

Report on
Market Conduct Examination

of

CMFG Life Insurance Company

Waverly, Iowa

by Representatives of the
North Carolina Department of Insurance

as of

February 17, 2015

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Raleigh, North Carolina
February 17, 2015

Honorable Wayne Goodwin
Commissioner of Insurance
Department of Insurance
State of North Carolina
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430 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Nick Gerhart
Commissioner of Insurance
Iowa Insurance Division
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601 Locust, 4th Floor
Des Moines, Iowa 50309-3438

Honorable Commissioners:

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

CMFG Life Insurance Company (NAIC # 62626)
NAIC Exam Tracking System Exam Number: NC299-M41
Waverly, Iowa

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

This North Carolina Department of Insurance conducted a limited-scope examination of the Company. The examination commenced on July 14, 2014, and covered the period of January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through February 17, 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 policyholder treatment, marketing, underwriting practices, and claims 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, producers who were not appointed and/or licensed; 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 area:

Producer Licensing: Appointments - Background checks not performed prior to appointment by the Company; Terminations - Termination letters not sent to the producer within 15 days after notification to the Department.

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.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling procedures were reviewed to determine adherence to Company guidelines and compliance with applicable North Carolina statutes and rules. The Company provided a listing of five consumer complaints. All files were reviewed.

The following table displays the type of complaints received for each year of the examination:

Type	2010	2011	2012
Claims	1	2	2
Total	1	2	2

One complaint was not addressed within seven calendar days. However, an extension was requested by the Company and granted by the Department.

The consumer complaint register was reviewed and was found in to be compliance with the provisions of Title 11 of the North Carolina Administrative Code (NCAC), Chapter 19, Section 0103.

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

Service Days	Number of Files	Percentage of Total
1 - 7	4	80.0
8 - 14	1	20.0
Total	5	100.0

MARKETING

Producer Licensing

As a result of the Department's market surveillance activities, the Company's procedures for appointment and termination of their producers were reviewed to determine compliance with the appropriate North Carolina statutes and rules. Fifty appointed and 50 terminated producer files were randomly selected for review from populations of 146 and 95, respectively.

Fifty producer appointment files (100 percent error ratio) did not contain evidence that a background check was performed prior to appointment. The Company was deemed to be in violation of the provisions of NCGS 58-33-40(a) and 11 NCAC 6A.0412(2).

Twelve producer termination files (24.0 percent error ratio) did not contain evidence of the notification required within 15 days after the termination. The Company was deemed to be in violation of the provisions NCGS 58-33-56(a)(b)(c)(d).

UNDERWRITING PRACTICES

Credit Card Disability Issued

The Company provided a listing of 1,400 credit card disability issued files. Fifty files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

Monthly premiums for Credit Disability credit card coverage are calculated using the credit disability rate, per \$1,000 of outstanding credit card balance, up to the policy maximums. Since credit card arrangements have no defined term, the transactions are open-ended. All premium rate standards and calculations were verified and found to be in compliance with the provisions of NCGS 58-57-45.

Credit Card Life Issued

The Company provided a listing of 1,637 credit card life issued files. Fifty files were randomly selected for review.

One file (2.0 percent error ratio) did not contain an application, and was incomplete.

Monthly premiums for Credit Life credit card coverage are calculated using the credit life rate, per \$1000 of outstanding credit card balance, up to the policy maximums. The Company's premium rate standards and calculations were found to be in compliance with the provisions of NCGS 58-57-105.

Monthly Outstanding Balance Disability Issued

The Company provided a listing of 54,390 monthly outstanding balance disability issued files. One hundred files were randomly selected for review.

One file (1.0 percent error ratio) was an invalid receipt as it was not a North Carolina contract. The review was based on the remaining 99 files.

Two files (2.0 percent error ratio) were incomplete as the credit application and loan note were not provided.

Monthly premiums for Credit Disability coverage are calculated using the credit disability rate, per \$1000 of loan balance, up to the policy maximums. The Company's premium rate standards and calculations were found to be in compliance with the provisions of NCGS 58-57-45.

Monthly Outstanding Balance Life Issued

The Company provided a listing of 6,942 outstanding balance life issued files. One hundred files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

Monthly premiums for Credit Disability coverage are calculated using the credit disability rate, per \$1000 of loan balance, up to the policy maximums. The Company's premium rate

standards and calculations were found to be in compliance with the provisions of NCGS 58-57-40.

Single Premium Disability Issued

The Company provided a listing of 188 single premium disability issued files. Fifty files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

Credit disability single premiums are calculated at the time of the loan. The premium is determined by using the single premium rate per \$100 of the insured's indebtedness, up to the policy maximums. The appropriate rate is determined based on a "14 day / 30 day" retroactive benefit or a "14 day / 30 day" non-retroactive benefit. The Company's premium rate standards and calculations were found to be in compliance with the provisions of NCGS 58-57-45.

Single Premium Disability Cancellations

The Company provided a listing of 99 single premium disability cancellations. Fifty files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of the examination.

Single premium credit disability refunds are processed using the pure premium method of refund calculation. The Company's refund calculations were found to be in compliance with the provisions of NCGS 58-57-50(c).

The average service time to process a cancellation refund was 34 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
8 - 14	1	2.0
15 - 21	4	8.0
22 - 30	18	36.0
31 - 60	27	54.0
Total	50	100.0

Single Premium Life Issued

The Company supplied a listing of 12 single premium life issued files. All files were reviewed. No adverse trends or unfair trade practices were observed in this section of the examination.

Single premium credit life premiums are calculated at the time of the loan. The premium is determined by using the single premium rate per \$100 of the insured's indebtedness, up to the policy maximums. All premium rate standards and calculations were verified and found to be in compliance with the provisions of NCGS 58-57-40.

Single Premium Life Cancellations

The Company provided a listing of two single premium life cancellations. Both files were reviewed. No adverse trends or unfair trade practices were observed in this section of the examination.

Single premium life refunds are processed using the decreasing net balance of the loan in conjunction with the Rule of 78 or the pro-rata method of refund calculation. The Company's refund calculations were found to be in compliance with the provisions of NCGS 58-57-50.

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

Service Days	Number of Files	Percentage of Total
8 - 14	1	50.0
15 - 21	1	50.0
Total	2	100.0

CLAIMS PRACTICES

Disability Claims Paid

The Company provided a listing of 4,056 disability claims paid. Fifty files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section

of the examination. All claims that were processed in excess of 30 days contained evidence that the Company sent timely acknowledgements and/or status reports.

The average service time to process a claim payment was 23 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	14	28.0
8 - 14	19	38.0
15 - 21	4	8.0
22 - 30	6	12.0
31 - 60	4	8.0
Over 60	3	6.0
Total	50	100.0

Disability Claims Denied

The Company provided a listing of 3,852 disability claims denied files. Fifty files were randomly selected for review.

One claim (2.0 percent error ratio) was not acknowledged within 30 days after receipt of the claim, and no claim status report was sent to the insured every 45 days.

The average service time to process a claim payment was 25 calendar days. A chart of the average service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	15	30.0
8 - 14	13	26.0
15 - 21	3	6.0
22 - 30	3	6.0
31 - 60	12	24.0
Over 60	4	8.0
Total	50	100.0

Life Claims Paid

The Company provided a listing of 803 life claims paid files. Fifty files were randomly selected for review. No adverse trends or unfair trade practices were observed in this section of

the examination.

The one claim that was processed in excess of 30 days contained evidence that the Company sent a timely acknowledgement.

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

Service Days	Number of Files	Percentage of Total
1 - 7	30	60.0
8 - 14	17	34.0
15 - 21	1	2.0
22 - 30	1	2.0
31 - 60	1	2.0
Total	50	100.0

Life Claims Denied

The Company provided a listing of 37 life claims denied files. All files were reviewed. 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 38 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	5	13.6
8 - 14	7	18.9
15 - 21	0	0.0
22 - 30	10	27.0
31 - 60	8	21.6
Over 60	7	18.9
Total	37	100.0

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

The Company must implement a procedure to conduct background checks on producers prior to appointment. Additionally, the Company must also send termination of appointment notices to producers within 15 days after notification of termination is sent to the Department.

CONCLUSION

A target examination has been conducted on the market conduct affairs of CMFG Life Insurance Company for the period January 1, 2011, through December 31, 2012, with analyses of certain operations of the Company being conducted through February 17, 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, marketing, underwriting practices, and claims practices.

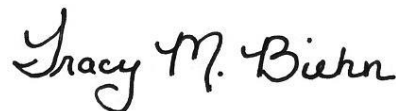
In addition to the undersigned, Linda Sinclair, ACS, AIRC, North Carolina Market Conduct Examiner, participated in this examination and in the preparation of this report.

Respectfully submitted,



Vicki S. Royal, CPM, ACS, AIAA, AIRC
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.



Tracy M. Biehn, LPCS, MBA
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Market Examinations Division
State of North Carolina