

**Horace Mann Life Insurance Company**

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: July 19, 2010 through September 4, 2010

EXAMINATION OF: Horace Mann Life Insurance Company

LOCATION: One Horace Mann Plaza  
Springfield, Illinois 62715

PERIOD COVERED  
BY EXAMINATION: 02-01-09 through 1-31-10 – Claims  
02-01-08 through 7-19-10 – Complaints

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## I. SUMMARY

1. The Company was criticized under 215 ILCS 5/234.1 for failure to give notice of all available options under the policy prior to enacting a non-forfeiture option.
2. The Company was criticized under 215 ILCS 5/224(2) and 50 Ill. Adm. Code 930.50 for failure to provide a policy summary to the applicant within three (3) working days.
3. The Company was criticized under 50 Ill. Adm. Code 917.70(c) for failure to provide the “Notice Regarding Proposed Replacement of Life Insurance or Annuity” to the existing insurer within three (3) working days after receipt of application.
4. The Company was criticized under 50 Ill. Adm. Code 2602.40 for failure to limit the use of benefits to correct overpayment of prior benefits beyond six (6) months for benefit payment or 12 months for errors arising from billing errors.

## II. BACKGROUND

Horace Mann Life Insurance Company (Company) was incorporated on August 9, 1949 as a stock legal reserve life insurance company and commenced business on September 19, 1949 under the provisions of the Illinois Insurance Code. Originally licensed to sell life insurance, the Company became authorized to issue policies or contracts payable in variable dollar amounts on September 30, 1968, and on June 18, 1969 was authorized to sell accident and health insurance. The Company, a wholly owned subsidiary of Horace Mann Educators Corporation (HMEC), at this time, owned 100% of the outstanding shares of Allegiance Life Insurance Company.

HMEC, originally named IEA (Illinois Educators Association) was founded in Springfield, Illinois, in 1945 by two (2) Illinois teachers who saw a need for providing automobile insurance for its association members. The Company expanded its business to other states and broadened its product line to include group and individual life insurance in 1949, 403(b) tax-qualified retirement annuities in 1961 and homeowners insurance in 1965.

In 1968, INA Corporation (INA), a Philadelphia-based insurance and financial services corporation acquired a 25% interest in HMEC. In 1974, INA began increasing its holdings of HMEC and by January 1975 had acquired HMEC. In 1982, INA Corporation merged with Connecticut General Corporation, forming a new holding company known as CIGNA. In August 1989, an investor group directed by Gibbons, Green, van Amerongen, L.P. (subsequently Gibbons, Goodwin, van Amerongen GGvA) and certain members of the Company's senior management acquired HMEC from CIGNA and on August 21, 1989 the Company paid dividends to HMEC consisting of 100% of the capital stock of Allegiance Life Insurance Company (ALIC). ALIC then acquired all the outstanding shares of the Company in exchange for a surplus note. On December 9, 1994 the Company retired the surplus note in exchange for the issuance of stock.

In November 1991, HMEC completed an initial public offering of its common stock. The common stock is now traded on the New York Stock Exchange under the symbol "HMN."

### III. METHODOLOGY

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

1. Producer Licensing and Production Analysis
2. Policy Forms and Advertising Material Analysis
3. Claims
4. Consumer and Department of Insurance Complaints

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

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated to the insurer, but not cited in the report if not indicative of a general trend, except to the extent that there were underpayments in claim surveys or undercharges and/or overcharges in underwriting surveys. The following methods were used to obtain the required samples and to assure a methodical selection.

#### Producer Licensing and Production Analysis

Populations for the producer file reviews were determined by whether or not the producers were licensed by the State of Illinois. New business listings were retrieved from Company records selecting newly solicited insurance applications which reflected Illinois addresses for the applicants.

#### Policy Forms and Advertising Material Analysis

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

#### Claims

Claim surveys were selected using the following criteria:

1. Paid Claims - Payment for a 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 Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*).

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 February 1, 2009 through January 31, 2010.

#### Consumer and Department of Insurance Complaints

The Company was requested to provide all files relating to complaints which had been received via the Department of Insurance 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 complaints was February 1, 2008 through July 19, 2010.

## SELECTION OF SAMPLE

<u>Survey</u>	<u>Population</u>	<u>Reviewed</u>	<u>% Reviewed</u>
CLAIMS ANALYSIS			
Paid Individual Life	136	136	100
Denied Individual Life	1	1	100
Paid Group Life	45	45	100
Paid Group Health	1	1	100
Denied Group Health	1	1	100
Paid Hospital Indemnity	1	1	100
Paid Group Disability	2	2	100
Denied Group Disability	1	1	100
Paid Cancer	8	8	100
Approved Waiver of Premium	5	5	100
Annuity Death Settlements	56	56	100
COMPLAINTS			
Consumer Complaints	8	8	100
UNDERWRITING			
Life Cash Surrenders	146	146	100
Extended Term/Reduced Paid Up	62	62	100
Replacements	3	3	100
Declined Life Applications	25	25	100
POLICY FORMS & ADVERTISING			
Policy Forms/Advertising	16 Policy Forms	94 Advertising	100
PRODUCERS ANALYSIS			
Producer Licensing	115 Producers/563 policies		100



## IV. FINDINGS

### A. Claims Analysis

#### 1. Paid Individual Life

A review of all 136 of the paid individual life claims produced no criticisms.

The median for payment was two (2) days.

#### 2. Denied Individual Life

A review of the only denied individual life claim produced no criticisms.

The median for denial could not be established.

#### 3. Paid Group Life

A review of the all 45 paid group life claims produced no criticisms.

The median for payment was one (1) day.

#### 4. Paid Group Health

A review of the only paid group health claim produced no criticisms.

The median could not be established.

#### 5. Denied Group Health

A review of the only denied group health claim produced no criticisms.

The median could not be established.

#### 6. Paid Hospital Indemnity

A review of the only paid hospital indemnity claim produced no criticisms.

The median could not be established.

7. Paid Disability

A review of both of the paid disability claim files produced no criticisms.

The median could not be established.

8. Denied Disability

A review of the single denied disability claim file produced no criticisms.

The median could not be established.

9. Paid Cancer

A review of all eight (8) paid individual cancer files produced no criticisms.

The median for payment was 12 days.

10. Approved Waiver of Premium

A review of all five (5) approved waiver of premium files produced no criticisms.

The median for payment was three (3) days.

11. Annuity Death Settlements

A review of all 56 annuity death settlements produced no criticisms.

The median for payment was two (2) days.

**B. COMPLAINTS**

1. Consumer Complaints

A review of all eight (8) consumer complaints produced no criticisms.

The median for response to the consumer was nine (9) days.

## C. UNDERWRITING

### 1. Life Cash Surrenders

A review of all 146 life cash surrender files produced no criticisms.

The median for processing of life cash surrender files was 10 days.

### 2. Extended Term Insurance/Reduced Paid Up

A review of all 62 extended term insurance/reduced paid up files produced a general criticism. The general criticism was written under 215 ILCS 5/234.1 for failure to provide a timely notice of all available options to the policy owner. For 11 of the 62 files reviewed, the Company failed to provide notice of available options prior to enactment.

### 3. Replacements

A review of all three (3) replacement files produced two (2) general criticisms on 100% of the files reviewed. The first criticism was written under 50 Ill. Adm. Code 930.50 and 215 ILCS 5/224(2) for failure to provide to the applicant with a policy summary within three (3) working days. The second criticism was written under 50 Ill. Adm. Code 917.70(c) for failure to provide the Notice Regarding Proposed Replacement of Life Insurance or Annuity to the existing insurer within three (3) working days after receipt of application.

### 4. Declined Life Applications

A review of all 25 declined life applications produced no criticisms.

The median processing time was 29 days.

#### D. POLICY FORMS AND ADVERTISING

A review of the 16 policy forms and 94 pieces of advertising materials produced one (1) general criticism. A criticism was written under 50 Ill. Adm. Code 2602.40 for failure to limit the use of benefits to correct the payment of prior benefit six (6) months beyond the date of error or 12 months for errors arising from billing errors. The policy form does not place a time limit on the recovery of overpayments.

A review of the advertising materials produced no criticism.

#### E. PRODUCER ANALYSIS

Producer Licensing -- A review of the 115 producer licensing files and 563 first year commissions produced no criticisms.

## V. APPENDICES