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

***In Re*:**	)	
	)	
AMERICAN FEDERATED INSURANCE COMPANY (NAIC #10170)	)	**Market Conduct Exam No. 1301-01-TGT**
	)	
AMERICAN FEDERATED LIFE INSURANCE COMPANY (NAIC #98736)	)	**Market Conduct Exam No. 1404-08-TGT**

ORDER OF THE DIRECTOR

NOW, on this 15 day of December, 2016, Director John M. Huff, after consideration and review of the Stipulation of Settlement and Voluntary Forfeiture (hereinafter "Stipulation") entered into by the Division of Insurance Market Regulation (hereinafter "Division") and American Federated Insurance Company (NAIC #10170) (hereinafter "American Federated"), and American Federated Life Insurance Company (NAIC #98736) (hereinafter "American Federated Life"), relating to the market conduct examinations set out in the caption above, does hereby issue the following orders:

This order, issued pursuant to §374.205.2(5) RSMo 2000, §374.280 RSMo (Cum. Supp. 2013), and §374.046.15. RSMo (Cum. Supp. 2013), is in the public interest.

IT IS THEREFORE ORDERED that American Federated, American Federated Life 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 American Federated and American Federated Life shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place each company in full compliance with the requirements in

the Stipulation and to maintain those corrective actions at all times.

IT IS FURTHER ORDERED that American Federated shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $45,000 payable to the Missouri State School Fund.

IT IS FURTHER ORDERED that American Federated Life shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of $45,000 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 15th day of December, 2016.

John M. Huff
Director

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

In Re:	)	
	)	
AMERICAN FEDERATED INSURANCE COMPANY (NAIC #10170)	)	**Market Conduct Exam No. 1301-01-TGT**
	)	
AMERICAN FEDERATED LIFE INSURANCE COMPANY (NAIC #98736)	)	**Market Conduct Exam No. 1404-08-TGT**
	)	

STIPULATION OF SETTLEMENT AND VOLUNTARY FORFEITURE

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter "the Division"), American Federated Insurance Company (NAIC #10170) (hereinafter "American Federated") and American Federated Life Insurance Company (NAIC #98736) (hereinafter "American Federated Life") (collectively "the Companies"), 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, American Federated and American Federated Life are domiciled in the state of Mississippi and have been granted certificates of authority to transact the business of insurance in the State of Missouri since 2006.

WHEREAS, American Federated issue credit property and credit involuntary unemployment insurance (hereinafter "IUI") to Missouri residents. American Federated Life issues credit life and credit disability to Missouri residents.

WHEREAS, the credit property and credit involuntary unemployment insurance is sold exclusively through an affiliate, Tower Loan of Missouri, LLC (hereinafter "Tower Loan"); Tower Loan is a business entity producer licensed by the Department. Tower Loan is also a consumer finance company engaged in the origination and servicing of consumer loan transactions in Missouri. Credit insurance products are offered through licensed agents in association with these consumer loan transactions.

WHEREAS, American Federated, American Federated Life and Tower Loan are

subsidiaries of First Tower LLC (hereinafter "First Tower"), a non-operating holding company.

WHEREAS, the Division conducted a Market Conduct Examination of American Federated and American Federated Life.

WHEREAS, based on the Market Conduct Examination of American Federated the Division alleges:

1. American Federated made inaccurate and incomplete statements in testimony, documents and exhibits used in the course of an examination in violation of §374.210.1 (2)[1] by:

   a. Stating that questions submitted about claims submitted to Tower Loan are referred directly to American Federated;

   b. Stating that prior to June 15, 2012, Tower Loan was not compensated for the American Federated policies they sold;

   c. Providing the Division with copies of Tower Loan credit applications that were covered up without advising the Division that the documents were altered.

2. On July 16, 2014, American Federated refused market conduct examiners timely, convenient and free access to insurance records housed at the offices of Tower Loan, thereby failing to facilitate the examination in violation of §374.205.2 (2).

3. American Federated made inaccurate and incomplete statements upon oath or affirmation in a subpoena conference used in a proceeding in violation of §374.210.1 (1) by having a representative witness state in a subpoena conference that he was unaware that anyone told two Tower Loan employees not to provide the examiners with access to insurance records housed at Tower Loan.

4. American Federated failed to provide all records requested during the examination in violation of §374.205.2 (2).

5. American Federated violated §375.445.1 (2) by:

   a. Paying less than what was owed, per its policy provisions on some credit IUI claims.

6. American Federated misrepresented the benefits, advantages, conditions and terms of policies in violation of §375.934 and §375.936 (6) (a) by:

   a. Misrepresenting the total amount of payments American Federated will make for a credit IUI claim;

---

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

b. Providing an incorrect expiration date where the insured chose to extend their first payment due date on the underlying loan; and

c. Having its licensed producers ask applicants two questions regarding eligibility for credit IUI when the two questions do not cover all the requirements for eligibility.

7. American Federated failed to maintain a complete record of all complaints it received in violation of §375.934 and §375.936 (3).

8. American Federated made claim payments to an insured or beneficiary without indicating the coverage under which each payment was being made, in violation of §375.1005 and §375.1007 (10).

9. American Federated failed to promptly provide a reasonable and accurate explanation for the basis for claim denials, in violation of § 345.1005 and § 375.1007 (12).

WHEREAS, based on the Market Conduct Examination of American Federated Life, the Division alleges:

1. American Federated Life made inaccurate and incomplete statements in testimony, documents and exhibits used in the course of an examination in violation of §374.210.1 (2) by:

a. Not indicating to the Division that its response to a request for full, complete and accurate copies of underwriting and loan files was incomplete;

b. Not indicating to the Division that its response to a request for full, complete and accurate copies of claim files was incomplete.

2. On July 16, 2014, American Federated Life refused market conduct examiners timely, convenient and free access to insurance records housed at the offices of Tower Loan, thereby failing to facilitate the examination in violation of §374.205.2 (2).

3. American Federated Life made inaccurate and incomplete statements upon oath or affirmation in a subpoena conference used in a proceeding in violation of §374.210.1 (1) by having a representative witness state in a subpoena conference that he was unaware that anyone told two Tower Loan employees not to provide the examiners with access to insurance records housed at Tower Loan.

4. American Federated Life misrepresented the benefits, advantages, conditions and terms of policies in violation of §375.934 and §375.936 (6) (a) by providing pre-existing

condition language in claim denial letters that was inconsistent with the applicable pre-existing condition language in its policies.

5. American Federated Life failed to provide all records requested during the examination in violation of §374.205.2 (2).

6. American Federated Life failed to maintain certain policy records for the duration of the policy term plus two calendar years in violation of §374.205.2 (2).

7. American Federated Life failed to maintain a complete record of all complaints it received in violation of §375.934 and §375.936 (3).

8. American Federated Life did not attempt to effectuate a prompt, fair and equitable settlement of claims in violation of §375.1005 and §375.1007 (4) by denying claims for pre-existing conditions based on the date the symptoms first appeared rather than the date the insured sought treatment or was advised to seek treatment, the standard set forth in the policy.

9. American Federated Life did not notify some insureds of its decision to deny coverage with a reasonable and accurate explanation of such action in writing in violation of §375.1005 and §375.1007 (12).

WHEREAS, the Division, American Federated and American Federated Life have agreed to resolve the issues raised in the Market Conduct Examinations through a voluntary settlement 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.** American Federated and American Federated Life agree to take remedial action bringing each into compliance with the statutes and regulations of Missouri and agree to maintain those remedial actions at all times. Such remedial actions shall include, but not be limited to, the following:

1. American Federated and American Federated Life agree to provide complete, truthful and accurate information to the Director, the Department or to any of its Divisions in connection with any future examinations, investigations, data calls or requests for information.

2. American Federated and American Federated Life agree that for any future

examination, they will facilitate the examination by providing to the Division's examiners timely, convenient and free access at all reasonable hours to all insurance records maintained by the Companies, whether those records are maintained at the offices of American Federated or American Federated Life or maintained at any other location, including at the offices of Tower Loan, subject to applicable federal and state financial privacy laws.

3. American Federated agrees that upon receiving a written request for cancellation for credit IUI policies from Tower Loan, they will cancel the policy within thirty (30) days and will return all unearned premium to the insured within thirty (30) days. American Federated further agrees that upon receiving a request from an insured to cancel the insured's credit IUI policy, American Federated will cancel the policy within thirty (30) days and will return all unearned premium to the insured within thirty (30) days.

4. American Federated agrees that in offering credit IUI coverage, it will ensure that the Companies or their producers, prior to sale a) notify the applicant of all eligibility requirements, b) accurately represent to applicants the total amount of payments that the Companies will make for a credit IUI claim, and c) accurately represent the expiration date for credit IUI policies in which the insured chooses to extend their first payment due date on the underlying loan.

5. American Federated and American Federated Life agree that they will maintain a complete record of all complaints the Companies receive for a period of not less than three years.

6. American Federated and American Federated Life agree to advise first party claimants of the acceptance of their claims and of all pertinent benefits, coverages and other provisions of the policy under which the claim was presented.

7. American Federated and American Federated Life agree that their denial letters to claimants based upon pre-existing condition will accurately reflect the Companies policy language provisions regarding pre-existing condition.

8. American Federated and American Federated Life agree to review all claims denied based on pre-existing condition since January 1, 2011 to determine if the claim was improperly denied based upon the applicable policy language in effect at the time of the claim. In the event that a claim was improperly denied, the Companies will re-adjudicate the claim and pay the claim based upon the terms of the policy language in effect at the time of the claim. Payment of the claim will include payment of 9% interest as provided in §408.020. A letter must

be included with the payment, indicating that "as a result of a Missouri Market Conduct examination," it was found that additional monies were owed on the claim. If the Companies are unable to locate an insured entitled to payment under this Paragraph, after making a good faith effort to locate the insured, the funds shall be turned over to the Missouri Treasurer's Office as unclaimed property.

9. American Federated and American Federated Life agree that they will maintain all policy records for the duration of the policy term plus two calendar years.

10. American Federated and American Federated Life agree that all claim denials will include a reasonable and accurate explanation of the basis for the denial.

C. **Compliance.** American Federated and American Federated Life agree 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 any restitution required by this Stipulation.

D. **Voluntary Forfeiture.** American Federated agrees, voluntarily and knowingly, to surrender and forfeit the sum of $45,000, such sum payable to the Missouri State School Fund in accordance with §374.280. American Federated Life agrees, voluntarily and knowingly, to surrender and forfeit the sum of $45,000, such sum payable to the Missouri State School Fund in accordance with §374.280.

E. **Other Penalties.** The Division agrees that it will not seek penalties against American Federated and American Federated Life other than those agreed to in this Stipulation, for the conduct found in Market Conduct Examination Numbers 1301-01-TGT, and 1404-08-TGT.

F. **Waivers.** American Federated and American Federated Life, 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 Examinations.

G. **Non-Admission.** American Federated and American Federated Life deny they have violated any Missouri law or regulation and are of the position that this Stipulation of Settlement and Voluntary Forfeiture is a compromise of disputed factual and legal allegations, and that payment of a forfeiture or reimbursement is not to be construed as an admission of

liability, but merely to resolve the disputes and avoid litigation.

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 on behalf of the Division, American Federated and American Federated Life, respectively.

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: 12/14/2016

Angela L. Nelson
Director, Division of Insurance
Market Regulation

DATED: 12/12/16

Stewart Freilich
Senior Regulatory Affairs Counsel
Division of Insurance Market Regulation

DATED: 12/7/6

Leland Martin
President
American Federated Insurance Company

DATED: 12/7/16

Leland Martin
President
American Federated Life Insurance Company

DATED: 12/9/16

Richard S. Brownlee

Richard Brownlee
Attorney at Law
Counsel for American Federated
Insurance Company and American
Federated Life Insurance Company