



# Illinois Department of Insurance

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**Bruce Rauner**  
Governor

**Anne Melissa Dowling**  
Acting Director

June 2, 2016

David J. Dietz, President  
Farmers New World Life Insurance Company  
3003 77<sup>th</sup> Ave SE  
Mercer Island, WA 98040

**Re: Farmers New World Life Insurance Company, NAIC 63177**  
***Market Conduct Examination Report Closing Letter***

Dear Mr. Dietz:

The Department has reviewed your Company's proof of compliance and deems it adequate and sufficient. Therefore, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Michael P. Rohan".

Michael P. Rohan  
Deputy Director  
Consumer Education and Protection  
Illinois Department of Insurance  
122 S. Michigan Avenue, 19th Floor  
Chicago, IL 60603  
Phone: (312) 814-8206  
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**FARMERS NEW WORLD LIFE INSURANCE COMPANY**  
**MARKET CONDUCT EXAMINATION REPORT**

## MARKET CONDUCT EXAMINATION REPORT

**DATE OF EXAMINATION:** March 9, 2015 through May 9, 2015

**EXAMINATION OF:** Farmers New World Life Insurance Company, NAIC#63177

**LOCATION:** 3003 77<sup>th</sup> Ave. SE  
Mercer Island, Washington 98040

**PERIOD COVERED  
BY EXAMINATION:** July 1, 2013 through June 30, 2014 – Claims  
July 1, 2012 through March 9, 2015 – Appeals and  
Complaints

**EXAMINERS:** Chris Heisler  
Stan Kupish  
David Bradbury, Examiner in Charge

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## I. FOREWORD

A comprehensive Market Conduct Examination of Farmers New World Life Insurance Company (FNWLIC) NAIC # 63177 was performed to determine compliance with Illinois Statutes and the Illinois Administrative Code. Statutory citations were as of the examination period unless otherwise noted.

This examination was conducted at the offices of Farmers New World Life Insurance Company, located at 3003 77<sup>th</sup> Avenue SE, Mercer Island, Washington 98040.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures or files does not constitute approval thereof by the Illinois Department of Insurance (Department).

## II. SCOPE OF EXAMINATION

The Department has the authority to conduct this examination pursuant to, but not limited to 215 ILCS 5/132.

The purpose of the examination was to determine whether the Company's operations are consistent with the public interest. The primary period covered by this review is July 1, 2013 through June 30, 2014 for claims and July 1, 2012 through March 9, 2015 for complaints and appeals unless otherwise noted. Errors that fall outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination focused on a review of the following areas: claims handling practices, policy forms, advertising, policyholder services, consumer complaints, and Department complaints for all lines of business.

In performing this examination, the examiners reviewed a sample of the Company's practices, procedures, products, forms, extra-contractual claim adjudication guidelines and files. Therefore, some non-compliant events may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or non-compliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

### III. SUMMARY

1. The Company was criticized for failure to provide the insured with the “*Notice of Availability of the Department of Insurance*” on the 45-day delay letter as required by 50 Ill. Adm. Code 919.70(a)(2).
2. The Company was criticized for failure to give notice of all available options under a policy prior to enacting a non-forfeiture option as required by 215 ILCS 5/234.1.
3. The Company was criticized for failure to provide the applicant a copy of the Buyer’s Guide on replacements and document that it was provided as required by 50 Ill. Adm. Code 917.70(c).
4. The Company was criticized for failure to provide replacement information signed by the agent as described in Exhibit B of the referenced Section as required by 50 Ill. Adm. Code 917.60(b)(1).
5. The Company was criticized for failure to provide a policy summary to the existing insurer within three (3) working days after the date the replacement policy is issued and/or provide to the insured with a 20 day “Free Look” when the newly issued policy is a replacement as required by 215 ILCS 5/224(2) and document that they were provided.
6. The Company was criticized for failure to provide the insured with a 45-day delay letter as required by 50 Ill. Adm. Code 919.70(a)(2).
7. The Company was criticized for policy language that does not meet the 24-month standard as part of the Terminal Illness definition as defined in 50 Ill. Adm. Code 1407.20.
8. The Company was criticized for the use of ambiguous language. Contributory language is prohibited in Life policy forms per 50 Ill. Adm. Code 1405.40(p)(2).
9. The Company was criticized for failing to include the following language on an Accidental Death Benefit form “This is an accident only policy and it does not pay benefits for loss from sickness” as required by 50 Ill. Adm. Code 2007.80(a)(6).
10. The Company was criticized for including words which establish an accidental means test. The use of the term “independent of all other causes” and the use of the word “indirectly” are not allowed per 50 Ill. Adm. Code 2007.50

#### IV. BACKGROUND

In February 1910, FNWLIC organized as the Roman Catholic Life Insurance Company of America in Spokane, Washington for the exclusive benefit of Roman Catholics. It changed its name to New World Life Insurance Company in September 1910. By 1921, the Company was doing business throughout Washington, Oregon, California, Idaho, Montana, North Dakota, Minnesota and Wisconsin. Corporate offices moved to Seattle in 1930. Underwriting Associations of Farmers purchased a controlling interest in the Company by 1953 and the Company changed its Articles of Incorporation in order to take a new name, Farmers New World Life Insurance Company, in 1954. FNWLIC was admitted to do business in the State of Illinois in 1955. The Corporate offices moved to Mercer Island in 1958. In 1981, FNWLIC's policies in force exceeded 500,000, and the Company opened a second service office in Columbus OH. In December 1988, Farmers Group Stock was acquired by BATUS Inc., the American subsidiary of B.A.T Industries of Great Britain. On October 16, 1997, B.A.T announced a proposed merger of B.A.T's financial group, including Farmers, with Zurich Insurance headquartered in Switzerland. A definitive merger agreement was signed on December 23, 1997, and in October 1998, B.A.T Financial Services, including Farmers Group, merged with Zurich Insurance of Switzerland.

FNWLIC is licensed to do business in 49 states and the District of Columbia. It is not licensed to do business in New York. The Company markets individual life insurance products, including universal life, term life, whole life, variable life insurance, stand-alone accidental death, and fixed annuity products.

FNWLIC utilizes multi-line modified-exclusive agents (agents who may place risks unacceptable to FNWLIC with outside companies) for the distribution of Life and Annuity products in Illinois. The Company does not utilize the services of any General or Managing Agents.

In 2000, FNWLIC added a variable product line to the Company's product portfolio offering variable universal life and variable annuities. The Company discontinued offering variable annuities effective September 30, 2012. FNWLIC has contracted with McCamish Systems LLC (McCamish) to act as the third-party administrator. McCamish handles all activities for the variable products except underwriting, check writing, claims and Supplemental Contracts (annuity payout phase) which are handled by FNWLIC.

FNWLIC discontinued the sale of Long-Term Care (LTC) products on August 18, 2003. The Company's closed block of LTC policies are fully administered by Continental Casualty Company (CNA); including claims handling.

## V. METHODOLOGY

The Market Conduct Examination places emphasis on evaluating an insurer's systems and procedures used in dealing with insureds and claimants. The following categories are the general areas examined:

1. Policy Forms
2. Claims
3. Consumer and Insurance Department Complaints

The review of these categories is accomplished through examination of producer files, application files, cash surrendered policy files, extended term and reduced paid-up policy files, claim files, Department complaint files, policy forms and advertising material. Each of these categories is examined for compliance with Department regulations and applicable state laws.

The following methods were used to obtain the required samples and to assure a methodical selection:

### Policy Forms

The Company was requested to provide specimen copies of all policy forms in use during the survey period.

### Claims

Claim surveys were selected using the following criteria:

1. Paid Claims - Payment for coverage made during the examination period.
2. Denied Claims - Denial of benefits for losses not covered by policy provisions.
3. Individual or Franchise Claims - Determine whether the contracts were issued on an individual or franchise basis.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Title 50 of the Illinois Administrative Code.

All median payment periods were measured from the date necessary proofs of loss were received to the date of payment or denial to the insured or the beneficiary.

The examination period for the claims review was July 1, 2013 through June 30, 2014.



### Consumer and Insurance Department Complaints

The Company was requested to provide all files relating to complaints which had been received via the Department as well as those received directly by the Company from the insured or his/her representative. A copy of the Company's complaint register was also reviewed.

Median periods were measured from the date of notification of the complaint to the date of response to the Department.

The examination period for Department of Insurance complaints was July 1, 2012 through March 9, 2015.

### **FARMERS NEW WORLD LIFE INSURANCE COMPANY**

<u>Survey</u>	<u>Population</u>	<u>Reviewed</u>	<u>% Reviewed</u>
<b>CLAIMS ANALYSIS</b>			
Paid Life	246	82	33.33%
Denied Life	2	2	100.00%
Compromised Life	2	2	100.00%
Denied Accidental Death	2	2	100.00%
Paid Long-Term Care	1	1	100.00%
Denied Long-Term Care	1	1	100.00%
Annuity Death Settlements	40	40	100.00%
<b>POLICYHOLDER SERVICES</b>			
Extended Term / Reduced Paid-Up Non-forfeiture	150	86	57.33%
Replacements	87	87	100.00%
Annuity Cash Surrender	164	79	48.17%
Life Cash Surrender	1338	116	8.67%
New Life Applications	6,202	116	1.87%
Declined Life Applications	484	86	17.77%
Annuity New Business	10	10	100.00%

Approved Waiver of Premium	4	4	100.00%
Rejected Waiver of Premium	2	2	100.00%
PRODUCER LICENSING	582	582	100.00%
CONSUMER APPEALS	49	49	100.00%
DEPARTMENT OF INSURANCE COMPLAINTS	12	12	100.00%
POLICY FORMS AND ADVERTISING			
Policy Forms	73	73	100.00%
Advertising	308	308	100.00%

## VI. FINDINGS

### A. Claims Analysis

#### 1. Paid Life

A review of 82 paid life claims produced eight (8) criticisms. A criticism was written for violation of 50 Ill. Adm. Code 1407.20 for policy language used to adjudicate an accelerated benefit claim made due to terminal illness. The criticized policy language deviated from the required 24 months expressed in Section 1407.20. Seven (7) criticisms were written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with the "Notice of Availability of the Department of Insurance" on the 45-day delay letter.

The median for payment was seven (7) days.

#### 2. Denied Life

A review of two (2) denied life claims produced two (2) criticisms. Two (2) criticisms were written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with the "Notice of Availability of the Department of Insurance" on the 45-day delay letter.

The median could not be established.

#### 3. Compromised Life

A review of two (2) compromised life claims produced no criticisms.

The median could not be established.

#### 4. Denied Accidental Death

A review of two (2) denied accidental death claims produced one (1) criticism. The criticism was written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with the "Notice of Availability of the Department of Insurance" on the 45-day delay letter.

The median could not be established.

#### 5. Paid Long-Term Care

A review of one (1) paid long-term care file produced no criticisms.

The median could not be established.

## 6. Denied Long-Term Care

A review of one (1) denied long term care claim produced one (1) criticism. The criticism was written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with the “Notice of Availability of the Department of Insurance” on the 45-day delay letter.

The median could not be established.

## 7. Annuity Death Settlements

A review of forty (40) paid annuity death settlements produced no criticisms.

The median for payment was 24 days.

## B. Policyholder Services

### 1. Extended Term / Reduced Paid-Up Non-Forfeiture

A review of 86 files extended term insurance / reduced paid up enactments produced 86 criticisms. All files reviewed were in violation of 215 ILCS 5/234.1 for failure to provide all available options. FNWLIC failed to refer the policy owner to the availability of a cash value in the notice of non-forfeiture letter.

### 2. Replacements

A review of 87 replacement files produced 180 criticisms. Thirteen (13) criticisms were written for violation of 50 Ill. Adm. Code 917.70(c) for failure to provide the Buyer’s Guide or document that it was provided. Eighty-six (86) files were criticized for violation of 50 Ill. Adm. Code 917.60(b)(1) for failure to provide replacement information signed by the agent. Eighty-one (81) files were criticized for violation of 215 ILCS 5/224(2) for failure to provide a policy summary to the existing insurer within three (3) working days after the date the replacement policy is issued and/or provide the insured with a notice of the 20-day “Free Look” when the newly issued policy is a replacement or document that they were provided.

### 3. Annuity Cash Surrender

A review of 79 annuity cash surrender files produced no criticisms.

The median for surrender was seven (7) days.

4. Life Cash Surrender

A review of 116 life cash surrender files produced no criticisms.

The median for surrender was ten (10) days.

5. Life Applications

A review of 116 life applications produced no criticisms.

6. Declined Life Applications

A review of 86 declined life applications produced no criticisms.

7. Annuity Applications

A review of ten (10) annuity new business applications produced no criticisms.

8. Approved Waivers of Premium

A review of four (4) approved waivers of premium claims produced one (1) criticism. The criticism was written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with a 45-day delay letter.

The median could not be established.

9. Denied Waivers of Premium

A review of two (2) denied waivers of premium claims produced two (2) criticisms. The criticisms were written for violation of 50 Ill. Adm. Code 919.70(a)(2) for failure to provide the insured with the "Notice of Availability of the Department of Insurance" on the 45-day delay letter.

The median could not be established.

C. Producer Licensing

A review of 582 producer licensing files produced no criticisms.

D. Consumer Complaints

A review of 49 consumer complaints produced no criticisms.

**E. Department of Insurance Complaints**

A review of twelve (12) Department complaints produced no criticisms.

**F. Policy Forms and Advertising**

**1. Policy Forms**

A review of 73 policy forms produced forty (40) criticized forms. Fifteen (15) forms were criticized for violation of 50 Ill. Adm. Code 1407.20 for policy language that does not meet the 24-month standard as part of the Terminal Illness definition. Twenty-three (23) forms were criticized for violation of 50 Ill. Adm. Code 1405.40(p)(2) for the use of ambiguous language. Contributory language is prohibited in Life Policy forms. One (1) form was criticized for violation of 50 Ill. Adm. Code 2007.80(a)(6) for failing to include on an Accidental Death Benefit form "This is an accident only policy and it does not pay benefits for loss from sickness." One (1) form was criticized for violation of 50 Ill. Adm. Code 2007.50 for including words which establish an accidental means test. The use of the term "independent of all other causes" and the use of the word "indirectly" are not allowed.

**2. Advertising**

A review of 308 pieces of advertising produced no criticisms.

STATE OF ILLINOIS            )  
  ) ss  
COUNTY OF COOK            )

David Bradbury, being first duly sworn upon his/her oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In Charge to examine the insurance business and affairs of Farmers New World Life Insurance Company, (the "Company"), NAIC #63177;

That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as a policyholder or claimant under a policy or as an owner of shares in a regulated diversified investment company, and that neither the Examiner-In-Charge nor any other persons so designated nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That she/he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the Company.

  
Examiner-In-Charge

Subscribed and sworn to before me  
this 11<sup>th</sup> day of August, 2015.

  
Notary Public



STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**FARMERS NEW WORLD LIFE INSURANCE COMPANY**  
**3003 77<sup>TH</sup> AVE SE**  
**MERCER ISLAND, WA 98040**

STIPULATION AND CONSENT ORDER

WHEREAS, the Acting Director (“Acting Director”) of the Illinois Department of Insurance (“Department”) is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Farmers New World Life Insurance Company (“Company”), NAIC 63177, is authorized under the insurance laws of this State and by the Acting Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403, 407, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, 5/407, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department examiner filed a Market Conduct Examination Report which is an official document of the Department; and

WHEREAS, the Market Conduct Examination Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407, and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and



WHEREAS, the Company and the Acting Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Acting Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and Department Regulations; and
2. The Acting Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Acting Director that the Company shall:

1. Institute and maintain procedures to provide the insured or beneficiary, when applicable, a reasonable written explanation for delay, accompanied by a Notice of Availability of the Department of Insurance, when a claim remains unresolved for forty-five (45) days from the date it is reported as required by 50 Ill. Adm. Code 919.70(a)(2).
2. Institute and maintain procedures to provide notice of all available options under a policy prior to enacting a non-forfeiture option as required by 215 ILCS 5/234.1.
3. Institute and maintain procedures to provide the applicant with a copy of the Buyer's Guide on replacements and document that it was provided as required by 50 Ill. Adm. Code 917.70(c).
4. Institute and maintain procedures to provide replacement information signed by the agent as described in Exhibit B of the referenced Section as required by 50 Ill. Adm. Code 917.60(b)(1).
5. Institute and maintain procedures to provide a policy summary to the existing insurer within three (3) working days after the date the replacement policy is issued and/or provide to the insured a 20-day "Free Look" when the newly issued policy is a replacement as required by 215 ILCS 5/224(2), and document that they were provided.
6. Discontinue use of policy forms that do not meet the 24-month standard as part of the Terminal Illness definition as defined in 50 Ill. Adm. Code 1407.20.
7. Discontinue use of policy forms using ambiguous language. Contributory language is prohibited in Life policy forms per 50 Ill. Adm. Code 1405.40(p)(2).
8. Submit to the Acting Director of Insurance, State of Illinois, proof of compliance with the above seven (7) orders within 30 days of execution of this Order.
9. Pay to the Acting Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$26,200 to be paid within 30 days of execution of this Order.

NOTHING contained herein shall prohibit the Acting Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of FARMERS NEW WORLD LIFE INSURANCE COMPANY

David Dietz  
Signature  
DAVID DIETZ  
Name  
PRES & CEO  
Title

Subscribed and sworn to before me this  
12<sup>TH</sup> day of APRIL 2016.

Suzette E Duett-Kent  
Notary Public



DATE 4/27/16

DEPARTMENT OF INSURANCE of the  
State of Illinois:

Anne Melissa Dowling  
Acting Director

