

Report on
Market Conduct Examination

of the

American Family Life Assurance Company of Columbus
Omaha, Nebraska

by Representatives of the
North Carolina Department of Insurance

as of

April 20, 2015

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Raleigh, North Carolina
April 20, 2015

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
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Honorable Commissioners and Honorable Director:

Pursuant to your instructions and in accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through 58-2-134, a target examination has been made of the market conduct activities of

**American Family Life Assurance Company of Columbus
(NAIC # 60380)**

NAIC Exam Tracking System Exam Number: NC299-M38
Omaha, Nebraska

hereinafter generally referred to as the Company, at the North Carolina Department of Insurance (Department) office located at 11 S. Boylan Avenue, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The North Carolina Department of Insurance conducted a limited-scope examination of the Company. The examination commenced on July 22, 2013, and covered the period of January 1, 2010, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 20, 2015. All comments made in this report reflect conditions observed during the period of the examination.

The examination was performed in accordance with auditing standards established by the Department and procedures established by the National Association of Insurance Commissioners (NAIC). The scope of the examination was not comprehensive, but included a limited review of the Company's practices and procedures in consumer complaints, producer licensing, underwriting practices, policy rescissions, and claim practices.

It is the Department's practice to cite companies in violation of a statute or rule when the results of a sample show errors/noncompliance at or above the following levels: 0 percent for consumer complaints and the use of forms and rates/rules that were neither filed with nor approved by the Department; 7 percent for claims; and 10 percent for all other areas reviewed.

EXECUTIVE SUMMARY

This market conduct examination revealed concerns with Company procedures and practices in the following areas:

Consumer Complaints - Failure to respond to the Department inquiries within seven calendar days.

Producer Licensing - Failure to notify producer of termination within 15 days of being terminated.

Underwriting Practices – Individual Supplemental Health Declined - Failure to document reason for declining an application.

Policy Rescissions - Individual Supplemental Health Policy Rescissions - Failure to send status reports every 45 days.

Claims Practices – Individual Vision Claims Denied, Group Disability Claims Denied, and Individual Medicare Supplement Claims Denied - Failure to send a denial letter or an

Explanation of Benefits (EOB) to the insured and failure to provide the reason for denial on the EOB.

Specific violations are noted in the appropriate section of this report. All North Carolina General Statutes and rules of the North Carolina Administrative Code cited in this report may be viewed on the North Carolina Department of Insurance Web site www.ncdoi.com by clicking "INSURANCE DIVISIONS" then "Legislative Services".

This examination identified various statutory violations, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business in North Carolina according to its insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina or in other jurisdictions does not constitute acceptance of such violations. Examination report findings that do not reference specific insurance laws, regulations, or bulletins are presented to improve the Company's practices and provide consumer protection.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine compliance with applicable North Carolina statutes and rules.

The Company's complaint register was reconciled with a listing furnished by the Consumer Services Division of the Department. The Company's complaint register was in compliance with the provisions of Title 11 of the North Carolina Administrative Code, (NCAC), Chapter 19, Section 0103.

Fifty consumer complaint files from a population of 101 were selected for review. The distribution of complaints requiring a response to the Department is shown in the chart below:

Type	2010	2011	2012
Administrative	10	8	3
Producers	0	2	0
Claims	13	9	5
Total	23	19	8

One complaint file (2.0 percent error ratio), was not responded to within seven calendar days and no extension was requested or granted. The Company did not adhere to the provisions of 11 NCAC 1.0602.

The average service time to respond to a Departmental complaint was seven calendar days. A chart of the response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	36	72.0
8 - 14	11	22.0
15 - 21	2	4.0
31 - 60	1	2.0
Total	50	100.0

MARKETING

Producer Licensing

As a result of the Department's marketing surveillance activities, the Company's procedures for appointment and termination of its producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules.

Fifty appointed and 50 terminated producer files were selected from a population of 4,753 and 4,870, respectively.

No adverse trends or unfair trade practices were observed in the producer appointment section of the examination.

Six producer termination files (12.0 percent error ratio) did not contain evidence that the producer was notified within 15 days of the termination. The Company did not adhere to the provisions of NCGS 58-33-56(d).

UNDERWRITING PRACTICES

Individual Disability Issued

One hundred policy files from a population of 45,937 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to underwrite and issue a policy was four calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	92	92.0
8 - 14	4	4.0
15 - 21	3	3.0
Over 60	1	1.0
Total	100	100.0

Individual Disability Declined

Fifty application files from a population of 280 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to underwrite and decline an application was 13 calendar days. A chart of the Company's response time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	21	42.0
8 - 14	12	24.0
15 - 21	7	14.0
22 - 30	5	10.0
31 - 60	5	10.0
Total	50	100.0

Individual Supplemental Health Issued

One hundred policy files from a population of 70,244 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was 14 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	59	59.0
8 - 14	12	12.0
15 - 21	10	10.0
22 - 30	4	4.0
31 - 60	11	11.0
Over 60	4	4.0
Total	100	100.0

Individual Supplemental Health Declined

Thirty application files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Three application files (10.0 percent error ratio), were declined in error, as there was no evidence maintained in the file to support the decline. The Company did not adhere to the provisions of 11 NCAC 19.0104 and 19.0106(b)(4).

The average time to underwrite and decline an application was four calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	27	90.0
8 - 14	2	6.7
31 - 60	1	3.3
Total	30	100.0

Individual Supplemental Health Issued Substandard

Fifty policy files from a population of 384 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was six calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	34	68.0
8 - 14	11	22.0
15 - 21	2	4.0
22 - 30	2	4.0
31 - 60	1	2.0
Total	50	100.0

Individual Dental Issued

One hundred policy files from a population of 18,933 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was nine calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	71	71.0
8 - 14	12	12.0
15 - 21	8	8.0
22 - 30	2	2.0
31 - 60	6	6.0
Over 60	1	1.0
Total	100	100.00

Individual Long Term Care Issued

Five policy files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was 25 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
8 - 14	1	20.0
15 - 21	2	40.0
22 - 30	1	20.0
31 - 60	1	20.0
Total	5	100.0

Individual Long Term Care Declined

One application file was reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and decline an application was 42 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
31 - 60	1	100.0
Total	1	100.0

Individual Vision Issued

One hundred policy files from a population of 7,218 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was nine calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	70	70.0
8 - 14	10	10.0
15 - 21	12	12.0
22 - 30	4	4.0
31 - 60	3	3.0
Over 60	1	1.0
Total	100	100.0

Individual Accident Issued

One hundred policy files from a population of 95,632 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to underwrite and issue a policy was 12 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	82	82.0
8 - 14	11	11.0
15 - 21	1	1.0
31 - 60	1	1.0
Over 60	5	5.0
Total	100	100.0

Group Disability Issued

Fourteen group files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

Group Disability Declined

Two group files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

POLICY RESCISSIONS

Individual Disability Rescissions

Nine rescission files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to investigate and rescind a policy was 97 calendar days. The calculations used by the Department began with the claim receipt date as opposed to the actual start date of the investigation. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
15 - 21	1	11.1
31 - 60	1	11.1
Over 60	7	77.8
Total	9	100.0

Individual Supplemental Health Policy Rescissions

Thirteen rescissions files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Three claim files (23.1 percent error ratio) did not contain evidence that claim status reports were sent to the insured every 45 days until the claim was settled. The Company did not adhere to the provisions of NCGS 58-3-100(c) and 11 NCAC 4.0319(5).

The average time to investigate and rescind a policy was 107 calendar days. The calculations used by the Department began with the claim receipt date as opposed to the actual start date of the investigation. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
15 - 21	1	7.7
22 - 30	2	15.4
Over 60	10	76.9
Total	13	100.0

CLAIMS PRACTICES

Individual Disability Income Claims Paid

One hundred claim files from a population of 25,157 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process, a claim payment was seven calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	76	76.0
8 - 14	16	16.0
15 - 21	4	4.0
22 - 30	2	2.0
31 - 60	2	2.0
Total	100	100.0

Individual Disability Income Claims Denied

One hundred claim files from a population of 6,701 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Six claim files (6.0 percent error ratio) did not contain a claim denial letter, an Explanation of Benefits (EOB), or a claim form. Two claim files (2.0 percent error ratio) did not contain claim status reports sent every 45 days until the claim was settled.

The average time to process a claim denial was 15 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	64	64.0
8 - 14	8	8.0
15 - 21	8	8.0
22 - 30	5	5.0
31 - 60	9	9.0
Over 60	6	6.0
Total	100	100.0

Individual Supplemental Health Claims Paid

One hundred claim files from a population of 311,836 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to process a claim payment was four calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	89	89.0
8 - 14	8	8.0
15 - 21	1	1.0
22 - 30	1	1.0
31 - 60	1	1.0
Total	100	100.0

Individual Supplemental Health Claims Denied

One hundred claim files from a population of 72,273 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Two claim files (2.0 percent error ratio) did not contain a denial letter or an EOB detailing the reason for denial. One claim file (1.0 percent error ratio) did not contain documentation that a status report was sent every 45 days until claim was settled.

The average time to process a claim denial was 13 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	65	65.0
8 - 14	8	8.0
15 - 21	1	1.0
22 - 30	13	13.0
31 - 60	11	11.0
Over 60	2	2.0
Total	100	100.0

Individual Dental Claims Paid

One hundred claim files from a population of 61,720 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process a claim payment was three calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	92	92.0
8 - 14	6	6.0
15 - 21	1	1.0
31 - 60	1	1.0
Total	100	100.0

Individual Dental Claims Denied

One hundred claim files from a population of 63,505 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to process a claim denial was three calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	91	91.0
8 - 14	7	7.0
15 - 21	2	2.0
Total	100	100.0

Individual Long Term Care Claims Paid

Fifty claim files from a population of 1,137 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One claim file (2.0 percent error ratio) was not paid, denied or notice of investigation was not provided within 30 days.

The average service time to process a claim payment was five calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	42	84.0
8 - 14	4	8.0
15 - 21	3	6.0
22 - 30	1	2.0
Total	50	100.0

Individual Long Term Care Denied

Fifty claim files from a population of 58 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Two claim files (4.0 percent error ratio) did not contain a denial letter or an EOB detailing the reason for denial. One claim file (2.0 percent error ratio) was not paid, denied or a notice of investigation was not provided within 30 days. One claim file (2.0 percent error ratio) did not contain documentation that a status report was sent every 45 days until the claim was settled.

The average time to process a claim denial was 14 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	32	64.0
8 - 14	1	2.0
22 - 30	4	8.0
31 - 60	13	26.0
Total	50	100.0

Individual Accident Claims Paid

One hundred claim files from a population of 243,668 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average service time to process a claim payment was five calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	87	87.0
8 - 14	3	3.0
15 - 21	4	4.0
22 - 30	4	4.0
31 - 60	2	2.0
Total	100	100.0

Individual Accident Claims Denied

One hundred claim files from a population of 74,317 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time process a claim denial was seven calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	82	82.0
8 - 14	2	2.0
15 - 21	2	2.0
15 - 21	8	8.0
31 - 60	6	6.0
Total	100	100.0

Individual Vision Claims Paid

One hundred claim files from a population of 10,443 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process a claim payment was two calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	92	92.0
8 - 14	3	3.0
15 - 21	2	2.0
22 - 30	2	2.0
31 - 60	1	1.0
Total	100	100.0

Individual Vision Claims Denied

Fifty claim files from a population of 1,953 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Eleven claim files (22.0 percent error ratio) did not contain a denial letter or an EOB detailing the reason for the denial. The Company did not adhere to the provisions of NCGS 58-63-15(11)(n).

The average time to process a claim denial was 19 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	26	52.0
8 - 14	8	16.0
15 - 21	3	6.0
22 - 30	6	12.0
31 - 60	5	10.0
Over 60	2	4.0
Total	50	100.0

Individual Medicare Supplement Claims Paid

One hundred claim files from a population of 41,117 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process a claim payment was one calendar day. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	94	94.0
8 - 14	4	4.0
15 - 21	2	2.0
Total	100	100.0

Individual Medicare Supplement Claims Denied

One hundred claim files from a population of 5,833 were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Ten claim files (10.0 percent error ratio) contained an EOB that failed to include the reason for the claim denial. The Company did not adhere to the provisions of NCGS 58-63-15(11)(n).

The average time to process a claim denial was one calendar day. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	99	99.0
8 - 14	1	1.0
Total	100	100.0

Group Disability Claims Paid

Twenty-nine claim files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process a claim payment was eight calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	22	75.9
8 - 14	2	6.9
15 - 21	3	10.4
22 - 30	1	3.4
31 - 60	1	3.4
Total	29	100.0

Group Disability Claims Denied

Seven claim files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

One claim file (14.3 percent error ratio) did not contain a denial letter or an EOB detailing the reason for the denial. The Company did not adhere to the provisions of NCGS 58-63-35(11)(n).

The average time to process a claim denial was 13 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	4	57.1
8 - 14	1	14.3
31 - 60	2	28.6
Total	7	100.0

Group Medicare Supplement Claims Paid

Forty-five claim files were reviewed for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

No adverse trends or unfair trade practices were observed in this section of the examination.

The average time to process a claim payment was four calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	41	91.2
15 - 21	1	2.2
22 - 30	2	4.4
Over 60	1	2.2
Total	45	100.0

SPECIAL CONCERNS

Duplicate Coverage Review Hospital Confinement Claims

During the review of the claims area, the Department concluded that some of the claimants held more than one hospital confinement policy. The Department requested all claims from the examination period for insureds that had more than one hospital confinement policy.

The Department completed a separate review of the 1,064 hospital confinement claims for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Twenty-one hospital confinement claims revealed that both policies were not reviewed for benefits at the time of the claim. As a result, the claims files were reopened and additional benefits and interest were paid resulting in consumer recoveries totaling \$48,444.07.

Cesarean Section Claims Denied

During the review of policy rescissions, the Department concluded that the Company was incorrectly denying non-elective cesarean section claims. It was determined that a self-audit was required to ascertain whether non-elective cesarean section claims were properly denied. The Company reviewed the entire population of 304 denied claims for the period of January 1, 2010, through September 23, 2013. No adverse trends or unfair trade practices were observed in this section of the examination.

The Department completed a separate review of the 304 denied cesarean section claims for accuracy, adherence to Company guidelines, and compliance with North Carolina statutes and rules.

Twenty-seven cesarean section claims (8.9 percent error ratio), evidenced that non-elective cesarean section claims were not treated as a complication of pregnancy and were inadvertently denied. The Company did not adhere to the provisions of 11 NCAC 12.0323. As a result, the claims were reopened and paid with interest according to the contract provisions resulting in consumer recoveries totaling \$37,401.99.

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must adhere to a seven day response time for consumer complaints and reinforce procedures to ascertain that producers are notified within 15 days of termination. The Company must make sure each underwriting file contains documentation of reason for decline. The Company must make sure status reports are sent every 45 days. The Company must make sure the explanation of benefits (EOB) provides an explanation of a claim denial. Additionally, the Company must treat non-elective cesarean sections as a complication of pregnancy and must verify at the time of claim submission whether the insured has duplicate coverage.

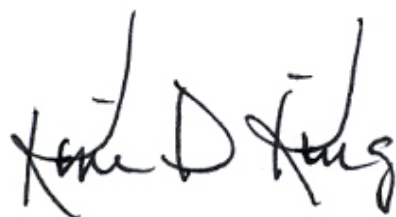
CONCLUSION

A target examination has been conducted on the market conduct affairs of American Family Life Assurance Company of Columbus for the period of January 1, 2010, through December 31, 2012, with analyses of certain operations of the Company being conducted through April 20, 2015.

This examination was conducted in accordance with the North Carolina Department of Insurance and the National Association of Insurance Commissioners Market Regulation Handbook procedures, including analyses of Company operations in the areas of policyholder treatment, producer licensing, underwriting practices, policy rescissions, and claims practices.

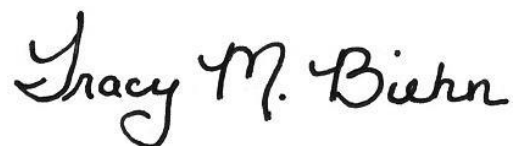
In addition to the undersigned, Marion Flemmings, HIA, HIPAAP, HCSA and Brian Dearden, CLU, ChFC, FLMI, ALHC, ACS, AIRC, AIAA, RHU, REBC, North Carolina Market Conduct Examiners, and Lalita Wells, JD, CPM, AIAA, ACS, Assistant Chief Examiner participated in this examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kim D. King". The signature is written in a cursive style with a large initial "K".

Kim D. King, HIA, MHP, PAHM
Examiner-In-Charge
Market Regulation Division
State of North Carolina

I have reviewed this examination report and it meets the provisions for such reports prescribed by this Division and the North Carolina Department of Insurance.

A handwritten signature in black ink, appearing to read "Tracy M. Biehn". The signature is written in a cursive style with a large initial "T".

Tracy Miller Biehn, LPCS, MBA
Deputy Commissioner
Market Regulation Division
State of North Carolina