files did not contain enrollment forms, loan note and disclosure, transactional history, or a completed application.

CUNA responded that the claim files were outside of the record retention requirements required under Missouri law. However, the claim files were still within the six-year record retention period imposed by CUNA on its credit union agents. The Company provided no explanation as to why the applicable credit unions were unable to produce the full policy files during the active retention period.

Maximum Age

CUNA requires its credit union agents to collect the date of birth for both the borrower and joint borrower to determine the members’ eligibility for coverage. The User Guide also instructs credit unions to perform data processor file maintenance when a borrower or joint borrower reaches the maximum age. The User Guide goes on to note that it is “essential” that the credit union no longer collect premium from members past the maximum age.

In two claim files reviewed by the examiners, the joint borrowers were charged premiums after reaching the policy’s maximum age. This occurred because the credit union’s system could not recognize joint borrowers’ birthdays. According to CUNA, 19

data processors served 99 credit union policyholders in Missouri during the period of the examination. The joint borrower age issue was corrected in 18 of the 19 data processors by July, 2009. CUNA verified an acceptable code change on September 23, 2013 with the final data processor, and CUNA claims it is now working with that data processor to initiate the system changes in eight credit unions.

CUNA, as a course of business, did not attempt to identify joint borrowers who were issued coverage and/or charged premiums after reaching the maximum issue age. The Company continued to charge premium to those joint borrowers who reached the maximum age during the time periods set out above. As such, the Company did not abide by the age limits set in its policy forms and misrepresented to insureds relevant facts or policy provisions relating to coverages at issue.

In addition, CUNA relies on its credit union agents to review transactional details and report back to the Company when a claim is filed and there are coverage issues. When CUNA has questions about coverage, such as whether premium ceased after a member reached the maximum age in the policy, it contacts the credit union to validate. In many of the claim files reviewed by the examiners where there was a question as to the maximum age, it appeared that CUNA merely relied upon the word of the credit union as to whether premiums had stopped. Nearly all of the claim files provided to the examiners lacked information needed to verify the statement of the credit union agent, such as premium billing records.

Credit Union Audits and Oversight

CUNA uses an audit program known as the Credit Insurance Compliance Program (CICP) to assess current credit union practices and provide instruction on the administration of its credit life and credit disability insurance products. Credit unions participate in either web-based or on-site assessments, which are to be completed every two years.

While reviews were conducted and corrective measures were recommended to the credit unions, it appears that CUNA did not follow up to determine if the corrective measures were implemented. Each audit file provided to the Department included a closing letter from the Risk Management Consultant to Credit Union Protection Risk Management and Credit Insurance Underwriting. The letters all state that the credit union responses “indicated that they are addressing the various issues identified”, and then direct the file to be closed. There is no discussion or evidence of any follow up to be conducted with the credit unions.

During the exam, the examiners identified seven credit unions where audit materials seemed to indicate that premiums were charged to some deceased members. The examiners requested CUNA provide the premium records for the deceased members and evidence that the refunds were ultimately paid. In its response to the examiners, CUNA stated that it did not find any instances where credit union premium was charged on a loan after the date of an insured member’s death in two of the seven credit unions. In the

remaining five credit unions, there were eight claims, encompassing twelve loans, where premium was charged after the date of death. In all 12 instances where a refund was owed, CUNA failed to send these findings on for further review and/or initiate a refund.

In addition, the Company requires all credit unions to cooperate with CUNA’s “efforts to comply with its insurance oversight responsibilities and with insurance regulators’ market conduct exams and audit/review requirements.” However, CUNA did not provide the specific files reviewed during the on-site evaluations and indicated that to do so would be “very disruptive to the policyholder.” In fact, when the examiners asked to review the files that were found to be in error during the onsite reviews, CUNA could not produce them or recreate the files because the Company did not maintain them as a part of its audit work papers. After the audit was complete, the Company’s process was to give all of the files back to the credit union. This made ensuring future compliance difficult to ascertain, as CUNA did not maintain the records from the onsite reviews that served as the basis of its findings.

Reference: § 375.445.1(2)

VI. CRITICISMS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to criticisms. Missouri law requires companies to respond to criticisms and formal requests within 10 calendar days. Please note that in the event an extension was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within that time period, the response was not considered timely.

A. Criticism Time Study

<u>Calendar Days</u>	<u>Number of Criticisms</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	13	100%

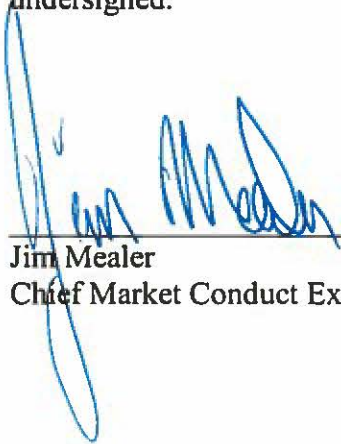
B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	30	97%
Received outside time-limit, <u>incl. any extensions</u>	<u>1</u>	<u>3%</u>
Total	31	100%

Reference: §374.205.2(2), RSMo. and 20 CSR 100-8.040

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of CUNA Mutual Insurance Society (NAIC #62626), Examination Number 1106-18-TGT. This examination was conducted by Martha Long, James Morris, Robert Reichart, Jennifer Haile, and C. Gary Claunch. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated March 3, 2015. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.



Jim Mealer
Chief Market Conduct Examiner

7/18/16

Date