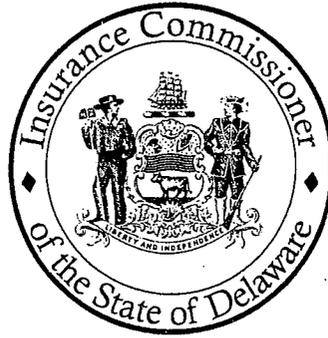


STATE OF DELAWARE
MARKET CONDUCT EXAMINATION
OF
GLOBE LIFE INSURANCE COMPANY

as of

July 7, 2005

Matthew Denn
Insurance Commissioner



Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904-2465
(302) 674-7300
(302) 739-5280 fax

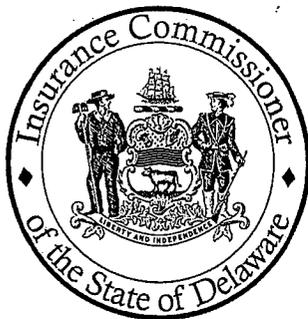
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of JULY 7, 2005 of the

GLOBE LIFE & ACCIDENT INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Antoinette Handy*

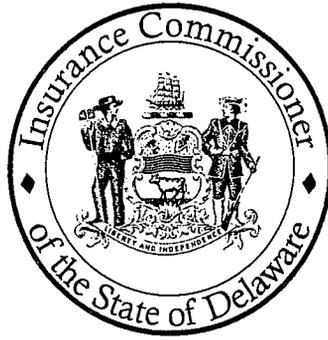
DATE: 26 APRIL 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 26TH DAY OF APRIL 2006.

Matthew Denn
Insurance Commissioner

Matthew Denn
Insurance Commissioner



Department of Insurance
841 Silver Lake Blvd.
Dover, DE 19904-2465
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REPORT ON MARKET CONDUCT EXAMINATION
OF THE
GLOBE LIFE & ACCIDENT INSURANCE COMPANY
AS OF
JULY 7, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink that reads "Matt Denn".

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 26TH day of APRIL, 2006.

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SALUTATION

November 8, 2005

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn,

In compliance with the instructions contained in Certificate of Examination Authority Number 05.713, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Globe Life and Accident Insurance Company

Hereinafter referred to as the "Company" or as "Globe Life". Globe Life and Accident Insurance Company is incorporated under the laws of the State of Delaware. This examination reviewed the operations of Globe Life. The on-site phase of the examination was conducted at the following location:

- 204 N. Robinson, Oklahoma City, Okla. 73102

The examination is as of July 7, 2005

Examination work was also performed off-site and at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers, these areas include:

Company Operations/Management
Complaint Handling
Marketing and Sales
Producer Licensing
Policyholder Service
Underwriting and Rating
Claims

Additional areas may be included for an insurer writing Health coverage. Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. Rather, this review is aimed at determining if there is a detectable pattern to the complaints the Company has received from all sources.

The second component is an analysis of the management of the various business areas subject to market conduct examination through a review of the written procedures of the Company. This review includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of its measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then directed on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated. Substantial departure from the norm may result in supplemental review focused on the area so noted.

HISTORY AND PROFILE

Globe Life and Accident Insurance Company was founded in 1951. In 1980, Globe was acquired by Liberty National Life, domiciled in Alabama, which was reorganized as Torchmark Corporation.

Globe markets term and whole life insurance policies primarily through direct response marketing methods. Other marketing through Globe includes co-op mailings, television and consumer magazine advertising, and direct mail solicitations endorsed by groups, unions, and associations. Globe's life products are primarily marketed to juveniles, their parents, and other family members over the age of 50. Additionally, Globe maintains an independent sales force of about 140 general agents who market life products to government employees.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of a Health Insurer found in Chapter XVII of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others were conducted using a combination of all of the types of review. The types of review used in this examination fall into three general categories: Generic, Sample, and Electronic.

A "Generic" review is conducted through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "Sample" review is conducted through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners Handbook and the NAIC Market Conduct Examiners Handbook. For statistical purposes, an error tolerance level of 7% was used for claims reviews and a 10% tolerance level was used for underwriting reviews. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI's actual tolerance for deliberate error.

An "Electronic" review is conducted through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately determine how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners Handbook for a Health Insurer. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority, and its source in the NAIC Market Conduct Examiners' Handbook are stated within the report and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. The "Result" is indicated and the examiners' "Observations" are noted. In some cases, a "Recommendation" for corrective action is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard.

A. COMPANY OPERATIONS/MANAGEMENT

Comments: As stated above, this examination report is not designed to be a pass/fail report except for the following two criteria. Standard A7 and A9 read as follows:

- “The Company is licensed for the lines of business that are being written.”
- “The Company cooperates on a timely basis with examiners performing the examinations.”

Standard A7

NAIC Market Conduct Examiners Handbook - Chapter XV, §A, Standard 7 & Chapter XVII. §A, Standard 7.

The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b).

Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to assure that the Company operations are in conformance with the Company’s certificate of authority.

Results: **Pass**

Observations: The Company is licensed for the lines of business being written.

Recommendations: None

Standard A 09

NAIC Market Conduct Examiners Handbook - Chapter VIII. §A, Standard 9.

The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b) 3.

Comment: Review for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at assuring that the company is cooperating with the state in the completion of an open and cogent review of the company’s operations. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: **Pass**

Observations: During the course of the examination Globe Life was provided with fifty-one (51) Information Requests (IR’s), four (4) memos and criticisms and all responses were returned on-time. The Company’s communication with the examiners was very responsive. The only delays experienced by the examiners were due to the fact that the original Co-coordinators Handbook delivered to Globe late. It should be noted that no delays were caused by the Company during the course of the examination.

Recommendations: None

B. COMPLAINTS/GRIEVANCES

Comments: Evaluation of the Standards in this business area is based on the Company's response to various information requests (IR items) and complaint files at the Company. 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "...any written communication primarily expressing a grievance."

Observations: The Company provided a database with three hundred twenty-four (324) logged complaints for the period of examination. A random sample of fifty (50) complaints was taken from the master log and reviewed to compare the accuracy of the databases and to look for any complaint patterns. After the review was completed no complaint patterns were noted in either the sample or the master log.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this review. The processes at issue usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and to determine that the process is performing as intended.

The reviews in this section of the report are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Audit Procedure (Internal and External)

Observations: The Company has an audit (internal and external) procedure. This procedure is concise, clear, readable, organized and available to persons needing access

to or affected by the procedure. The fraud manual is available on an anti-fraud intranet site to employees.

The Company's mission of the anti-fraud plan is to prevent, detect, and report fraud by employees or company representatives, providers and other outside parties. This plan encourages employees to make recommendations to management for changes in procedures and internal controls that would strengthen the Company's ability to prevent and detect fraud against the Company.

There are two types of fraud: internal fraud and external fraud.

Agents, managers, or employees can commit internal fraud against a company or its policyholders. The most common type of internal fraud is agent and employee fraud. Agent accounts are closely monitored and periodically audited to ensure that the agent is properly accounting for financial transactions with the Company. Employees are instructed to advise their supervisors of any irregularities in an agent's account. If any irregularities are discovered, the agent will be asked to immediately respond and provide an explanation as well as any supporting documentation. The Company has general and financial controls, computer crime and code of ethics in place to prevent employee fraud.

The internal audit department reported no fraudulent claims to all state insurance departments during the period of January 1, 2002, to the present.

Individuals or entities can commit external fraud against a company and the most common form of it is fraudulent claims and the negotiation of counterfeit checks. Although there are similarities among all types of fraud, there are claimant and provider indicators of possible fraud distinct to life, health, and accident insurance. At Globe, once external fraud is identified or suspected, the matter is promptly reported to the employee's manager. An initial investigation is conducted and if there is merit to the suspicion, the details are referred to a member of the Special Investigative Unity by the department manager.

Recommendations: It is recommended that the Audit procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 02 – Assertions of Privilege Procedure

Observations: The Company does not have a written procedure for assertions of privilege.

The Company maintains consistency and control of an assertion of privilege by requesting that the legal department review all requests, recommendations and criticisms. Additionally, after the appropriate departments gather the requested information, the legal department has the opportunity to review the information and responses before such is provided to the examiners. This procedure serves as a formal structure, in that one

department conducts daily contact and communication with the examiners, as well as assisting in the gathering and drafting of responses to the examiners' requests.

Recommendations: None

Procedure 03 – Company Records, Central Recovery and Backup Procedure

Observations: The Company does not have a written central recovery and backup handling procedure. The Company is in the process of developing a formal Disaster Recovery Plan and is intended to have this plan completed sometime in 2005. The plan, when completed will cover Business Continuity for the administrative functions and Mainframe and Network restoration.

Although, the Company does not have a formal process in place, they do have a contract with a vendor, SunGard, to restore their mainframe, network, and a production administration operation in Los Colinas and Grand Prairie, TX. They also have three sites in Oklahoma City, the administrative offices, the mainframe computer facility (referred as Memorial) and the direct marketing/ mail facility.

The Company's computer facility at Memorial is secured by a card key access system. The Company has computer operators on site 24 hours a day, 7 days a week. Halon, water detection, redundant air conditions, a UPS system, and a diesel generator protect the room. These emergency procedures are documented for the computer operations group to respond to possible emergency situations.

Mainframe system access is restricted and controlled by a secret security administration system. Users must log into the system using user identification and passwords. The system forces users to change their passwords every forty-five (45) days. Access to all production files are controlled by job functions and are reviewed once a year by the department managers.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Company records, central recovery and backup. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as procedures for revising and/or updating the procedure when so indicated.

Procedure 04 – Computer Security Procedure

Observations: The Company has a written computer security procedure in place. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the procedure is June 9, 2000.

Management and employees are responsible for ensuring that company information is completely confidential and is used only for authorized business purposes. All equipment (Servers, PCs, etc.) and all software, electronic documents, files are property

of the company. Security policies and procedures help ensure the company information assets. Unless appropriate measures are taken, information terminals can easily be accessed.

Network Administrators and Information Systems management are responsible for adequately controlling access to information stored on Network file servers, and access to mainframe information. Other department's management and employees, however, are responsible for controlling access to information stored on hard disks and other storage media, and for following policies and procedures regarding confidentiality of passwords.

Recommendations: None

Procedure 05 – Anti Fraud Procedure

Observations: The Company has a written anti-fraud procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Please refer to the Procedure 01 – Audit Procedure (Internal and External).

Recommendations: It is recommended that the Company establish measurement structures to test the functioning of the procedure for Anti- fraud and that management utilize the results of its measurement structures. It is also recommended that management implement on-going procedural revisions, if warranted, on the results of findings in its measurement structures.

Procedure 06 – Disaster Recovery Procedure

Observations: The Company does not have a written disaster recovery procedure. The Company is in the process of developing a formal Disaster Recovery Plan and intend to have this plan completed sometime in 2005. The plan, when completed will cover Business Continuity for the administrative functions and Mainframe and Network restoration. Please refer to Procedure 003 (company records, central recovery and backup procedure) for more information.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Disaster Recovery. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as procedures for revising and/or updating the procedure when so indicated.

Procedure 07 – MGA Oversight and Control Procedure

Observations: The Company does not use MGAs, therefore this procedure is not applicable.

Recommendations: N/A

Procedure 08 – Vendor Oversight and Control Procedure

Observations: The Company does not have a written procedure for vendor oversight and control.

The Company utilizes five (5) separate vendors: International Outsourcing Systems (IOS), Betty's Data Entry Service, Examination Management Services Inc. (EMSI), Medical Information Bureau (MIB) and Office Max.

IOS- Inquiry cards are imaged and batched into batches of three hundred (300) cards. The batches are then electronically transmitted to El Paso. IOS captures the data from the cards and electronically transmits the data back to the company. The company compares the actual cards to the data and ensures that the cards are keyed accurately.

Betty's Data Entry Service- Inquiry cards are batched into batches of 100 cards and a batch number is assigned. The courier who picks up the cards verifies the numbers of batches. The data from the cards is captured and returned to the company electronically. Each of the batches carries the batch number originally assigned as a record count.

EMSI- Provides assistance in obtaining signatures of proposed insured's when the submitted direct mail application is not signed by the proposed insured.

MIB- a computerized facility that keeps on file the health history of applicants for life and health insurance with member MIB companies.

OfficeMax-an outside store utilized by the company for general office supplies. The purchases made by each department are reviewed on a monthly basis to ensure there are no excessive, non-business purchases.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Vendor Oversight and Control. This procedure should include audit metrics and audit history for vendor oversight and control. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure well as procedures for revising and/or updating the procedure when so indicated.

Procedure 09 – Customer and Consumer Privacy Protection Procedure

Observations: The Company has a written customer and consumer privacy protection procedure in place. The information provided to the Examiners included the health insurance Notice of Privacy Practices, issued to policyholders as well as the notice posted on the Company's intranet website. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the procedure is April 14, 2003.

Privacy and security are primary consumer concerns and failing to address them can result in a loss of trust, and credibility with the insurance buying public. The Company is

required by the HIPAA Privacy Rules to verify the identity of any person requesting private health information. Where the identity and authority of the person requesting such information is not known, the company relies on customary verification procedures, whether oral or written, as a condition of disclosure. In addition, violation of the company's confidentiality policies by an employee could result in sanctions, ranging from a verbal warning for unintentional violations, to termination of employment for more serious violations.

Recommendations: It is recommended that the Company establish measurement structures to test the functioning of the procedure for Customer and Consumer privacy protection and management utilize the results of its measurement structures.

Procedure 10 – Insurance Information Management Procedure

Observations: The Company does not have a written procedure for insurance management.

According to the Company, the process for handling information for underwriting or claims handling is not protected by either Gramm-Leach-Bliley or HIPPA laws. Concerning underwriting the Summary of Rights sets forth the following:

- The applicant's rights following an adverse underwriting decision
- The applicant's rights to access his or her recorded personal information
- The applicant's rights to correction, amendment, or deletion of recorded personal information

A Notice of Insurance Information Practices is sent to all new insured's along with a welcome letter that sets forth the company's privacy policy for the collection and sharing of information. This notice also explains the insured's right to access their information, and the company's internal protection of such information.

Recommendations: None

Procedure 11 – Complaint Handling Procedure

Observations: The Company does not have a written procedure for complaint handling.

Insurance Department inquiries come to the Company and are forwarded to the Associate General Counsel for review. The inquiries are logged on the calendar and are forwarded to a Paralegal who notes the complaint on a Complaint Log. The Paralegal researches and responds to the inquiry under the Associate General Counsel's supervision. The Company's Complaint department divides consumer inquiries individually by the paralegal depending upon the nature of the inquiry. Each department keeps track of consumer inquiries received and reports the inquiries to the Legal Department.

Complaints are tracked in monthly, quarterly, and annual reports prepared by the Paralegal.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Complaint Handling. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 12 – Grievance Handling Procedure

Observations: The Company does not have a written procedure for grievance handling. Please refer to procedure 11 complaint handling.

Recommendations: None.

Procedure 13 – Advertising, Sales and Marketing Procedure

Observations: The Company has written advertising, sales and marketing procedures. These procedures are clear, readable, organized and available to persons needing access to, or affected by, the procedures. The Company makes available to Agents pre-approved, ready-to use print advertisements, as well as sales and advertising materials to assist them with their prospecting efforts. Agents have a choice of designing their own advertisements; however the advertisements must adhere by the following guidelines:

1. Any type of sales or advertising materials such as print advertisements, Television or radio scripts, internet website copy, flyers or direct mail lead pieces must be submitted to the home office for written approval prior to publication or use.
2. Advertisements must be sent to the Vice President in the Marketing department.
3. Agents should allow a two-week turnaround time for the review and evaluation process. If prior state approval of the advertisement is required, an agent can expect an additional delay.
4. Any field-generated advertisement, which has been submitted and approved, should not be used more than sixty (60) days without obtaining written re-approval from the home office. This does not include Company provided advertisements.
5. The Company assumes no responsibility for any expense in the preparation or publishing of field-generated advertising materials. The company will not write an advertising copy for individual agents or branches.
6. The Agent must furnish final published advertisements, website addresses, cassettes of radio/Television spots, etc. to the Home Office for the Company's records. The agent cannot paste parts of any Company pre-approved materials to create their own sales material without first sending it to Compliance for review and approval.

The Marketing department will review the Agents materials for accuracy and style prior to sending it to Compliance. The Compliance and Legal Sections will review the material and at the beginning of the third week, the Agent will be notified by e-mail or fax of any changes. If, after reviewing the Home Office's changes, the Agent still wants to proceed, it is the Agent's responsibility to make any changes and return the corrected version to Compliance for written confirmation and approval prior to use. Field generated materials are submitted to the state for filing, if necessary. In most states the average turnaround time for approval is 60 days; some states take longer if objections are raised.

Recommendations: It is recommended that the procedure for Advertising, sales and marketing address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 14 – Agent Produced Advertising Procedure

Observations: The Company has a written agent produced advertising procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Please refer to Procedure 14 (advertising, sales and marketing)

Recommendations: It is recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 15 – Producer Training Procedure

Observations: The Company has a written producer training procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company's Marketing and Publications Department develops and maintains materials to communicate general underwriting instructions and procedures, company history and current industry ratings. These materials provide the specifications, rates, limitations and exclusions and the features of the company's agent sold insurance policies and insurance related products. For the development of agent sales and training materials, particular attention is given to designing a layout that includes the following:

1. establishing Company Name and pertinent Company details;
2. product identification that includes the policy type and marketing name;
3. Identifying the policy issue ages;
4. displaying the key features of a policy including the policy benefits, face amounts/daily room benefits
5. disclosure of the limitations and exclusions;

6. providing an application/enrollment form in which to write the Applicant's data;
and
7. providing any additional required forms associated with the sale of the product.

After the agent designs a layout, the company's Actuarial, Compliance, Sales, Information Technology, Claims Policy Service, Legal, New Business and Underwriting departments review a draft copy of the materials. Desired changes are returned to marketing for processing. The materials are edited until it is acceptable to all departments and approvals are recorded on a proof attached to the draft document. A final copy of the material is sent to the compliance department for filing. A state approval chart is developed and maintained for the new material and training materials are announced in the company's or agents' monthly magazine. The materials are updated annually or more frequently if the company introduces a new product.

Recommendations: It is recommended that the procedure for Producer Training address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 16 – Replacement Procedure

Observations: The Company does not have a written procedure for the replacement of policies.

All training of employees involved in New Business regarding replacement is conducted on the job. Each state has its own requirements regarding the handling of issued business when the replacement question is answered yes. The common theme for direct mail policies in those states that require action is that an appropriate form be included with the issued policy. The Company's policy print program is maintained to identify those states and the appropriate form that is to be produced. To ensure that the process is being followed, on a daily basis management reviews a report that summarizes the number of issues where the replacement question has been answered yes. Any large variances would indicate a problem that would require investigation.

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for Replacement. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 17 – Illustration Procedure

Observations: The Company does not use illustrations as part of its' business line.

Recommendations: None

Procedure 18 – Outline of Coverage Procedure

Observations: The Company does not have a written procedure for outline coverage.

The only health plans currently sold through the Company are Medicare Supplement plans. It is sold on a direct mail basis and approved outlines of coverage are included in the solicitation materials. Marketing solicitations are conducted in bulk and before each mailing goes to the Post Office, a package is opened to ensure that all of the required materials are included in the mailing package.

Recommendations: None

Procedure 19 – Network Adequacy Procedure

Observations: The Company does not have a written procedure for determining network adequacy.

The Company no longer writes health insurance (with the exception of some direct responses Medicare Supplement and Accidental Death plans) and does not have Managed Care plans that maintain any type of service networks for the health plans that been in existence for years. Health plans are limited benefit plans issued on an individual basis. The Company's policyholders can use any provider they choose.

Recommendations: None

Procedure 20 – Producer Selection, Appointment, and Termination Procedure

Observations: The Company has a written procedure for producer selection, appointment and termination procedures. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

For an unlicensed resident agent, company sponsorship is not required. The agent completes a license application and submits it to Assessment Systems Inc., along with \$75 and passing exam results. After the license is issued by the state, the agent forwards a copy of the license to the Company and is filed for the licensed agent. The unlicensed non-resident agent completes the license application and submits to the Department with \$75 and current letter of certification. After the license is issued by the state, the agent forwards a copy of license to the Company and is filed for the licensed agent.

The Company requests a current copy of a license from the agent, or verifies licensure via the Producer Database, and collects the appropriate appointment fees. An appointment form is also completed and sent to the Department along with the appointment fee and follow up to confirm to the appointment is approved by the Department. If the agent holds a current appointment with the Company, they complete a termination form and the Department follows up to confirm the termination.

Recommendations: It is recommended that the procedure for Producer Selection, Appointment and Termination address structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 21 – Producer Defalcation Procedure

Observations: The Company does not have a written procedure for producer defalcation.

Agents from time to time will collect premiums to pay the initial premiums or pay the balance of a premium. The funds are collected from an applicant or policyholder and the monies are not transmitted to the Company immediately. The Company then asks for proof of payments and a copy of front and back of the cancelled check. The policyholder and applicant are assured they will be contacted as soon as the company has appropriate time to investigate.

If the investigation reveals that the agent inappropriately failed to remit any monies to the home office, termination of the agent is appropriate both with the company and with the state insurance department. Any further action against the agent is handled based on the recommendation and advice of the legal department.

Recommendations: None.

Procedure 22 – Prevention of Use of Persons with Felony Conviction Procedure

Observations: The Company does not have a written procedure for prevention of use of persons with felony convictions.

Background checks are run for states requiring background search, or if requested, on specific agents from time to time. The agents name, social security and date of birth are used as a guideline. The vendor used for background search is called Interstate Background Research. The turn around time is approximately 3 days. In addition, the person requesting an agent's status is required to answer a question on a data sheet that asks if they have ever been convicted of a felony.

Company employees have background checks conducted of them through a company called Checkpoint and can retrieve someone's records for the past seven (7) years. The results list of felony convictions, pending felony convictions, misdemeanors, pending misdemeanors and those that have been dismissed in the past seven (7) years

Recommendations: It is recommended that the company formulate, adopt and implement a written procedure for persons with felony convictions. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure as well as revise and update as warranted.

Procedure 23 – Policyholder Service Procedure

Observations: The Company does not have policyholder service procedures. The Examiners reviewed several items provided by the Company purporting to be written procedures; however these items were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The Examiners were provided a written summary of the policyholder service activities. Specific version dates or revision history was not provided to the Examiners regarding these activities. Policyholder service requests at the Company are reliant upon the availability of the mainframe. Multiple mainframe screens are used in processing the policyholder service requests. All training is conducted via on the job through management and employees. Regularly scheduled continuing education meetings are also performed according to the Company. No additional information was provided regarding the education meetings.

According to the Company, real time hourly, daily and weekly reporting tools are established which report statistical information including quantity, type of call and level of service received by customer during call. All calls are recorded for evaluation and continuing education tools. No other information regarding these tools or reports was provided.

This process underwent a significant change in January 2004. A new telephone system and software was introduced to increase quality and statistical tracking of calls.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 24 – Premium Billing Procedure

Observations: The Company does not have a written premium billing procedure. The Examiners reviewed several items provided by the Company purporting to be written procedures; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided the Examiners a written overview of the premium billing process. All training of employees involved in premium billing is performed on the job. No version date or revision history was provided.

The overview of the premium billing process is as follows according to the Company:

The policy administration system automatically generates a premium notice for all policies that have an active status code. Counts of billed policies are reconciled to notices mailed. All discrepancies are investigated and resolved. Reconciliation of notices projected to be billed to the notices actually billed and mailed is performed by the Quality Assurance department with routine management review. These investigation and resolution processes are performed daily. The premium billing process has not changed within the past ten (10) years, with the exception being the automation of some previous manual processes and new equipment being implemented.

Balancing processes performed on premium billing notices created by the system trigger detection of any errors and discrepancies are resolved prior to the billing cycle completion. No other information regarding the actual process was provided to the Examiners.

Information relating to measurement structures in place to test the functioning of the process were provided, however, these measures should be implemented within a written procedure

Recommendations: None.

Procedure 25 – Correspondence Routing Procedure

Observations: The Company does not have a written Correspondence routing procedure. The Examiners reviewed several items purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided the Examiners the following written overview of the correspondence routing process.

Correspondence is received each business day in the mail receiving area. Mail is opened, date stamped, and sorted to the correct department on a daily basis. Any policyholder correspondence is delivered directly to the Policy Service department. A secondary sort is then completed within the Policyholder Service department to divide correspondence into specific work groups.

The correspondence is then counted and batched with a cover sheet including date received and page information. Once batched and tagged, correspondence is then distributed to the correct policy service employees for handling. The goal for all policy service correspondence is two days.

Daily and weekly reports are produced in which all correspondence inventory and date information is tracked and reviewed by management. Workflow process is then adjusted due to these reports. The process has not been changed in three years, according to the Company. Experience of the management and policy service staff is communicated to

new employees through daily interaction, on the job training and regular continuing education meetings.

Recommendations: It is recommended that the company formulate, adopt and implement a written Correspondence routing Procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 26 – Policy Issuance Procedure

Observations: The Company does not have a written Policy Issuance procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided the Examiners the following written overview of the policy issuance process.

Most applications are entered and verified into the new business computer system within two days of receipt. These applications are passed by the edits of the new business system and are issued the same day as they are verified by data entry. Adult exception applications are reviewed the same day they are verified and juvenile applications are reviewed the next day after being verified. As soon as all exceptions are completed, the policy is issued the same day. Policies are assembled the day after the application is approved, and are mailed the following day. All policies before being put into the production environment are reviewed and approved by the Actuarial, Compliance and Policy Issue departments. As the computer is printing the entire policy, the computer produces error reports regarding any tasks the computer could not complete. The error messages indicate what the problem is and the Policy Issue staff takes necessary actions to correct the problem.

There is a daily report that independently balances policy issued versus policy printed for the previous day. The company states that the policy issue procedure was adopted in the mid 1980's, and the only revision has been changing from hand assembly of the policy to machine assembly in December 2002.

All training of employees within this process is conducted on the job therefore no formal procedure is available in regards to training.

An additional and separate process is in place regarding military personnel and applications. No formal written procedure exists. The experience of the manager and staff is shared with new employees.

This process has been used since 1996, with no specific date provided. All applications entered into the new business system the previous day (usually within two days of receipt of application) are moved on to a pending system. Policy files entered the previous day

are matched to system generated image cover sheets and additional documents if needed. Cash with application reports are also system generated and balanced daily to initial premium checks received.

A junior underwriter clerk reviews all applications and decides if applications will be approved, pended for missing information or imaged and referred to the underwriting department in Birmingham for additional review. After approval, the application's information is verified and issued by an issue clerk, usually the same day as the approval decision. The policy is printed overnight and assembled the next day. As the computer is printing the entire policy, the computer produces error reports regarding any tasks the computer could not complete. The error messages indicate what the problem is and the policy issue staff takes necessary actions to correct the problem. Assembled policies are mailed at a minimum of twice per week to the agent's offices that wrote the business. The agent then delivers the policy to the insured/policyholder.

Policyholders who have an option to purchase additional insurance (OPAI) receive a letter within one hundred (100) days prior to the option date providing notification of the availability of this option. The servicing agent is also sent an OPAI application, which is used with this process.

The only revisions to the process involved changing paper files to imaged files for applications sent to Birmingham for further review, with approvals documented on a daily system generated report. No other information was provided regarding this process

The Company states that the effectiveness of the process is monitored through marked system reports and initiated policy files. The record manager clerk independently balances policies printed to the number of files/policies that were issued the previous day.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: It is recommended that the company formulate, adopt and implement a written policy issuance procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure as well as indicated.

Procedure 27 – Reinstatement Procedure

Observations: The Company does not have a written reinstatement procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The Company provided the Examiners a written overview of the reinstatement process. In the absence of written procedures, the Company relies on the experience of

management staff to ensure proper steps are followed and quality checks are performed. The reinstatement process has changed only to accommodate automation of manual processes or new plans as they become eligible for reinstatement.

The Company provided the following overview of the reinstatement process.

Payments received on policies that have lapsed and require reinstatement are returned to the policyholder with the payment received and the appropriate reinstatement application. When returned to the Company, the application is reviewed by underwriting and a decision is made based upon the information provided. The premium is applied if the reinstatement is approved, and the policy status is updated. A notice is mailed to the applicant if reinstatement is declined along with the returned premium.

All premiums applied are balanced to accepted premium reports and deposit totals. Specially trained clerks and supervisors handle the payments returned to policyholders. No other information was provided to the examiners regarding this specialty training. All letters and reinstatement applications sent to policyholders are systematically tracked and noted to the policy's history in the system. Balancing procedures performed using reports created by the reinstatement system are completed daily and all errors are resolved with supervisory staff monitoring timeliness of completion. No other information regarding these reports was supplied to the Examiners.

Information relating to measurement structures in place to test the functioning of the process were provided, however, these measurements should be implemented within a written procedure

Recommendations: It is recommended that the company formulate, adopt and implement a written reinstatement procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 29 – Credible Coverage Procedure

Observations: The Company does not have a written credible coverage procedure. The Examiners reviewed several items provide by the Company purporting to be the written procedure, however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners were provided written process summaries and scenarios for the following:

Underwriting Medicare supplement policy applications within an open enrollment period, Underage health applications submitted by HIPPA eligible individuals and guaranteed availability of individual coverage under HIPPA.

A brief description of attributes the company looks for in reference to the above scenarios was provided within the written response.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 30 – Premium Determination and Quotation Procedure

Observations: The Company does not have a premium determination and quotation procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners were provided a written summary of the Companies premium determination process for life and health products. According to the Company, these processes were initially established in the mid 1990's. Specific version dates or revision history was not provided to the Examiners. Minor changes have been made in the past three years, such as graphical displays of premium rates but no other specific details were provided.

The company states that premiums are confirmed for accuracy by verifying that the rates are consistent and reasonable by age, gender and face amount. Additionally the company verifies that the target profit measure is still achieved after the smoothing of the premiums between the pricing point age premiums. The Company also compares the new rates to Globe Life and Accident Insurance rates in the same or similar market. Additional information regarding these verifications was not provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 31 – Policyholder Disclosures Procedure

Observations: The Company does not have a policyholder disclosure procedure. The examiners were provided a copy of the policyholder disclosure policy, which is printed on every welcome letter from the Company. The policy explains what information the Company collects and how they use it. It also describes the security and confidentiality issues regarding the information collected. Specific version dates or revision history was not provided to the Examiners regarding the policy.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 32 – Underwriting and Selection Procedure

Observations: The Company does not have a written underwriting and selection procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The Examiners reviewed a written summary of the underwriting and selection process regarding adult and juvenile policies as well as workflow notes and charts for the adult and juvenile application process. This process was originally created in the mid 1980's and according to the Company it has been gradually automated over the past years. According to the Company, the Lincoln National Reinsurance Manual is used for making underwriting decisions, however this manual was not provided to the Examiners.

The written summation of the underwriting process and the workflow charts describe in detail how each application (adult and juvenile) flows through the underwriting process. Archiving of application information has been performed electronically since the fall of 2001 for the adult applications and since July 2002 for juvenile. No specific dates were provided to the Examiners. The workflow notes were last updated on May 6, 2005 for the adult workflow and June 6, 2005 for the juvenile workflow. Each workflow has written revision history dating back to June 2002.

The underwriting file includes an image of the application and a written copy of any telephonic conversations with the applicant (due to incomplete or additional application information requests). A true copy of the application rejection/withdraw letter cannot be reproduced; however a sample of the text used can be obtained.

The Company's methodology to ensure the process is performing as intended includes:

- The underwriting team reviews proposed insureds pending by the computer system daily and determines if further action is needed. This pending decision occurs when there is incomplete application information or when additional information is needed. This information is gathered through a telephone conversation with the applicant. Reports by the underwriting team regarding decisions made are also produced on a daily basis and reviewed by the underwriting department for completeness. Additional reports review in detail the number and the reason as to why applications are either withdrawn or rejected. No formal copy or additional information regarding these reports or computer system used for underwriting decisions was provided to the Examiners.
- A weekly report is produced that details all of the business submitted in the past fourteen (14) weeks. This report breaks down how much business was initially issued, rejected and pending. For all pending business, a review history is also

provided within the report. This report is reviewed by the department manager and shared with senior management. No formal copy or additional information regarding this report or was provided to the Examiners.

Additional information supplied to the Examiners by the Company included the Company's active duty military medical requirement worksheets and underwriting process. This process was established in late 1996, however no specific date was provided. All military business is performed through agent written applications. Additional pending requirements are obtained through the agents via electronic file messages sent to the home office, which the agency forwards to the applicable agent. All applications and applicable information have been stored electronically since 1996. No specific date was provided regarding the storage of the underwriting file. For military applications, the underwriting team uses the Swiss Re reinsurance manual to assist in the underwriting decisions. This manual was not provided to the Examiners.

All pending applications are added to a daily report. Additional information received on each pending application is reviewed by an underwriter or junior underwriting clerk for evaluation and completeness. The application can then be approved for issue, pended or declined. If a policy is pended for more than ninety (90) days it appears on a report generated twice monthly. The vice president or manager of military applications reviews this report. If there is no indication of a pending application being completed by underwriting, the application is then referred back to the applicable underwriter to finalize work. If a policy has not had a pending message for more than thirty-five (35) days from the current date, the policy appears on a system report reviewed by the vice president or management for military policies on a daily basis. If needed, the application is referred back to the individual handling the case for appropriate action. Review of aged files was changed from a manual to automated process in 2004.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriting and selection procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 33 – Rate and Form Filing Procedure

Observations: The Company does not have a Rate and Form Filing procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners were provided a written summary of the rate and form filing process. Specific version dates or revision history was not provided to the Examiners. The

compliance department at the Company, after appropriate approval of senior management and individual departments, file all forms.

According to the Company, step-by-step instructions vary with each state, line of business, and type of form. The compliance department at the Company works with the most previous filing of a similar nature and checks with the Department of insurance websites for specific updates to state forms

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written rate and form filing procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures, as well as compliance with applicable statutes or regulations.

Procedure 34 – Termination Procedure

Observations: The Company does not have a written termination procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners were provided a written summary of the Company’s policy rejection and rescission process. Specific version dates or revision history was not provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written termination procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 35 – Underwriting File Documentation Procedure

Observations: The Company does not have a written underwriting file documentation procedure. The Examiners reviewed several items provided by the Company, purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided the Examiners a written overview of the underwriting file documentation process and copies of the issue rate and disposition reports for each section of there business. No version date or revision history was provided.

The written process detailed the paper flow from receipt in the mailroom until final disposition of each proposed insured. This paper flow included details on all imaging, verification coding and extraction techniques used for all underwriting files. Editing and sorting information was also provided within the process. All specific state requirements regarding signatures are also followed.

The Company states that each week reports are prepared that detail the issue rate of various segments of business. The issue rate report shows the number of records that are still pending for each segment of business. This report also details the history of records over the past fourteen (14) weeks. All records must have a final disposition after ninety (90) days. Any aberration in the pattern calls for immediate inquiry as to why records are pending for an unusual amount of time. When that report is completed, another report is prepared that analyzes the immediate issue rate, the immediate rejection rate, and the pending rate for these segments. Each weekly result is compared to historical averages to ensure that the computer processing system is working properly.

The Company also creates a daily report that details the reasons for records being rejected. Historical comparisons are made to illustrate any irregularities. The issue date reports were introduced in December 2001. Rejection record reports were introduced “around”1999, but no formal date was provided. No additional information was provided to the Examiners regarding these reports.

Although the process does contain various reporting tools, it cannot be determined with the information provided to the Examiner if the process is accessible and provided to persons subject to its provisions or if the process is performing as intended and being utilized by the persons affected. Information relating to measurement structures in place to test the functioning of the process was provided. No information regarding revisions of the process within the last three years was provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriting File Documentation procedure. It is also recommended that the procedure address utilization of measurement structures, including the already implemented reports, to test the functioning of the procedure and revise the procedure when indicated.

Procedure 36 – Underwriting Training Procedure

Observations: The Company does not have a written underwriter training procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent. No version date or revision history was provided.

The company provided the Examiners a written overview of the underwriter process, however nothing was provided that addressed the training process itself. No formal training process or procedure exists for underwriter training. Underwriters are encouraged to take specialty LOMA classes. LOMA is an international association through which insurance and financial services companies engage in research and educational activities. Supervisors periodically review underwriters' work and the chief underwriter holds occasional meetings to discuss various underwriting topics, however no official timeline or copies of these reports and meetings was provided to the Examiners.

According to the Company the new business underwriter computer system selects, by predetermined edit criteria, those records that are to be reviewed by the underwriter. The underwriter is given three (3) choices on the computer screen: issue a standard policy, reject the application, or route the record to an outside source for additional information. If the record comes to the underwriter due to an MIB match, the underwriter chooses to either send a letter to the proposed insured for more information or has an employee call the insured for more information.

Once the additional information is received, the underwriter again considers the application choices: issue a standard policy, reject the application or issue a high or low substandard policy.

Daily reports are reviewed weekly by the chief underwriter or department vice president that detail the ratio of decisions being made initially to those made after more information is received after telephone calls to the proposed insured. Periodic audits for the MIB are performed to ensure that the procedures are being followed. The Company monitors the weekly reject report to ensure consistency of rejects. MIB advises the Company if the ratio of MIB requests is out of line with the number of MIB reports submitted to them. Reports are also reviewed by management that illustrates the number of substandard issues and the flow of these issues within the underwriting process. No other information regarding these reports was provided to the Examiner.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: It is recommended that the company formulate, adopt and implement a written underwriting training procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 37 – Insured or Member Enrollment Procedure

Observations: The Company does not have an insured or member enrollment procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The Company states that the only products it issues are accidental death and dismemberment policies or Medicare supplement policies. Both products are solicited via mail. There are no health questions on the accident policies and only yes/no type questions on the Medicare supplement application. No actual written process exists therefore there is no version date or revision history. According to the Company, a verbal process has been in place for years. The only change occurred in 2004 when the Company replaced manual edits that the new balance clerks were performing with computer editing, thus reducing errors. No other information was provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 38 – Continuation of Benefits Procedure

Observations: The Company does not have a continuation of benefits procedure. The Company has assumed that the procedure response was asking for information related to the living benefits department.

The information supplied to the Examiners regarding this procedure was a brief description of Globe's non-forfeiture options, which are reduced and extended term options. No other information was supplied to the Examiners regarding this issue.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: None.

Procedure 40 – Staff Training Procedure

Observations: The examiners reviewed several staff training procedures included within the Company's employee handbook, two-risk control tracking system handbooks for assessors and reviewers and the Sarbanes-Oxley internal control documentation training manual. These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. Information relating to oversight, measurement and measurement usage was not provided for these procedures.

The employee handbook outlined multiple employment policies and on the job procedures. The official version date of the employee handbook was not provided, however terminology within the handbook included the year 2003. All employees are required to sign a form confirming receipt and comprehension of the handbook.

All of the staff training is performed on the job. Human Resources conduct training periodically on specific topics for managers, such as: leadership development, sexual harassment and other legal issues. According to the Company, new employees receive a brief orientation the first day of work. This orientation includes introduction to the time clock, absentee guidelines, and employee benefits.

The risk control stacking system (RCTS) manual provides the assessor and reviewer employees with a detailed, step-by-step procedure on how to use the various control, documentation and tracking devices within the web based application. These attributes include:

- warehousing all controls the assessor or reviewer documented in Excel spreadsheets
- documenting the results of internal audit departments testing of controls
- automate the tracking of control effectiveness gaps (ex; Action items)
- document electronically management's assessments of the control metrics.
- document electronically management's review of the assessment of the control metrics.

The version date of the RCTS manuals is January 17, 2005. This software was purchased from an outside accounting vendor. No other information was provided to the Examiners regarding these RCTS manuals.

The Company also established a manual and training seminar to inform, update and equip all employees on the significance of the Sarbanes-Oxley Act. Throughout the manual and seminars, the employee is presented with information needed to perform internal control documentation, testing and maintenance as required by the Act. The dates of training provided to the Examiners was September 12th and 13th 2003 for a seminar and manual review presentation in the Company's McKinney and Waco Texas offices and September 19th and 20th 2003 for the Birmingham and Oklahoma City offices. No other version/seminar dates or additional information was provided to the Examiners.

Recommendations: It is recommended that the procedure for Staff Training address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated.

Procedure 41 – HIPAA Compliance Procedure

Observations:

The Company has a written HIPAA compliance procedure in place. The information provided to the Examiners by the Company included the Health Insurance Notice of Privacy Practices issued to policyholders as well as notices posted on the Company's intranet website. This certification is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the certificate is April 14, 2003.

No information regarding measurement structures was provided. No information was provided to determine if management exercises oversight and control of the process. Evidence of the process performing as intended cannot be determined due to lack of measurement structure. Revision and audit history of the HIPAA process was not provided to the Examiners.

The HIPAA notice outlines the purpose of the act, clients' rights and a listing of the lawful disclosure purposes in regards to medical information. The Company provides the client, per request, a form that will allow disclosure of medical information with written consent, as well as allow additional restrictions to be put in place in regards to medical history. Contact information for any actions or complaints regarding this act and notice are clearly defined.

Recommendations: None.

Procedure 42 – Adjuster Training Procedure

Observations: The Company does not have an adjuster training procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The examiners were provided a written summary of the adjuster training process. Specific version dates or revision history was not provided to the Examiners. All adjusters receive on the job training. A trainer/supervisor monitors the adjuster's performance for three (3) to four (4) months. The adjuster is then provided with a low approval limit with supervisor review until they gain experience. Auditors conduct random reviews of claims both under and over the adjusters' approval limits. No other information was provided regarding the adjuster audits or training.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written adjuster training procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 43 – Claim Handling Procedure

Observations: The Company does not have a written claim handling procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company did provide the Examiners a comprehensive description of the process used for handling all health and life claims, both contestable and uncontestable. No version date of the process was provided to the Examiners.

For contestable life claims, once all information is received the Underwriting and Legal departments review the file and the claim is paid based upon several internal evaluations.

For non-contestable life claims, when proof of loss information is received, an examiner first reviews the claim material. Data related to the claim is entered into the claims system. The system determines if there is any loan balance on the policy, if a refund of unearned premium is due and calculates the interest due, if applicable. Audits are performed and a check is released on the claim.

For health claims, the Company states that all claims are received in a central mailroom for processing. All claims are logged into the claim computer system for review. If all claim information is complete, the claim is keyed into the system for payment. If more information is needed, the claims handler corresponds with the insured for additional information. If a denial decision has been reached before or after additional information has been received, the claims handler will also correspond with the insured. No other information was provided to the Examiners regarding this process.

The Company does not have measurement structures in place to test the functioning of the procedure.

Recommendations: It is recommended that the company formulate, adopt and implement a written claim handling procedure with appropriate version dates and revision history. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated

Procedure 44 – Internal Claim Audit Procedure

Observations: The Company does not have a written internal claim audit procedure. The Examiners reviewed an item provided by the Company purporting to be the written procedure; however it was merely an ad hoc description of a process used in the absence of a written structure. The ad hoc process is not subject to reporting or control and may lead to inconsistent application of management intent.

According to the Company, each claim handler is given an approval limit based upon their experience and knowledge base. Any claim over their approval limit is audited by a trainer/supervisor/auditor. The auditors also conduct a random audit of claims that are under the claims handler's approval limits. No other information regarding this process was provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written internal claim audit procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 45 – Claim File Documentation Procedure

Observations: The Company does not have a Claim File Documentation procedure. The Examiners reviewed several items provided by the Company purporting to be the written procedure; however these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The Examiners were provided a written summary of the claim file documentation process used at the Company. A detailed written description was provided to the Examiners regarding the processing of life and health claims. Specific version dates or revision history was not provided to the Examiners.

Information relating to measurement structures, oversight structures and compliance with applicable statutes or regulations was not provided.

Recommendations: It is recommended that the company formulate, adopt and implement a written claim file documentation procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures.

Procedure 47 – Reserve Establishment Procedure

Observations: The Company does not have a written Reserve Establishment procedure. The Examiners reviewed several items purporting to be the written procedure, but these were merely an ad hoc description of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

The company provided to the Examiners a written description of the process used for reserve establishment. The Company states that this process has been in place in excess of 25 years, but not actual date was provided to the Examiners relating to the origin of this process. The Company states that experienced individuals with many years of actuarial training work within the valuation area thus no written procedure exists. No conflict with Delaware statutes or regulations was noted.

According to the Company, the actuarial department computes actuarial reserve factors equal to the actuarial present value of benefits less the actuarial present valuation net premiums, which are loaded into the Company's mainframe computer system.

At each valuation date, the computer mainframe valuation system extracts information coverages from the master file. The valuation system takes the extracted file of in force

coverages and matches it against the statutory factor file. Enforce times the reserve factor results in the policy reserve appropriate, for each coverage. Thus, claim reserves and liabilities are established based on expected future claim payments.

Management reviews reserves for reasonableness and compliance with applicable statutory guidelines. The Company's appointed actuary completes an opinion as of the adequacy of reserves. Error reports are generated by the system and reviewed by the actuarial personnel. Corrections are made to the factors to avoid errors when necessary. Reserves are manually established for policies that error out of the mainframe valuation system and particular valuation date. No other information was provided to the Examiners regarding this management review process or error reports. Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: None.

SUMMARY

Globe Life Insurance Company is a Delaware domiciled company. Globe markets term and whole life insurance policies primarily through direct response marketing methods. Other marketing through Globe includes co-op mailings, television and consumer magazine advertising, and direct mail solicitations endorsed by groups, unions, and associations. Globe's life products are primarily marketed to juveniles, their parents, and other adults over the age of 50. Additionally, Globe maintains an independent sales force of about 140 general agents who market life products to government employees.

The examination was a limited scope market conduct examination of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

Significant issues arising during the course of the examination include:

- Lack of written procedures for 17 of 44 procedures examined.
- Lack of measurement for 8 of the written procedures company did have in operation.

Recommendations have been made to address the areas of concern noted during the examination. These are summarized below.

LIST OF RECOMMENDATIONS

Procedure 01 – Audit Procedure (Internal and External)

It is recommended that the Audit procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.6)

Procedure 03 – Company Records, Central Recovery, and Backup Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Company records, central recovery and backup. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.7)

Procedure 05 – Anti Fraud Procedure

It is recommended that the Company establish measurement structures in place to test the functioning of the procedure for Anti-Fraud and that management utilize the results of its measurement structures. It is also recommended that management implement procedural revisions, if warranted on the results of findings in its measurement structures. (p.8)

Procedure 06 – Disaster Recovery Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Disaster Recovery. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.8)

Procedure 08 – Vendor Oversight and Control Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Vendor Oversight and Control. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.9)

Procedure 09 – Customer and Consumer privacy protection Procedure

It is recommended that the Company establish measurement structures in place to test the functioning of the procedure for Customer and Consumer privacy protection and management utilize the results of its measurement structures. (p.10)

Procedure 11 – Complaint Handling Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Complaint Handling. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.11)

Procedure 13 – Advertising, sales and marketing Procedure

It is recommended that the procedure for Advertising, sales and marketing address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.12)

Procedure 14 – Agent produced advertising Procedure.

It is recommended that the procedure for Agent produced advertising address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.12)

Procedure 15 – Producer Training Procedure

It is recommended that the procedure for Producer Training address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.13)

Procedure 16 – Replacement Procedure

It is recommended that the company formulate, adopt and implement a written procedure for Replacement. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.13)

Procedure 20 – Producer Selection, Appointment and Termination Procedure

It is recommended that the procedure for Producer Selection, Appointment and Termination address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.15)

Procedure 22 – Prevention of use of persons with felony conviction Procedure

It is recommended that the company formulate, adopt and implement a written procedure for persons with felony convictions. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.15)

Procedure 25 – Correspondence routing Procedure

It is recommended that the company formulate, adopt and implement a written Correspondence routing procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.18)

Procedure 26 – Policy Issuance Procedure

It is recommended that the company formulate, adopt and implement a written Policy Issuance procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.19)

Procedure 27 – Reinstatement Procedure

It is recommended that the company formulate, adopt and implement a written Reinstatement procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.20)

Procedure 32 – Underwriting and Selection Procedure

It is recommended that the company formulate, adopt and implement a written Underwriting and Selection procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.23)

Procedure 33 – Rate and Form Filing Procedure

It is recommended that the company formulate, adopt and implement a written rate and form filing procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures, as well as compliance with applicable statutes or regulations. (p.24)

Procedure 34 – Termination Procedure

It is recommended that the company formulate, adopt and implement a written Termination procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures. (p.24)

Procedure 35 – Underwriting File Documentation Procedure

It is recommended that the company formulate, adopt and implement a written Underwriting File Documentation procedure. It is also recommended that the procedure address utilization of measurement structures, including the already implemented reports, to test the functioning of the procedure and revise the procedure when indicated. (p.25)

Procedure 36 – Underwriting Training Procedure

It is recommended that the company formulate, adopt and implement a written Underwriter Training procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated (p.26)

Procedure 40 – Staff Training Procedure

It is recommended that the procedure for Staff Training address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.28)

Procedure 42 – Adjuster Training Procedure

It is recommended that the company formulate, adopt and implement a written Adjuster Training procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures. (p.29)

Procedure 43 – Claim Handling Procedure

It is recommended that the company formulate, adopt and implement a written Claim Handling procedure with appropriate version dates and revision history. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure and revise the procedure when indicated. (p.30)

Procedure 44 – Internal Claim Audit Procedure

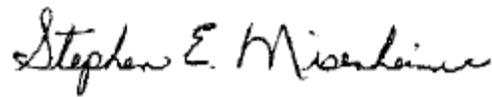
It is recommended that the company formulate, adopt and implement a written Internal Claim Audit procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures. (p.30)

Procedure 45 – Claim File Documentation Procedure

It is recommended that the company formulate, adopt and implement a written Claim File Documentation procedure. This procedure should include version and revision history. It is also recommended that the procedure address utilization of measurement and oversight structures. (p.31)

CONCLUSION

The examination was conducted by Donald P. Koch, Stephen E. Misenheimer, Sean Connolly and Candace Reese and is respectfully submitted.



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