



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JENNIFER HAMMER  
Director

VIA ELECTRONIC MAIL

December 19, 2017

Mr. Charles R. Steele  
President  
Reserve National Insurance Company  
601 East Britton Road  
Oklahoma City, OK 73114

**Re: Reserve National Insurance Company, NAIC 68462**  
***Market Conduct Examination Report Closing Letter***

Dear Mr. Steele:

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,

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**ILLINOIS DEPARTMENT OF INSURANCE  
MARKET CONDUCT EXAMINATION OF  
RESERVE NATIONAL INSURANCE COMPANY**

## **MARKET CONDUCT EXAMINATION REPORT**

DATE OF EXAMINATION: November 28, 2016 through May 12, 2017

EXAMINATION OF: Reserve National Insurance Company  
NAIC Number: 68462

LOCATION: 601 East Britton Road  
Oklahoma City, Oklahoma 73114

PERIOD COVERED: April 1, 2015 through March 31, 2016 – Claims  
October 1, 2014 through March 31, 2016 – Complaints

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

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## **I. FOREWORD**

This is a comprehensive market conduct examination report of Reserve National Insurance Company (the “Company”), NAIC Code 68462. This examination was conducted at the Company’s office, located at 601 E. Britton Road, Oklahoma City, Oklahoma 73114.

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” or “DOI”).

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 (IIC), the Illinois Administrative Code (IAC), and to consider whether the Company’s operations are consistent with the public interest. The primary period covered by this review is April 1, 2015 through March 31, 2016, for claims and October 1, 2014 through March 31, 2016, for complaints and appeals unless otherwise noted. Errors outside of this period discovered during the course of this examination may also be included in the report.

The examination was a comprehensive examination involving 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 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.

<b>TABLE OF TOTAL VIOLATIONS</b>							
Criticism	Crit #	Statute/Rule	Description of Violation	Population	Sample	# of Violations	Error %
Paid Individual Life	97	215 ILCS 5/224(1)(l)	Failed to pay beneficiary interest when claim paid after 31 days of receipt of proof of death totaling \$7.59.	189	103	1	1%
Paid Individual Life	99	215 ILCS 5/224(1)(l)	Failed to notify beneficiary of the availability of interest when claim paid after 31 days of receipt.	189	103	78	76%
Paid Individual Life	101	215 ILCS 5/224(1)(j)	Improperly required the return of the original policy or a loss of policy form be returned to the Company to pay a claim.	189	103	4	4%
Paid Individual Life	176	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	189	103	13	13%
Paid Individual Life	108	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide the beneficiary with a reasonable written explanation of a delay beyond 45 days that includes the Notice of Availability of the DOI.	189	103	1	1%
Paid Accident	16, 20, 21 & 31	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$12.00.	85	85	4	5%
Paid Accident	165	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	85	85	4	5%
Paid Accident	163	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	85	85	21	25%
Denied Accident	212	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	210	83	16	19%
Denied Accident	213	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	210	83	13	16%
Denied Accident	214	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	210	83	3	4%
Paid Critical Illness	121 & 128	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$20.67.	375	126	2	2%
Paid Critical Illness	166	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	375	126	18	14%
Denied Critical Illness	191	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	254	82	13	16%
Denied Critical Illness	193	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	254	82	38	46%

**TABLE OF TOTAL VIOLATIONS**

Criticism	Crit #	Statute/Rule	Description of Violation	Population	Sample	# of Violations	Error %
Denied Critical Illness	192	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	254	82	10	12%
Paid Hospital Indemnity	183, 184, 186, 199 & 200	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$7.80.	787	105	5	5%
Paid Hospital Indemnity	201	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	787	105	9	9%
Paid Hospital Indemnity	202	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	787	105	6	6%
Denied Hospital Indemnity	196 & 181	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	896	105	23	22%
Denied Hospital Indemnity	179 & 194	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	896	105	51	49%
Denied Hospital Indemnity	180 & 195	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	896	105	20	19%
Paid Individual Hospital	177	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$4.08.	3365	144	1	1%
Paid Individual Hospital	178	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	3365	144	3	2%
Paid Individual Hospital	188	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	3365	144	7	5%
Denied Individual Hospital	207	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	5896	109	55	50%
Denied Individual Hospital	209	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	5896	109	12	11%
Denied Individual Hospital	208	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a delay letter.	5896	109	5	5%
Paid Home Health Care	106	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$1.76.	1292	172	1	1%
Denied Home Health Care	162	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide a delay letter beyond 45 days.	881	181	7	4%
Denied Home Health Care	161	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	881	181	2	2%
Paid Group Hospital	82	215 ILCS 5/368a(c)	Failed to pay claims within 30 days after receipt of due proof of loss.	138	76	3	4%
Denied Group Hospital	203	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	197	76	11	14%



**TABLE OF TOTAL VIOLATIONS**

Criticism	Crit #	Statute/Rule	Description of Violation	Population	Sample	# of Violations	Error %
Denied Group Hospital	204	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	197	76	29	38%
Denied Group Hospital	205	50 Ill. Adm. Code 919.70(a)(2)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a delay letter.	197	76	6	8%
Denied Standard Medicare Supplement	219	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	7266	109	44	40%
Paid Pre-Standard Medicare Supplement	206	50 Ill. Adm. Code 919.50(a)	Failed to affirm or deny claims within a reasonable time after receipt of due proof of loss.	92	92	4	4%
Denied Pre-Standard Medicare Supplement	215	50 Ill. Adm. Code 919.50(a)(1)	Failed to provide the beneficiary with the Notice of Availability of the DOI on a denial letter.	29	29	3	10%
Consumer Complaints	6	215 ILCS 5/368a(c)	Failed to pay interest when a claim is paid beyond 30 days in the amount of \$4.35.	3	3	1	33%
Declined Life Applications	83	215 ILCS 5/1011(A)(1)	Failed to provide the applicant, policyholder or individual proposed for coverage with the specific written reason for the adverse underwriting decision, or to advise them that one may be requested in writing.	23	23	5	22%
Policy Forms	157	50 Ill. Adm. Code 2007.80(a)(6)	Failed to include the required notice on an Accident Only policy.	40	40	1	3%

#### **IV. BACKGROUND**

Reserve National Insurance Company was incorporated in Oklahoma as a mutual casualty insurer on September 19, 1956, and commenced business on September 20, 1956. The Company was converted to a limited capital stock life insurer in December, 1960. On September 17, 1965, they received approval for conversion to a legal reserve life company.

On October 9, 1979, the Company formed NationalCare Corporation as a wholly-owned subsidiary. Subsequently, on October 24, 1979, NationalCare Corporation formed NationalCare Insurance Company (“NationalCare”) as its wholly-owned subsidiary. On September 20, 1985, the stockholders of Reserve National Insurance Company formed a parent holding company, RNIC Corporation. Thus, RNIC Corporation wholly owned NationalCare Corporation, which wholly-owned NationalCare. On November 14, 1986, the common stock of NationalCare Corporation was spun off from the Company to RNIC Corporation at NationalCare Corporation’s net book value.

On December 31, 1986, RNIC Corporation and NationalCare Corporation were merged into NationalCare, with NationalCare being the surviving entity. NationalCare and the Company thus changed places on the organizational chart, with NationalCare becoming the parent and the Company becoming the subsidiary, while the former holding company ceased its corporate existence.

On September 30, 1998, the Company became part of the Unitrin, Inc. (“Unitrin”) holding company system. As a result of the transaction, United Insurance Company of America (“UICA”), a wholly-owned subsidiary of Unitrin, became the owner of 100% of the issued and outstanding shares of common stock of NationalCare, the Company’s immediate parent.

Effective August 2, 2004, NationalCare merged into its parent, UICA. Just prior to the merger, on June 1, 2004, NationalCare bulk reinsured its insurance business with the Company. UICA became the immediate parent of the Company and the Company became responsible for all business written by NationalCare. Previously, the Company had processed all business written by NationalCare in accordance with a service agreement.

On August 15, 2011, Unitrin changed its name to Kemper Corporation (“Kemper”), with trading on the New York Stock Exchange under the ticker symbol “KMPR”.

The primary location of the Company’s books and records is 601 East Britton Road, Oklahoma City, Oklahoma 73114.

## V. METHODOLOGY

The market conduct examination covered the business for the period of April 1, 2015 through March 31, 2016 for claims and October 1, 2014 through March 31, 2016 for the complaint/appeal file review. Specifically, the examination focused on a review of the following areas:

1. Producer Production
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 Production

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.*), the Managed Care Reform and Patient Rights Act (215 ILCS 134/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. 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 day delay for interest) starts when the last proof required from the claimant (beneficiary), medical record or investigation documentation is received by the Company. The paid individual life, paid accident, denied accident, paid critical illness, denied critical illness, paid hospital indemnity, denied hospital indemnity, paid individual hospital, denied individual hospital, paid home health care, denied home health care, paid group hospital, denied group hospital, denied standard Medicare supplement, paid pre-standard Medicare supplement, denied pre-standard Medicare supplement, consumer complaints and declined life application surveys resulted in criticisms.

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 April 1, 2015 through March 31, 2016.

#### Department Complaints and Consumer Appeals

The Department requested the Company provide all files relating to complaints received via the Department and those received directly from consumers. The Department also requested the Company provide files of all consumer complaints and 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 October 1, 2014 through March 31, 2016.

## VI. SAMPLE SELECTION

<u>Survey</u>	<u>Population</u>	<u>Reviewed</u>	<u>% Reviewed</u>
<b>CLAIMS ANALYSIS</b>			
Paid Individual Life	189	103	54.00%
Denied Individual Life	8	8	100.00%
Paid Accident	85	85	100.00%
Denied Accident	210	83	40.00%
Paid Critical Illness	375	126	34.00%
Denied Critical Illness	254	82	32.00%
Paid Hospital Indemnity	787	105	13.00%
Denied Hospital Indemnity	896	105	12.00%
Paid Individual Hospital	3365	144	4.00%
Denied Individual Hospital	5896	109	2.00%
Paid Home Health Care	1292	172	13.00%
Denied Home Health Care	881	181	21.00%
Paid Group Hospital	138	76	55.00%
Denied Group Hospital	197	76	39.00%
Paid Standard Medicare Supplement	14968	109	1.00%
Denied Standard Medicare Supplement	7266	109	2.00%
Paid Pre-Standard Medicare Supplement	92	92	100.00%
Denied Pre-Standard Medicare Supplement	29	29	100.00%
<b>PRODUCER LICENSING</b>			
Agents	451	451	100.00%
Applications	6277	6277	100.00%
<b>COMPLAINTS</b>			
Consumer Complaints	3	3	100.00%
Department Complaints	2	2	100.00%
<b>POLICYHOLDER SERVICES</b>			
Declined Life Applications	23	23	100.00%
Accident New Business	42	42	100.00%
Critical Illness New Business	48	48	100.00%
Dental-Vision New Business	62	62	100.00%
Home Health New Business	565	113	20.00%
Non-Forfeiture Review	7	7	100.00%
Life Cash Surrender	1	1	100.00%
<b>POLICY FORMS AND ADVERTISING</b>			
Policy Forms	40	40	100.00%

## VII. FINDINGS

### A. Claims

#### 1. Paid Individual Life

- In one (1) instance out of 103 files for an error percentage of 1%, the Company failed to pay beneficiary interest when the claim was paid after 31 days of receipt of due proof of loss totaling \$7.59. Failure to pay the required interest is a violation of 215 ILCS 5/224(1)(l).

Criticism	Crit #	Statute/Rule	Description of Violation	Underpaid	Interest Paid
PH PIL	97	215 ILCS 5/224(1)(l)	Underpayment of Interest	\$7.59	\$7.59

- In 78 instances out of 103 files reviewed for an error percentage of 76%, 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 103 files reviewed for an error percentage of 4%, the Company required that either the original policy be returned or a lost policy form be filed for the Company to pay a claim. Due proof does not include return of the original policy. Insurers shall not require a specific form be used when submitting a claim. Due proof is not required to be furnished in any particular form, nor is it required to be the strongest or best proof available, but it must be such as to give the insurer the essential facts upon which its liability depends and is credible. This is a violation of 215 ILCS 5/224(1)(j).
- In one (1) instance out of 103 files reviewed for an error percentage of 1%, 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. Adm. Code 919.70(a)(2).
- In 13 instances out of 103 files reviewed for an error percentage of 13%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for payment was 18 days.

#### 2. Denied Individual Life

Eight (8) files that the Company identified as denied life claims were reviewed. No exceptions were noted.

The median for denial could not be established.

### 3. Paid Accident

- In four (4) instances out of 85 files reviewed for an error percentage of 5%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 215 ILCS 5/368a(c).

Criticism	Crit #	Statute/Rule	Description of Violation	Interest Paid
PH PD Acc	16	215 ILCS 5/368a(c)	Interest due to late payment	\$2.07
PH PD Acc	20	215 ILCS 5/368a(c)	Interest due to late payment	\$7.36
PH PD Acc	21	215 ILCS 5/368a(c)	Interest due to late payment	\$1.35
PH PD Acc	31	215 ILCS 5/368a(c)	Interest due to late payment	\$1.22

- In four (4) instances out of 85 files reviewed for an error percentage of 5%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In 21 instances out of 85 files reviewed for an error percentage of 25%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for payment was 13 days.

### 4. Denied Accident

- In 16 instances out of 83 files reviewed for an error percentage of 19%, the Company failed to provide Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).
- In 13 instances out of 83 files reviewed for an error percentage of 16%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In three (3) instances out of 83 files reviewed for an error percentage of 4%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for payment was 15 days.

### 5. Paid Critical Illness

- In two (2) instances out of 126 files reviewed for an error percentage of 2%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 215 ILCS 5/368a(c).

Criticism	Crit #	Statute Rule	Description of Violation	Interest Paid
PH Paid CI	121	215 ILCS 5/368a(c)	Interest due to late payment	\$7.11
PH Paid CI	128	215 ILCS 5/368a(c)	Interest due to late payment	\$13.56

- In 18 instances out of 126 files reviewed for an error percentage of 14%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for payment was 13 days.

#### 6. Denied Critical Illness

- In 13 instances out of 82 files reviewed for an error percentage of 16%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In 38 instances out of 82 files reviewed for an error percentage of 46%, the Company failed to provide the insured’s beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).
- In 10 instances out of 82 files reviewed for an error percentage of 12%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for denial was 15 days.

#### 7. Paid Hospital Indemnity

- In five (5) instances out of 105 files reviewed for an error percentage of 5%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 215 ILCS 5/368a(c).

Criticism	Crit #	Statute Rule	Description of Violation	Interest Paid
PH Paid HI	183	215 ILCS 5/368a(c)	Interest due to late payment	\$1.61
PH Paid HI	184	215 ILCS 5/368a(c)	Interest due to late payment	\$1.04
PH Paid HI	186	215 ILCS 5/368a(c)	Interest due to late payment	\$3.03
PH Paid HI	199	215 ILCS 5/368a(c)	Interest due to late payment	\$1.01
PH Paid HI	200	215 ILCS 5/368a(c)	Interest due to late payment	\$1.11

- In nine (9) instances out of 105 files reviewed for an error percentage of 9%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).
- In six (6) instances out of 105 files reviewed for an error percentage of 6%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).

The median for payment was 17 days.

#### 8. Denied Hospital Indemnity

- In 23 instances out of 105 files reviewed for an error percentage of 22%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).



- In 51 instances out of 105 files reviewed for an error percentage of 49%, the Company failed to provide the insured's beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).
- In 20 instances out of 105 files reviewed for an error percentage of 19%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for denial was 15 days.

#### 9. Paid Individual Hospital

- In one (1) instance out of 144 files reviewed for an error percentage of 1%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 215 ILCS 5/368a(c).

Criticism	Crit #	Statute Rule	Description of Violation	Interest Paid
PH Paid HI	177	215 ILCS 5/368a(c)	Interest due to late payment	\$4.08

- In three (3) instances out of 144 files reviewed for an error percentage of 2%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).
- In seven (7) instances out of 144 files reviewed for an error percentage of 5%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).

The median for denial was 14 days.

#### 10. Denied Individual Hospital

- In 55 instances out of 109 files reviewed for an error percentage of 50%, the Company failed to provide the insured's beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).
- In 12 instances out of 109 files reviewed for an error percentage of 11%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In five (5) instances out of 109 files reviewed for an error percentage of 5%, 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. Adm. Code 919.70(a)(2).

The median for denial was 14 days.

### 11. Paid Home Health Care

- In one (1) instance out of 172 files reviewed for an error percentage of 1%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 215 ILCS 5/368a(c).

Criticism	Crit #	Statute Rule	Description of Violation	Interest Paid
PH Paid HH	106	215 ILCS 5/368a(c)	Interest due to late payment	\$1.76

The median for payment was 11 days.

### 12. Denied Home Health Care

- In two (2) instances out of 181 files reviewed for an error percentage of 2%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In seven (7) instances out of 181 files reviewed for an error percentage of 4%, the Company failed to provide a delay letter when a claim was delayed beyond 45 days. This is a violation of 50 Ill. Adm. Code 919.70(a)(2).

The median for denial was 10 days.

### 13. Paid Group Hospital

- In three (3) instances out of 76 files reviewed for an error percentage of 4%, the Company failed to pay a claim within 30 days. This is a violation of 215 ILCS 5/368a(c). No interest was due.

The median for payment was 16 days.

### 14. Denied Group Hospital

- In 11 instances out of 76 files reviewed for an error percentage of 14%, the Company failed to affirm or deny coverage within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).
- In 29 instances out of 76 files reviewed for an error percentage of 38%, the Company failed to provide the insured's beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).
- In six (6) instances out of 76 files reviewed for an error percentage of 8%, 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. Adm. Code 919.70(a)(2).

The median for denial was 13 days.

15. Paid Standard Medicare Supplement

No exceptions were noted.

The median for payment was two (2) days.

16. Denied Standard Medicare Supplement

- In 44 instances out of 109 files reviewed for an error percentage of 40%, the Company failed to provide the insured’s beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).

The median for denial was two (2) days.

17. Paid Pre-Standard Medicare Supplement

- In four (4) instances out of 92 files reviewed for an error percentage of 4%, the Company failed to affirm or deny claims within a reasonable time. This is a violation of 50 Ill. Adm. Code 919.50(a).

The median for denial was four (4) days.

18. Denied Pre-Standard Medicare Supplement

- In three (3) instances out of 29 files reviewed for an error percentage of 10%, the Company failed to provide the insured’s beneficiary with the Notice of Availability of the Department of Insurance on denied claims. This is a violation of 50 Ill. Adm. Code 919.50(a)(1).

The median for denial was four (4) days.

B. Complaints

1. Department Complaints

No exceptions were noted.

The median for response to the Department was 19 days.

2. Consumer Complaints

- In one (1) instance out of three (3) files reviewed for an error percentage of 33%, the Company failed to pay interest when a claim remained unpaid beyond 30 days. Failure to pay the required interest is a violation of 5/368a(c).

Criticism	Crit #	Statute Rule	Description of Violation	Interest Paid
PH CC	06	215 ILCS 5/368a(c)	Interest due to late payment	\$4.35

The median for response to the complainant was 73 days.

## C. Policy Holder Services

### 1. Declined Life Applications

- In five (5) instances out of 23 files reviewed for an error percentage of 22%, the Company failed to provide the applicant, policyholder or individual proposed for coverage with a specific reason for adverse underwriting in writing, or to inform them that a written explanation could be requested in writing. This is a violation of 215 ILCS 5/1011(A)(1).

The median for declination was seven (7) days.

### 2. Life Cash Surrenders

A review of one (1) life cash surrender file produced no exceptions.

### 3. Non-Forfeiture Review

A review of seven (7) non-forfeiture files produced no exceptions.

### 4. Accident New Business

A review of 42 accident and health new business applications produced no exceptions.

### 5. Critical Illness New Business

A review of 48 critical illness new business applications produced no exceptions.

### 6. Dental-Vision New Business

A review of 62 dental-vision new business applications produced no exceptions.

### 7. Home Health New Business

A review of 113 home health new business applications produced no exceptions.

## D. Producer Licensing

A review was performed on Company-provided data that included first year commissions. No payment of commissions to unlicensed individuals was noted.

## E. Policy Forms and Advertising

### 1. Policy Forms

Review of several of the policy forms filed and in use for the period under review found they did not meet the current standards under 215 ILCS 5/143(1).

- In one (1) instance the Company was criticized under 50 Ill. Adm. Code 2007.80(a)(6) for use of a policy form that did not include the required notice, “This is an accident only policy and it does not pay benefits for loss from sickness.”

## **VIII. INTERRELATED FINDINGS**

- Out of 85 Paid Accident files reviewed the Company underpaid two (2) claims. As a result of the examination, the Company reopened the claims and made payment of \$147.88.
- Out of 83 Denied Accident files reviewed the Company underpaid two (2) claims. As a result of the examination, the Company reopened the claims and made payment of \$556.69.
- Out of 126 Paid Critical Illness files reviewed the Company underpaid three (3) claims. As a result of the examination, the Company reopened the claims and made payment of \$49.67.
- Out of 105 Paid Hospital Indemnity files reviewed the Company underpaid one (1) claim. As a result of the examination, the Company reopened the claim and made payment of \$513.83.
- Out of 172 Paid Home Health Care files reviewed the Company underpaid one (1) claim. As a result of the examination, the Company reopened the claim and made payment of \$1.60.
- Out of 92 Paid Pre-Standard Supplement Medicare files reviewed the Company underpaid one (1) claim. As a result of the examination, the Company reopened the claim and made payment of \$23.83.

STATE OF ILLINOIS            )  
  ) ss  
COUNTY OF CHAMPAIGN    )

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 Reserve National Insurance Company (collectively the "Company").

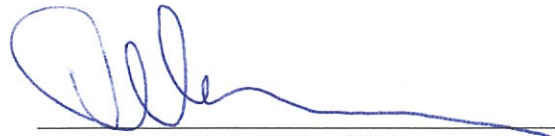
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish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

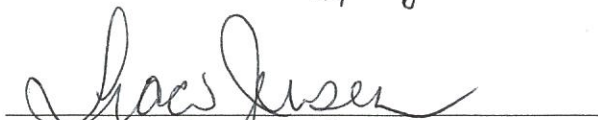
That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

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

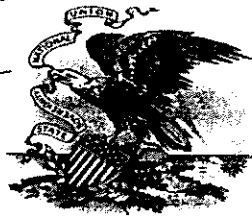
Subscribed and sworn to before me  
this 18<sup>th</sup> day of July, 2017

  
Notary Public



# STATE OF ILLINOIS

## DEPARTMENT OF INSURANCE



IN THE MATTER OF:

**RESERVE NATIONAL INSURANCE COMPANY  
601 EAST BRITTON ROAD  
OKLAHOMA CITY, OK 73114**

### 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, Reserve National Insurance Company ("the Company"), NAIC 68462, 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 affirm or deny liability on claims within a reasonable time as required by 50 Ill. Adm. Code 919.50(a).
2. Institute and maintain policies and procedures whereby the Company shall provide a "Notice of Availability of the Department of Insurance" on denied claims as required by 50 Ill. Adm. Code 919.50(a)(1).
3. 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).
4. Institute and maintain policies and procedures whereby the Company shall provide notice of the availability of interest on life claims to the beneficiary(s) if payment is delayed beyond 31 days at the time the beneficiary makes the claim as required by 215 ILCS 5/224(1)(1).
5. Institute and maintain procedures whereby the Company shall ensure claims are paid within 30 days and ensure payment of interest when a claim remains unpaid for more than 30 days as required by 215 ILCS 5/368a(c).
6. Institute and maintain policies and procedures whereby the Company shall provide the applicant, policyholder or individual proposed for coverage with the specific reason or reasons for an adverse underwriting decision in writing or advise such person that upon written request he or she may receive the specific reason or reasons in writing as required by 215 ILCS 5/1011(A)(1).
7. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above six (6) orders within 30 days of execution of this Order.
8. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$75,000.00 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 RESERVE NATIONAL INSURANCE COMPANY

Kyle D. Conrad  
Signature

Kyle D. Conrad  
Name

Sr. Vice President & Chief Compliance Officer  
Title

Subscribed and sworn to before me this  
8th day of November 2017.

Sheila R. Bazile  
Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 11/15/17

Jennifer Hammer  
Jennifer Hammer  
Director

