



# Illinois Department of Insurance

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Bruce Rauner  
Governor

Anne Melissa Dowling  
Acting Director

December 2, 2015

Steven Craig Palmitier, President  
Midland National Life Insurance Company  
One Sammons Plaza  
Sioux Falls, SD 57193

**Re:** Midland National Life Insurance Company, NAIC 66044  
*Market Conduct Examination Report Closing Letter*

Dear Mr. Palmitier:

The Department has completed the Market Conduct examination of Midland National Life Insurance Company and is closing its file on the 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 cursive script that reads "Jack Engle".

Jack Engle, MCM  
Assistant Deputy Director-Market Conduct and Analysis  
Illinois Department of Insurance  
320 West Washington- 5th Floor  
Springfield, IL 62767  
217-558-1058  
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**MIDLAND NATIONAL LIFE INSURANCE COMPANY**  
**MARKET CONDUCT EXAMINATION REPORT**

## MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: October 13, 2014 through August 13, 2015

EXAMINATION OF: Midland National Life Insurance Company  
NAIC Number: 66044

LOCATION: 4350 Westtown Parkway  
West Des Moines, IA 50266

PERIOD COVERED

BY EXAMINATION: January 1, 2013 through December 31, 2013

COMPLAINTS: January 1, 2011 through December 31, 2013

EXAMINERS:

Beverly A. Dale, CIE, FLMI, CFE, CPA, MCM – EIC  
Ann McClain, CIE, FLMI, AMCM, CICS, FLHC, AIRC  
Craig L. Leonard, CIE, FLMI, CPCU, CCP, ARC, AIAF  
Victor Negron, CIE, MCM  
Stephen R. Zellich, CIE, FLMI  
J. Richard Brinkley, AIE, FLMI  
Sheri L. Kenney, CFE, MCM  
Benjamin A. Darnell, MCM  
Tim Kelley, JD, MCM

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## I. SUMMARY

A comprehensive market conduct examination of Midland National Life Insurance Company, herein called the “Company,” was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

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

**TABLE OF TOTAL VIOLATIONS**

Crit #	Statute/ Rule	Description of violation	Total Population	Files Reviewed	Number of Violations	Findings Section	Error %
1	50 Ill. Adm. Code 3120.60 (c)(1)	Marketing and Sales – failure to ensure all producers complete the required 4-hour annuity training course prior to the sale of an annuity (producer certifications reviewed).	356	356	1	3c	<1%
2	50 Ill. Adm. Code 1406.80(d)	Marketing and Sales – failure to ensure a signed copy of the basic illustration and revised basic illustration, if any or a certification that either no illustration was used or that the policy was applied for other than as illustrated was included in the underwriting file (underwriting sample files reviewed).	3584	493	2	3d	<1%
3	50 Ill. Adm. Code 917.70(c)	Marketing and Sales – failure to provide Notice Regarding Proposed Replacement of Annuity contract to the existing insurer within 3 working days after receipt of the application (annuity replacement sample files reviewed).	261	109	7	3f	6.4%
5	50 Ill. Adm. Code 917.70(c)	Marketing and Sales – failure to provide Notice Regarding Proposed Replacement of Life Insurance to the existing insurer within 3 working days after receipt of the application (life replacement sample files reviewed).	268	108	6	3e	5.6%
6	215 ILCS 5/132(2)	Underwriting and Rating – failure to provide documents necessary to validate the issuance of extended term insurance/reduced paid up insurance policies (ETI/RPU sample files reviewed).	28	28	1	5c	3.6%

## II. BACKGROUND

The Company was incorporated as the Dakota Mutual Insurance Company under the laws of the state of South Dakota on August 30, 1906, and commenced business on September 4, 1906. On February 26, 1909, a stock company was formed with an authorized capital of \$200,000. The stock company acquired the assets and assumed the liabilities and name of the mutual Company. On January 25, 1915, the name of the company was changed to Dakota Life Insurance Company. On July 1, 1925, the Articles of Incorporation were amended to change the Company's name to Midland National Life Insurance Company.

On April 8, 1958, control of Midland National Life Insurance Company was acquired by Sammons Enterprise, Inc., a Delaware Corporation. Effective August 12, 1999, Midland National Life Insurance Company changed the state of its corporate domicile from South Dakota to Iowa.

Total Direct Premiums Written in Illinois for Life and Annuities insurance were as follows:

Year	Total Written Premium In Illinois (Per Schedule T of the Annual Statement)	Illinois Market Share
2013	\$193,562,907	4.9%

### **III. METHODOLOGY**

The Market Conduct Examination generally covered the business for the period of January 1, 2013 through December 31, 2013. The Complaint Handling review covered the period January 1, 2011 through December 31, 2013. Specifically, the examination focused on a review of the following areas:

1. Operations/Management
2. Complaint Handling
3. Marketing and Sales
4. Producer Licensing
5. Policyholder Services
6. Underwriting and Rating
7. Claims

A review of the categories was accomplished through examination of internal and external audits, contracts and agreements, complaint files, advertising materials, appointed/terminated producer files, new business application files and claims 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 violations were cited in the report.

Samples were selected in accordance with the NAIC Market Regulation Handbook utilizing Audit Command Language (ACL) software. The following procedures were used to ensure a uniform methodology for the sampling and review of documents obtained for the examination period:

#### Operations/Management

- 1a. Reviewed all internal audit reports issued
- 1b. Reviewed computer information controls
- 1c. Reviewed the Company's disaster recovery plan
- 1d. Reviewed procedures related to the protection of non-public customer information
- 1e. Reviewed third-party administrator agreements
- 1f. Reviewed privacy forms and Company procedures
- 1g. Reviewed annual advertising certifications issued

#### Complaint Handling

- 2a. Reviewed complaints received by the Illinois Department of Insurance
- 2b. Reviewed complaints received directly by the Company

### Marketing and Sales

- 3a. Reviewed advertising material used
- 3b. Reviewed producer training material
- 3c. Reviewed producer certification records
- 3d. Reviewed use of basic illustration and revised basic illustration certification
- 3e. Reviewed annuity replacements issued
- 3f. Reviewed life replacements issued

### Producer Licensing

- 4a. Reviewed a sample of active producers licensed
- 4b. Reviewed producer and agency terminations

### Policyholders Services

- 5a. Reviewed a sample of life cash surrenders
- 5b. Reviewed a sample of annuity cash surrenders
- 5c. Reviewed extended term insurance/reduced paid up insurance
- 5d. Reviewed waivers of premium

### Underwriting and Rating

- 6a. Reviewed a sample of new business issued
- 6b. Reviewed life applications denied

### Claims

- 7a. Reviewed a sample of life claims paid
- 7b. Reviewed a sample of annuity claims paid
- 7c. Requested claims denied (According to the Company, there were none and the examiners found no evidence to the contrary.)

All claims were reviewed for compliance with policy contracts and applicable sections of the Illinois Insurance Code (Section 5/1 *et seq.*) and the Illinois Administrative Code.

#### IV. FINDINGS

##### A. Operations/Management

- 1a. A review of three (3) internal audit reports produced no criticisms.
- 1b. A review of the computer information controls produced no criticisms.
- 1c. A review of the disaster recovery plan produced no criticisms.
- 1d. A review of the procedures for the protection of non-public customer information produced no criticisms.
- 1e. A review of one (1) third-party administrator agreement produced no criticisms.
- 1f. A review of five (5) privacy forms and Company procedures produced no criticisms.
- 1g. A review of two (2) annual advertising certifications produced no criticisms.

##### B. Complaint Handling

- 2a. A review of 27 complaints received by the Illinois Department of Insurance produced no criticisms.
- 2b. A review of 25 complaints received directly by the Company produced no criticisms.

##### C. Marketing and Sales

- 3a. A review of 320 pieces of advertising materials produced no criticisms.
- 3b. A review of 205 pieces of producer training materials produced no criticisms.
- 3c. A review of 356 producer certification records produced one (1) criticism – Criticism #1 - one (1) producer had not completed the required 4-hour annuity training course prior to the sale of an annuity as required by 50 Ill. Adm. Code 3120.60(c)(1).
- 3d. A review of 493 underwriting sample files produced one (1) criticism – Criticism #2 - two (2) files failed to ensure a signed copy of the basic and revised basic illustration, if any, or a certification that either no illustration was used or that the policy was applied for other than as illustrated, was included in the underwriting file as required by 50 Ill. Adm. Code 1406.80(d).
- 3e. A review of 108 Life replacements issued produced one (1) criticism – Criticism #5 - six (6) files failed to provide a Notice Regarding Proposed Replacement to the existing insurer within 3 working days after receipt of the application as required by 50 Ill. Adm. Code 917.70(c).
- 3f. A review of 109 Annuity replacements issued produced one (1) criticism – Criticism #3 - seven (7) files failed to provide a Notice Regarding Proposed Replacement to the existing insurer within 3 working days after receipt of the application as required by 50 Ill. Adm. Code 917.70(c).

#### D. Producer Licensing

- 4a. A review of 457 agents to determine whether the agents were duly licensed produced no criticisms.
- 4b. A review of 39 terminated producers and agencies produced no criticisms.

#### E. Policyholder Services

- 5a. A review of 84 Life cash surrenders produced no criticisms.
- 5b. A review of 113 Annuity cash surrenders produced no criticisms.
- 5c. A review of 28 Extended Term Insurance/Reduced Paid Up policies produced one (1) criticism – Criticism #6 – failure of the Company to provide the documentation necessary to validate the issuance of extended term insurance/reduced paid up policies for one (1) of the files reviewed as required by 215 ILCS 5/132(2).
- 5d. A review of five (5) Life policies set up with a waiver of premium produced no criticisms.

#### F. Underwriting and Rating

- 6a. A review of 228 Life policies and Annuity contracts issued produced no criticisms.
- 6b. A review of 48 denied Life applications produced no criticisms.

#### G. Claims

- 7a. A review of 76 paid Life claims produced no criticisms.
- 7b. A review of 86 paid Annuity death settlement claims produced no criticisms.

STATE OF COLORADO )  
 ) ss  
COUNTY OF ARAPAHOE )

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 Midland National Life Insurance Company, (the "Company"), NAIC #66044.

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.

*Severly A. Dale*  
Examiner-In-Charge

Subscribed and sworn to before me  
this 13<sup>th</sup> day of August, 2015.

*Taylor A. Bell*  
Notary Public

