



REPORT ON
MARKET CONDUCT EXAMINATION

of the

SECU LIFE INSURANCE COMPANY
Raleigh, North Carolina

BY REPRESENTATIVES OF THE
NORTH CAROLINA DEPARTMENT OF INSURANCE

as of

September 1, 2021

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Raleigh, North Carolina
September 1, 2021

Honorable Michael Causey
Commissioner of Insurance
Department of Insurance
State of North Carolina
325 N. Salisbury Street
Raleigh, North Carolina 27603

Honorable Commissioner:

In accordance with the provisions of North Carolina General Statute (NCGS) 58-2-131 through NCGS 58-2-134, a general examination has been made of the market conduct activities of the following entity:

**SECU Life Insurance Company
(NAIC #14924)**

NAIC Exam Tracking System Exam Number: NC-NC094-26
Raleigh, North Carolina
(hereinafter referred to as the Company)

The examination was conducted at the North Carolina Department of Insurance (Department) located at 325 N. Salisbury Street, Raleigh, North Carolina. A report thereon is respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on August 15, 2020 and covered the period of January 1, 2017 through December 31, 2019. Analyses of certain operations of the Company were concluded during the Wrap-Up Conference which was held May 21, 2021. All comments made in this report reflect conditions observed during the periods of the examination.

This 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 this examination was comprehensive but not all inclusive and consisted of a review of the Company's practices and procedures in policyholder treatment, marketing, underwriting, policy rescissions, nonforfeiture benefits and

claims handling. The findings and conclusions contained within the report are based solely on the work performed and are referenced within the appropriate sections of the examination report.

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, sales and advertising, producers who were not appointed and/or licensed, 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. When errors are detected in a sample, but the error rate is below the applicable threshold for citing a violation, the Department issues a reminder to the company.

EXECUTIVE SUMMARY

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

Policyholder Treatment –

- Failure to log each complaint and include the required information on the register

Marketing –

- Making a misrepresentation in the producer training manuals
- Failure to notify a terminated producer in a timely manner
- Failure to send a termination letter to terminated producers

Underwriting –

- Referencing a form that was not used during the sale of a policy
- Failure to send a replacement letter to existing insurer(s)
- Referencing a form incorrectly as an illustration

Nonforfeiture Benefits –

- Using improper forms during a non-forfeiture transaction
- Failure to include a Non-Forfeiture Option Form in all files

Claims Practices –

- Failure to acknowledge a claim within 30 days of receipt

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 Website <https://www.ncdoi.gov/insurance-industry/market-regulation>.

This examination identified statutory violations. The Company is directed to take immediate corrective action to demonstrate their ability and intention to conduct business in North Carolina according to its insurance laws and regulations.

All statutory violations may not have been discovered or noted in this report. Failure to identify statutory violations in North Carolina does not constitute acceptance of such violations.

COMPANY OVERVIEW

History and Profile

The Company was incorporated in Raleigh, North Carolina on October 4, 2012 as a North Carolina domiciled life insurance company. On January 2, 2013, State Employees' Credit Union (SECU) invested \$25,000,000 to initially capitalize the Company and received 250,000 shares of common stock.

The Company was licensed by the Department on January 2, 2013 to sell term, whole, group life insurances and non-variable annuity products to the citizens of North Carolina. The Company is a wholly-owned subsidiary of SECU, a non-profit financial cooperative, which has served the financial needs of North Carolina teachers and state employees and their families since 1937.

Company Operations and Management

The Company has no subsidiaries or branch offices. Employees dedicated to Company operations are dual employees of SECU. The Company compensates SECU for salaries and

benefits in accordance with the management agreement approved by the Department on April 26, 2013.

The Company operates exclusively in North Carolina. All operational functions are carried out in Raleigh, North Carolina. Employees dedicated to management, marketing, customer services, underwriting, and claims are dual employees of SECU and the Company. The Company's President/Chief Executive Officer and Chief Operating Officer oversee the management, marketing, customer service, underwriting, and claims of the Company.

The North Carolina total premium during the examination period follows:

Line of Business	2017	2018	2019
Life	\$4,863,827	\$6,171,966	\$6,342,245
Annuity	\$2,821,098	\$3,897,748	\$9,552,034
Total	\$7,684,925	\$10,069,714	\$15,894,279

As part of the management agreement between the Company and SECU, SECU provides various IT services to the Company including document retention. Policy and contract documents are stored electronically in an image repository with access restricted to authorized personnel. Records are also stored on various servers and in encrypted databases at SECU data centers. The Company has not purged any records.

POLICYHOLDER TREATMENT

Consumer Complaints

The Company's complaint handling practices were reviewed for accuracy, adherence to Company guidelines, and 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 did not log each departmental complaint and did not include the required information into the register. The Company was

deemed to be in violation of the provisions of Title 11 of the North Carolina Administrative Code (NCAC) Chapter 19, Section 0103.

The Department requested the entire population of ten consumer complaint data files for review during the examination period. Three files referenced complaints outside of the examination period, therefore deemed to be invalid receipts and excluded from the total population. The review and survey were based on the remaining seven files.

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

Type	2017	2018	2019
Administrative Related	1	1	2
Underwriting Related	0	1	2
Total	1	2	4

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

Service Days	Number of Files	Percentage of Total
1 - 7	7	100.0
Total	7	100.0

Privacy of Financial and Health Information

The Company exhibited policies and procedures that ensure nonpublic personal financial or health information is not disclosed unless the consumer has authorized the disclosure. The Company was in compliance with the provisions of NCGS 58-39-25, NCGS 58-39-26, and NCGS 58-39-27.

MARKETING

Certificates of Compliance – Advertising

The Company provided copies of the Certificates of Compliance - Advertising as required by the provisions of 11 NCAC 12.0431. The Certificates were appropriately filed for years 2017, 2018, and 2019.

Policy Forms and Filings

All policy forms filed with the Department and in use during the examination period were compared with a list of approved policy forms listed in the SERFF database.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

Sales and Advertising

The Company provided sales and advertising materials that displayed evidence of control over content, form, and method of dissemination of all advertisements of its policies and maintains a sales and advertising file. The Company was in compliance with the provisions of 11 NCAC 12.0425 and 12.0431. The Company does not utilize social media, nor do they have a direct website. Producers are prohibited from using social media to promote company products and services. It was noted that the producer training manuals made a misrepresentation by using the term Illustration. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0426(a) and 12.0427(b).

Producer Licensing - Appointments

The Company's producer licensing practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with applicable North Carolina statutes and rules. The Company provided a listing of 632 appointed producers. Fifty files were randomly selected for review.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

Producer Licensing - Terminations

The Company's producer licensing practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with applicable North Carolina statutes and rules. The Company provided a listing of 169 terminated producers. Fifty files were randomly selected for review.

Ten files (20% error ratio) did not contain evidence that a termination letter was sent to the terminated producer. The Company was deemed to be in violation of the provisions of were deemed to be in violation of NCGS 58-33-56(d).

Agency Management

SECU is responsible for the licensing and supervision of its insurance producers and for promptly notifying the Company of any suspension or termination of an insurance license or of any pending criminal, civil or administrative action which would otherwise bear upon the ability of the licensed insurance producer to perform their obligations under the agency agreement.

The Company utilizes multiple processes, procedures, and controls to oversee the activity performed by SECU and its licensed appointed insurance producers. The Company's software and other technology used for soliciting, selling, and servicing existing contracts contains electronic safeguards which limit access to those who have a legitimate reason and permission to retrieve such information.

While the Company does not appoint independent insurance producers to solicit contracts, currently 1,581 appointed insurance producers are employed; of which a total of 991 have received the requisite training to sell both life insurance and annuity products.

UNDERWRITING

Individual Non-Variable Life Issued Standard

The Company's underwriting practices were reviewed to determine accuracy, adherence to Company guidelines, and compliance with the applicable North Carolina statutes and rules.

The Company provided a listing of 10,504 individual life issued data files. One hundred files were randomly selected for review.

Fifty-four files (54% error ratio) referenced an illustration had been used during the sale of the policy. However, a box on the application was checked "yes" when there was no illustration provided to the applicant. The Company was deemed to be in violation of the provisions of NCGS 58-58-40.

The average service time to underwrite and issue a policy was 19 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	32	32.0
8 - 14	12	12.0
15 - 21	49	49.0
22 - 30	1	1.0
31 - 60	2	2.0
Over 60	4	4.0
Total	100	100.0

Individual Non-Variable Life Declined

The Company's underwriting practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 4,199 individual life declined data files. Fifty files were randomly selected for review.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to underwrite and decline a policy was one calendar day. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	49	98.0
22 - 30	1	2.0
Total	50	100.0

Individual Non-Variable Life Replacements

The Company's underwriting practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 411 individual life replacement data files. Fifty files were randomly selected for review.

Five files (10% error ratio) contained evidence that the Company failed to send a replacement letter notifying any other existing insurers that may be affected by the proposed replacement. The Company was deemed to be in violation of the provisions of 11 NCAC 12.0612(a)(2).

Six files (12% error ratio) referenced an illustration had been used during the sale of the policy. However, a box on the application was checked "yes" when there was no illustration provided to the applicant. The Company was deemed to be in violation of the provisions of NCGS 58-58-40.

The average service time from the date the application was received to the date on the notification letter to the replaced insurer was five calendar days. A chart of the service time to notify the existing insurer of replacement follows:

Service Days	Number of Files	Percentage of Total
1 - 7	41	82.0
8 - 14	7	14.0
15 - 21	2	4.0
Total	50	100.0

Individual Non-Variable Annuity Issued Standard

The Company's underwriting practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 297 individual non-variable life annuity issued standard data files. Fifty files were randomly selected for review.

Fourteen files (28% error ratio) contained evidence that the Company made a misrepresentation to the insured by using a form titled "Illustration". The Company was deemed to be in violation of the provisions of NCGS 58-58-40, and NCGS 58-63-15(1).

The average service 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	19	38.0
8 - 14	5	10.0
15 - 21	17	34.0
22 - 30	5	10.0
31 - 60	4	8.0
Total	50	100.0

Individual Non-Variable Annuity Replacements

The Company's underwriting practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 13 individual annuity replacement data files. The entire population was reviewed.

No irregularities, adverse trends or unfair trade practices were perceived in this section of the examination.

The average service time from the date the application was received to the date on the notification letter to the replaced insurer was six calendar days. A chart of the service time to notify the existing insurer of replacement follows:

Service Days	Number of Files	Percentage of Total
1 – 7	10	76.9
8 – 14	1	7.7
15 – 21	2	15.4
Total	13	100.0

POLICY RESCISSIONS

Individual Life Policy Rescissions

The Company's policy rescissions practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 30 individual life rescission data files. The entire population was reviewed.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

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

Service Days	Number of Files	Percentage of Total
1 - 7	20	66.7
8 – 14	6	20.0
15 – 21	3	10.0
31 – 60	1	3.3
Total	30	100.0

NONFORFEITURE BENEFITS

Individual Life Cash Surrenders

The Company's nonforfeiture practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 33 individual life cash surrender data files. The entire population was reviewed.

Twenty-two files (66.7% error ratio) contained evidence that the Company made a misrepresentation by using a Notice of Cancellation form in place of the Non-Forfeiture Option form. The Company was deemed to be in violation of the provisions of NCGS 58-63-15(1).

Five files (15.2% error ratio) were incomplete as the Non-Forfeiture Option form was not included in the file. The Company was deemed to be in violation of the provisions of 11 NCAC 19.0102 and 19.0106.

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

Service Days	Number of Files	Percentage of Total
1 - 7	33	100.0
Total	33	100.0

Individual Annuity Cash Surrenders

The Company's nonforfeiture practices were reviewed to determine accuracy, adherence to Company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 23 individual annuity cash surrender data files. The entire population was reviewed.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

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

Service Days	Number of Files	Percentage of Total
1 - 7	23	100.0
Total	23	100.0

CLAIMS PRACTICES

Group Life Claims Paid

The Company's claim practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with the applicable North Carolina statutes and rules. The Company provided a listing of 151 group life claims paid data files. Fifty files were randomly selected for review.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service 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	49	98.0
22 - 30	1	2.0
Total	50	100.0

Individual Annuity Claims Paid

The Company's claims practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with applicable North Carolina statutes and rules. The Company provided a listing five individual annuity paid data claims. The entire population was reviewed.

No irregularities, adverse trends, or unfair trade practices were perceived in this section of the examination.

The average service time to process a claim payment was 41 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	1	20.0
8 - 14	1	20.0
22 - 30	2	40.0
Over 60	1	20.0
Total	5	100.0

Individual Life Claims Paid

The Company's claims practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with applicable North Carolina statutes and rules. The Company provided a listing of 33 individual life paid data claims. The entire population was reviewed.

Four (12.1% error ratio) files revealed that the insurer failed to acknowledge and act reasonably promptly within 30 days upon receipt of the claim. The Company was deemed to be in violation of the provisions of NCGS 58-3-100(c) and NCGS 58-63-15(11)(b).

Two (6.1% error ratio) files were incomplete as the file did not specify the inception, handling, and disposition of claim. The Company was reminded of the provisions of 11 NCAC 19.0105.

The average service time to process a claim payment was 21 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	10	30.3
8 - 14	11	33.3
15 - 21	2	6.1
22 - 30	4	12.1
31 - 60	4	12.1
Over 60	2	6.1
Total	33	100.0

Individual Life Claims Denied

The Company's claims practices were reviewed to determine accuracy, adherence to company guidelines, and compliance with applicable North Carolina statutes and rules. The Company provided a listing of eight individual life denied claim data files. The entire population was reviewed.

Four files (50% error ratio) revealed that the insurer failed to acknowledge and act reasonably promptly within 30 days upon receipt of the claim. The Company was deemed to be in violation of the provisions of NCGS 58-3-100(c) and NCGS 58-63-15(11)(b).

The average service time to process a claim denial was 69 calendar days. A chart of the service time follows:

Service Days	Number of Files	Percentage of Total
1 - 7	1	12.5
31- 60	5	62.5
Over 60	2	25.0
Total	8	100.0

COMMENTS, RECOMMENDATIONS AND DIRECTIVES

The Company must comply with the statutory requirements regarding logging all complaints and including the required information; not misrepresenting information in the producer training manual; and notifying terminated producers in a timely manner. The

Company must comply with the statutory requirements regarding the use of the term illustration and sending replacement letters to existing insurer(s). The Company must comply with the statutory requirements regarding the use of proper forms during a non-forfeiture transaction and maintaining complete non-forfeiture records. The Company must comply with the statutory requirements regarding acknowledging and acting promptly within 30 days of the receipt of a claim.

Upon acceptance of the Report, the Company shall provide the Department with a statement of corrective action plan to address the violations identified during the examination. The Department will conduct a future investigation, if warranted, to determine if the Company successfully implemented its statement of corrective action.

CONCLUSION

An examination has been conducted on the market conduct affairs of SECU Life Insurance Company for the period January 1, 2017 through December 31, 2019 with analyses of certain operations of the Company being conducted through May 21, 2021.

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, policy rescissions, nonforfeiture benefits, and claims practices.

In addition to the undersigned, Shane E. Jordan, MHS, MCM North Carolina Market Conduct Senior Examiner, and Princess Greene, MCM, North Carolina Market Conduct Examiner participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Vicki S. Royal".

Vicki S. Royal, CPM, MCM, 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.

A handwritten signature in cursive script that reads "Teresa Knowles".

Teresa Knowles, MCM, ACS
Deputy Commissioner Market
Regulation Division State of
North Carolina