



# Illinois Department of Insurance

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JB PRITZKER  
Governor

ROBERT H. MURIEL  
Acting Director

VIA ELECTRONIC MAIL  
VIA USPS

April 16, 2019

Mr. Mehran Assadi  
President  
Life Insurance Company of the Southwest  
Millennium Tower  
15455 North Dallas Parkway  
Addison, TX 75001

**Re: Life Insurance Company of the Southwest, NAIC 65528  
Market Conduct Examination Report Closing Letter**

Dear Mr. Assadi:

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 and Stipulation and Consent Order 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 cursive script that reads "Erica Weyhenmeyer".

Erica Weyhenmeyer  
Assistant Deputy Director - Market Conduct  
Illinois Department of Insurance  
320 West Washington St., 5th Floor  
Springfield, IL 62767  
Phone: 217-782-1790  
E-mail: Erica.Weyhenmeyer@Illinois.gov

**ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF  
LIFE INSURANCE COMPANY OF THE SOUTHWEST**

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: April 2, 2018 through August 7, 2018

EXAMINATION OF: Life Insurance Company of the Southwest  
NAIC Number: 65528

LOCATION: One National Life Drive  
Montpelier, Vermont 62767

PERIOD COVERED: December 1, 2016 through November 30, 2017 – Claims  
June 1, 2016 through November 30, 2017 – Complaints

EXAMINERS: David Bradbury MCM, Examiner-in-Charge  
Patricia Hahn MCM

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## **I. FOREWORD**

This is a market conduct examination report of Life Insurance Company of the Southwest (the “Company”), NAIC Code 65528. This examination was conducted at the offices of the Company at One National Life Drive in Montpelier, Vermont.

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 (“IDOI” or “Department”).

During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

## **II. SCOPE OF THE 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 if the Company complied with the Illinois Insurance Code (215 ILCS 5/1 et seq.), the Illinois Administrative Code (50 Ill. Admin. Code 101 et seq.), and to consider whether the Company’s operations are consistent with the public interest. The primary period covered by this review is December 1, 2016 through November 30, 2017 for claims, and June 1, 2016 through November 30, 2017 for complaints and appeals unless otherwise noted. Errors outside of this time period discovered during the course of the examination, however, may also be included in the report.

The examination involved the following business functions and lines of business: claims handling practices; policy forms and advertising in use; producer licensing; and the handling of consumer complaints, appeals, 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, advertising, extra-contractual claim adjudication guidelines, and files. Therefore, some noncompliant 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 noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

### III. SUMMARY

The following represent general findings, however specific details are found in each section of the report.

TABLE OF TOTAL VIOLATIONS							
Criticism	Crit #	Statute/Rule	Description of Violation	Population	Sample	# of Violations	Error %
Paid Life	12	215 ILCS 5/224(1)(l)	Failed to notify beneficiary of the availability of interest at time of claim.	14	14	14	100%
Paid Life	10	215 ILCS 5/224(1)(l)	Failed to make payment of interest to the insured's beneficiary due to delayed claim payment in the amount of \$3224.34.	14	14	1	7%
Paid Life	11	50 Ill. Admin. Code 919.70(a)(2)	Failed to provide beneficiary with the "Notice of Availability of the Department of Insurance" when a claim is delayed beyond 45 days.	14	14	4	29%
Denied Life	06	50 Ill. Admin. Code 919.50(a)	Failed to affirm or deny coverage within a reasonable time.	7	7	2	29%
Denied Life	07	215 ILCS 5/224(1)(l)	Failed to notify beneficiary of the availability of interest at time of claim.	7	7	2	29%
Denied Life	09 & 14	50 Ill. Admin. Code 919.70(a)(2)	Failed to provide beneficiary with the "Notice of Availability of the Department of Insurance" when a claim is delayed beyond 45 days.	7	7	4	57%
Annuity Death Settlements	04	215 ILCS 5/229.4a(3)(A)(ii)	Failure to pay an annuity within 6 months resulting in underpayment and interest due of \$31.16.	29	29	1	3%
Annuity Replacements	28	50 Ill. Admin. Code 917.70(c)	Failure to provide, within 3 working days of the application, the Notice Regarding Proposed Replacement of Life Insurance or Annuity to the company being replaced.	243	84	17	20%
Annuity Replacements	33	50 Ill. Admin Code 917.70 (c)	Failure to forward a copy of the Notice Regarding Proposed Replacement {Exhibit B} to the existing company upon receipt of an application	243	84	4	5%
Life Replacements	29	215 ILCS 5/224(2)	Failure to provide the insured with a 20-day "Free Look" period when a new policy is a replacement	191	85	8	9%
Life Replacements	25	50 Ill. Admin. Code 917.70(c)	Failure to provide, within 3 working days of the application, the Notice Regarding Proposed Replacement of Life Insurance	191	85	50	59%

**TABLE OF TOTAL VIOLATIONS**

Criticism	Crit #	Statute/Rule	Description of Violation	Population	Sample	# of Violations	Error %
			or Annuity to the company being replaced.				
Life Replacements	32	50 Ill. Admin Code 917.70 (c)	Failure to forward a copy of the Notice Regarding Proposed Replacement (Exhibit B) to the existing company upon receipt of an application	191	85	6	7%

#### IV. BACKGROUND

Life Insurance of the Southwest (LSW) traces its history back to 1923 when Sam T. Cobb and a few of his friends in Coleman, Texas, formed the Coleman Mutual Aid Association. In 1933 the name was changed to Coleman Mutual Life Insurance Association, which became LSW in 1962. In 1964 LSW was acquired by Halliburton Company, which sold LSW in 1989 to an investment group led by a major West German insurance company, VHV. National Life Insurance Company purchased a majority interest in 1996 and acquired full ownership in 1999.

Life Insurance Company of the Southwest distributes traditional and equity indexed individual life insurance and annuity products. They are licensed in 49 states and the District of Columbia.

#### Life Insurance Company of the Southwest 2016- Illinois Premium

Life Annuity Considerations	Life Insurance
\$28,378,939	\$14,738,061



## V. METHODOLOGY

The market conduct examination covered the business for the period of December 1, 2016 through November 30, 2017 for claims, and June 1, 2016 through November 30, 2017 for the complaint/appeal file review. Specifically, the examination focused on a review of the following areas:

1. Producer Licensing
2. Claims
3. Department Complaints and Consumer Appeals

The review of the categories was accomplished through examination of appointed and terminated producer files, claim files, and complaint files. Each of the categories was examined for compliance with Department regulations and applicable state laws.

The report concerns itself with improper practices performed by the Company which resulted in failure to comply with Illinois statutes and/or administrative rules. Criticisms were prepared and communicated to the Company addressing violations discovered in the review process. All valid violations were cited in the report. The following methods were used to obtain the required samples and to assure a methodical selection:

### Producer Licensing

New business was reviewed to determine if solicitations had been made by duly licensed persons.

### Claims

1. Paid Claims – Payment for claims made during the examination period.
2. Denied Claims – Denial of benefits during the examination period for losses not covered by certificate of coverage provisions.

All claims were reviewed for compliance with policy contracts and applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Admin. Code 101 *et seq.*).

The Department defines due proof of loss as medical records, investigation materials, written proofs, claim forms, authorizations, or other reasonable evidence of claim that is ordinarily required of insureds or beneficiaries. The Department's position is that the 30 days to pay (31 days for interest) starts when the last proof required from the claimant (beneficiary), medical record, or investigation documentation is received by the Company.

Median payment periods were measured from the date all necessary proofs of loss were received to the date of payment or denial to the claimant. The period under review was December 1, 2016 through November 30, 2017.

### Department Complaints and Consumer Appeals

The Department requested the Company provide all files relating to complaints received via the Department of Insurance and those received directly from consumers. The Department also requested the Company provide files of all external independent reviews handled during the survey period.

Median periods were measured from the date of notification by the complainants to the date of response by the Company. The period under review was June 1, 2016 through November 30, 2017.

## **VI. SAMPLE SELECTION**

<u>Survey</u>	<u>Population</u>	<u>Reviewed</u>	<u>% Reviewed</u>
<b>CLAIMS ANALYSIS</b>			
Paid Life	14	14	100%
Denied Life	7	7	100%
Annuity Death Settlements	29	29	100%
<b>COMPLAINTS</b>			
Consumer Complaints	6	6	100%
Department of Insurance Complaints	3	3	100%
<b>POLICYHOLDER SERVICES</b>			
Annuity Cash Surrenders	120	79	66%
Annuity New Business	360	84	23%
Annuity Replacements	243	84	35%
Life Cash Surrenders	82	82	100%
Life New Business	2081	113	5%
Life Policies Declined	4	4	100%
Life Replacements	191	85	45%
<b>PRODUCER LICENSING</b>			
Agents	666	666	100%
Applications	2777	2777	100%
<b>POLICY FORMS AND ADVERTISING</b>			
Policy Forms	164	73	46%
Advertising	1052	169	16%

## VII. FINDINGS

### A. Claims

#### 1. Paid Life

- In one (1) instance out of 14 files reviewed for an error percentage of 7%, the Company failed to make payment of interest when a claim remained unpaid for more than 31 days. This is a violation of 215 ILCS 5/224(1)(l). The company paid the interest to the insured.

Criticism	Crit #	Statute Rule	Description of Violation	Underpaid
DB 10 Pd Life	10	215 ILCS 5/224(1)(l)	Failed to pay interest on a life claim due to delayed claim payment	\$3,224.34

- In 14 instances out of 14 files reviewed for an error percentage of 100%, the Company failed to notify the beneficiary of the availability of interest if a claim remained unpaid for 31 days. This is a violation of 215 ILCS 5/224(1)(l).
  - Company has changed form language to be in compliance.
- In four (4) instances out of 14 files reviewed for an error percentage of 29%, the Company failed to provide the “Notice of Availability of the Department of Insurance” on the delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Admin. Code 919.70(a) (2).

The median for payment was ten (10) days.

#### 2. Denied Life

- In two (2) instances out of seven (7) files reviewed for an error percentage of 29% the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Admin. Code 919.50(a).
- In two (2) instances out of seven (7) files reviewed for an error percentage of 29%, the Company failed to notify the beneficiary of the availability of interest if a claim remained unpaid for 31 days. This is a violation of 215 ILCS 5/224(1)(l).
- In four (4) instances out of seven (7) files reviewed for an error percentage of 57%, the Company failed to provide the “Notice of Availability of the Department of Insurance” on the delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Admin. Code 919.70(a)(2).

The median for denial was seven (7) days.

### 3. Annuity Death Settlements

- In one (1) instance out of 29 files reviewed for an error percentage of 3% the Company failed to pay an annuity death claim within 6 months after receiving a written demand for the proceeds. This is a violation of 215 ILCS 5/229.4a (3)(A)(ii).

Criticism	Crit #	Statute Rule	Description of Violation	Underpaid
PH 04 Ann Ds	04	215 ILCS 5/229.4a(3)(A)(ii)	Failed to pay an annuity claim within six (6) months after receiving a written demand for the proceeds.	\$29.68 plus \$1.48 = \$31.16

The median for payment was fourteen (14) days.

### B. Complaints

#### 1. Consumer Complaints

Six (6) files were reviewed. No exceptions were noted.

The median for response was 34 days.

#### 2. Department of Insurance Complaints

Three (3) files were reviewed. No exceptions were noted.

The median for response to the Department was 21 days.

### C. Policy Holder Services

#### 1. Annuity Cash Surrenders

79 files were reviewed. No exceptions were noted.

The median for surrender was 14 days.

#### 2. Annuity New Business

84 Files were reviewed.

No exceptions were noted.

### 3. Annuity Replacements

In 17 instances out of 84 files reviewed for an error percentage of 20%, the Company failed to forward a copy of the Notice Regarding Proposed Replacement (Exhibit B) to the existing company within three (3) business days. This is a violation of 50 Ill. Admin. Code 917.70 (c).

In 4 instances out of 84 files reviewed for an error percentage of 5%, the Company failed to send a copy of the Notice Regarding Proposed Replacement (Exhibit B) to the existing company at all. This is a violation of 50 Ill. Admin. Code 917.70(c).

### 4. Life Cash Surrenders

82 files were reviewed.

No exceptions were noted.

The median for surrender was 15 days.

### 5. Life New Business

113 files were reviewed.

No exceptions were noted.

### 6. Life Policies Declinations

No exceptions were noted.

The median for declination was thirteen (13) days.

### 7. Life Replacements

In eight (8) instances out of 85 files reviewed for an error percentage of 9%, the Company was criticized for failure to provide the insured with a 20 day "Free Look" when the newly issued policy is a replacement. This is a violation of 215 ILCS 5/224(2).

In 50 instances out of 85 reviewed for an error percentage of 59%, the Company was criticized for failure to transmit a policy summary within three (3) working days to the existing insurer after the replacement policy is issued. This is a violation of 50 Ill. Admin. Code 917.70(c).

In six (6) instances out of 85 files reviewed for an error percentage of 7%, the Company failed to forward a copy of the Notice Regarding Proposed Replacement (Exhibit B) to the existing company within three (3) business days. This is a violation of 50 Ill. Admin. Code 917.70(c).

D. Producer Licensing

A review of 2777 application and 666 agents was performed.

No exceptions were noted.

E. Policy Forms and Advertising

1. Policy Forms

Reviews of the 71 policy forms filed produced no criticisms.

2. Advertising

Review of the 169 advertising forms in use for the period under review produced no criticisms.

STATE OF Illinois )  
 ) ss  
COUNTY OF Sangamon )

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 Life Insurance Company of the Southwest, (the "Company"), NAIC #65528.

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;

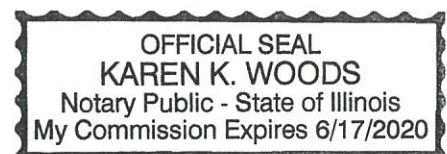
That she/he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

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.

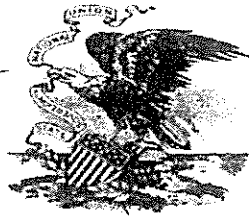
  
Examiner-In-Charge

Subscribed and sworn to before me  
this 21 day of August, 2018

  
Notary Public



STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**LIFE INSURANCE COMPANY OF THE SOUTHWEST  
15455 NORTH DALLAS PARKWAY  
ADDISON, TX 75001**

STIPULATION AND CONSENT ORDER

WHEREAS, the 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, Life Insurance Company of the Southwest (“the Company”), NAIC 65528, is authorized under the insurance laws of this State and by the 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, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, 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 their 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, they waive any and all rights to notice and hearing; and



WHEREAS, the Company and the 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 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 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 Director that the Company shall:

1. Institute and maintain policies and procedures whereby the Company shall provide notice at the time a claim is made of the availability of interest on life claims to the beneficiary(s) if payment is delayed beyond 31 days as required by 215 ILCS 5/224(1)(1).
2. Institute and maintain policies and procedures whereby the Company shall 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 45 days from the date it is reported as required by 50 Ill. Adm. Code 919.70(a)(2).
3. Institute and maintain policies and procedures whereby the Company shall affirm or deny coverage within a reasonable time as required by 50 Ill. Adm. Code 919.50(a).
4. Institute and maintain policies and procedures whereby the Company shall provide the Notice Regarding Proposed Replacement of Life Insurance or Annuity to the existing insurer within three business days after receipt of the application as required by 50 Ill. Adm. Code 917.70(c).
5. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above four (4) orders within 30 days of execution of this Order.
6. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$19,000.00 to be paid within 30 days of execution of this Order.

NOTHING contained herein shall prohibit the 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 LIFE INSURANCE COMPANY OF THE SOUTHWEST

Barbara B. Fitch  
Signature

Barbara B. Fitch  
Name

Chief Compliance Officer, Life & Annuity  
Title

Subscribed and sworn to before me this  
14th day of February 2019.

[Signature]  
Notary Public

Commission Exp: 1-31-21.



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 3/5/2019

[Signature]  
Kevin Fry  
Acting Director

