

Report of Examination

(Market Conduct)

of

The Chesapeake Life
Insurance Company

NAIC Company Code 61832

of

Oklahoma City, Oklahoma

as of

December 31, 2007

By Representatives of the
Oklahoma Insurance Commissioner



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SALUTATION

North Richland Hills, Texas
March 25, 2009

Honorable Kim Holland
Insurance Commissioner
State of Oklahoma
2401 NW 23rd Street, Suite 28
Oklahoma City, Oklahoma 73107

Commissioner Holland:

Pursuant to your instructions and in compliance with the provisions of Title 36 of the Oklahoma Statutes, rules, regulations and procedures of the Oklahoma Insurance Department, and the procedures established by the National Association of Insurance Commissioners, an examination of the market conduct activities has been conducted of:

The Chesapeake Life Insurance Company
of
Oklahoma City, Oklahoma

at their administrative office located at

9151 Boulevard 26
North Richland Hills, Texas 76180-5605

The report thereon, as of December 31, 2007, is herein respectfully submitted.

FOREWORD

This examination report reflects the Oklahoma insurance activities of The Chesapeake Life Insurance Company, hereinafter referred to as the "Company" or "CLICO." The examination is, in general, a report by test, wherein each test applied during the examination is stated and the results are reported, whether favorable or unfavorable. The Commissioner of Insurance of the State of Oklahoma is hereinafter referred to as the "Commissioner" and the Insurance Department of the State of Oklahoma is hereinafter referred to as the "Department" or the "OID."

SCOPE OF EXAMINATION

The examination of the Company was conducted pursuant, but not limited to, Sections 309.1 - 309.7, 1203 - 1220, 1250.1 - 1250.16, 1435.2 - 1435.38, 4030.1, 4112 and 6901 - 6951 of Title 36 of the Oklahoma Statutes and Oklahoma Administrative Code § 365:40-1-1 through 365:40-5-130. In reviewing material for this report, the examiner relied primarily on records and information maintained by the Company.

The purpose of this examination was to determine compliance by the Company with Oklahoma Insurance Laws and Regulations, and to determine if the Company's operations were consistent with the public interest. The examination included, but was not limited to, the following areas of the Company's operations:

- A. Company Operations/Management;
- B. Complaint Handling;
- C. Producer Licensing;
- D. Marketing and Sales;
- E. Underwriting;
- F. Policyholder Service and
- G. Claim Practices.

In cases where samples were selected and file sizes warrant, error ratios are projected to indicate a maximum high or low at a 95% level of confidence. Some files may contain multiple errors, which are indicated by category, but are counted only once in determining the error ratio.

This examination was done in conjunction with an examination on The MEGA Life and Health Insurance Company (MEGA) (the primary examinee) and The Mid-West National Life Insurance Company of Tennessee (Mid-West), both subsidiaries of HealthMarkets, Inc. (HMI). Areas of the examination that are duplicative of MEGA activities are indicated as such or omitted when insufficient in size or scope. Significant differences from MEGA operations may be pointed out.

The examination period was from January 1, 2005 through December 31, 2007. This examination took place in the Company's North Richland Hills administrative office.

COMPANY HISTORY

Incorporated April 20, 1956 in the state of Maryland, the Company commenced business on October 1, 1956. Acquired by HMI's predecessor on June 28, 1991, the Company re-domesticated to Oklahoma in 2000. On July 27, 2000 MEGA acquired ownership of the Company.

Premium Production

Company premium production for Oklahoma compared to the total company for the examination period is shown below:

	2005		2006		2007	
	Health	Life & Annuity	Health	Life & Annuity	Health	Life & Annuity
Oklahoma	357,930	962,047	98,323	1,144,145	47,962	1,140,289
Total company	102,170,314	41,312,737	60,847,183	52,182,326	28,339,142	57,498,947

COMPANY OPERATIONS/MANAGEMENT

MGA, GA, TPA Oversight

The Company has not used any Managing General Agent, General Agent or Third Party Administrator to process Oklahoma business during the examination period.

Internal Audits

The Company provided a list of internal audits performed on various areas of operation within the organization. Summaries of those reports indicated the findings and recommended management action required to correct deficiencies. Follow-ups were scheduled to make sure corrections were accomplished.

Anti-Fraud

The Company's Anti-Fraud training procedures and materials were reviewed. The Company's Special Investigations Unit (SIU) works closely with the various states to monitor and report suspected fraud. Materials include information on identifying possible fraud on the part of providers, insureds, employees and agents. Investigative methods are documented in some detail.

Certificate of Authority

A copy of the Company's current Certificate of Authority issued by the State of Oklahoma Insurance Commissioner was reviewed and found to be in conformity with the Company's operations.

Disaster Recovery

The corporate Business Continuity Program (BCP) provides a detailed overview of the various procedures developed to assure a rapid and successful return to essential business activities when interrupted by any of several reasons. The BCP provides both corporate and detailed operational level plans necessary to resume operations. Testing and trials are done at regular intervals. Updates are at least annual. The Oklahoma City location has its own detailed plan.

Computer Systems

The Corporate (North Richland Hills) and the Oklahoma City locations each have a similar role based access protocol which is reviewed and modified as required. System back-ups, an important part of the recovery plan, play an extensive part in data security as well.

Board of Directors' Meeting Minutes

The Board of Directors' meeting minutes for the examination period were reviewed without adverse findings.

Privacy

Copies of the Company's privacy practices and notices were reviewed without comment.

CONSUMER COMPLAINTS

The Company was requested to provide a listing of all the Oklahoma complaint files for the period of January 1, 2005 through December 31, 2007. Fifty-one (51) complaint files from the complaint register were selected for review. Fifteen (15) complaints were from the Department and thirty-six (36) complaints were filed directly by the claimant. Six (6) of the complaints were actually received prior to the beginning of the examination period and one (1) complaint belonged to another state, leaving forty-four (44) valid samples. There were two (2) errors, for an error ratio of 6%. Both of the errors were in the Time Studies section of the review and both were filed through the Department.

Complaint Time Studies

For these studies, inquiry response times are measured in terms of calendar days to comply with Section 1250.4. of Title 36 of the Oklahoma Statutes. Twenty (20) calendar days are allowed for a response to an inquiry from the Commissioner. Correspondence from a claimant requires a response within thirty (30) calendar days.

Two (2) Department complaints, numbers CM0658942 and CM0546971, took more than twenty (20) days for a response as permitted by Section 1250.4 of Title 36 of the Oklahoma Statutes. The Company stated both were individual errors and not representative of their normal procedure.

No other discrepancies were noted in this section of the examination.

Complaint Handling

While there were no violations noted in the processing of the complaints reviewed, it should be pointed out that twenty-nine (29) of the complaints were producer related. The scenario in each case was that the complainant was having their bank drafted for premiums for life insurance they claimed they did not authorize. Many cases involved the application for health insurance that was either not taken, denied or cancelled and then they discovered the life insurance (placed through Chesapeake while the health insurance may have been through MEGA or Mid-West) was still in force. Many said they were unaware the life coverage was separate from the health coverage applied for.

Unless the delay between issue and complaint about the unknown bank drafting was too long, the Company refunded the life premium collected. The Company also reviewed each allegation of producer wrong doing. When the agent had no prior complaints and evidence of the allegation was lacking, a record of the incident was made and no action was taken. When clear evidence of wrong doing existed or prior incidents were on record, the producer records were reviewed by a committee and often termination was recommended.

The procedure seemed to be in place and working to weed out producers who did not meet standards of proper behavior. However, it was recommend that the Company institute a process by which all new life policy holders are contacted by phone. The purpose would be to verify the awareness of the life policy and to make sure the policy holder was aware of the method of premium payment in place. This process would serve to clarify any policy holder misunderstanding, reduce complaints and more quickly identify inappropriate producer behavior.

MARKETING AND SALES

The Company provided copies of files on policies, brochures, applications and producer training material on policies offered for sale in Oklahoma during the examination period. A selection of the material was reviewed including the Company website as it related to consumer products.

Unlike MEGA, CLICO does not market its products through association groups. The life products include term, modified whole life, graded benefit, universal life and traditional whole life. Marketing is done by the MEGA and Mid-West producers as well as some individual brokers.

Advertising

What few adverting brochures were made available for review spoke little of specific policy benefits. No errors were noted in those items reviewed.

Fifteen (15) universal life policy files were found not to have had evidence of the required diligent effort to obtain a signed numerical summary page of the life illustration. Reference Okla. Admin. Code § 365:10-3-57. The policies are listed below.

N20040703599	N20050604675	N20060100947
N20050200481	N20050904872	N20060104079
N20050701705	N20050904886	N20060303769
N20070600704	N20050904891	N20070202221
N20050601687	N20051004051	N20070502195

No other discrepancies were noted in this section of the examination.

PRODUCER LICENSING

Producer licensing and appointment procedures were reviewed for compliance with Oklahoma Statutes and Administrative Code. Most of the producers appointed by Chesapeake were also appointed by MEGA. The procedures and processes were the same in both companies. The same errors found regarding lack of proper notification of termination of appointment would

therefore be found in Chesapeake producer files. Corrections made to MEGA procedures and correspondence content would also be made with Chesapeake.

POLICY OWNER'S SERVICE

Policy owners' service files were examined for timeliness and adequacy of action and response to service requests. A sampling of non-forfeiture transactions and notifications were reviewed. Sample letters and procedures were also reviewed.

From a total population of eighty-eight (88) surrenders and other non-forfeiture transactions during the examination period, fifty (50) were selected for review. Two (2) errors were found for an error ratio of 4%.

One (1) error in calculation of the amount of reduced paid up life insurance on policy number N20040101527. The system is being checked to make sure there were no similar errors. The policy holder would be contacted and advised of the correct (higher) amount of insurance provided.

One (1) violation of Section 1219 of Title 36 of the Oklahoma Statutes for failure to pay interest on a delayed payment of a claimed policy benefit. The Company received a request for cash surrender on April 20, 2006 and did not provide the benefit until January 4, 2007. The Company did not believe that the referenced code section applied to cash surrenders.

As in the MEGA examination, the same findings of inadequate letters to explain the nature of the non forfeiture transaction and provide information regarding other options existed. Likewise, the information on the voucher part of the surrender checks was of no value to the recipient and may have contained private information. These letters and vouchers would be revised as appropriate.

No other discrepancies were noted in this section of the examination.

UNDERWRITING

Underwriting files are reviewed to determine if the Company's treatment of the public is in compliance with applicable statutes, rules and regulations. Underwriting manuals and procedures are reviewed for any indication of unfair discrimination. Forms and applications are checked to make sure they have been filed with the Department when required.

From a population of 2,383, seventy-nine (79) were randomly selected for review. While no underwriting errors were noted, the fifteen (15) policy illustrations errors were detected and mentioned earlier in this report as they are violations of advertising rules.

No other discrepancies were noted in this section of the examination.

CLAIMS PRACTICES

The claims practices were examined for efficiency of handling, accuracy of payment, compliance to Oklahoma Statutes and Regulations, and adherence to contract provisions.

A claim is taken to be a demand for payment by an insured or third party claimant under coverage against the insurer, which claim is:

Paid by the insurer as:

1. Full recompense
2. Partial recompense

Closed without payment by reason of no:

1. Relevant coverage
2. Liability

The life products include term, modified whole life, graded benefit, universal life and traditional whole life. A *Critical Illness* rider was available for an additional premium with most of the contracts and provided a selectable percentage (either 25% or 50%) of the contract face value upon diagnosis of a defined, critical (but not necessarily terminal) condition. The claims for life benefits and critical illness benefits were reviewed together. From a population of eighty (80) paid claims, forty (40) randomly selected files were reviewed. Additionally, all ten (10) denied claims were reviewed.

Claims Time Studies

No discrepancies were noted in this section of the examination.

Claims Handling Procedures

While payment cover letters were generally adequate, the information contained on the check vouchers was confusing and often contained private information. This issue will be addressed.

No other discrepancies were noted in this section of the examination.

SUMMARY

Comments

Page(s)

CONSUMER COMPLAINTS

Complaint Time Studies

Two (2) Department complaints took more than twenty (20) days for a response as permitted by Title 36 O.S. §1250.4. These errors produced an error ratio of 6%.

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MARKETING AND SALES

Advertising

Fifteen (15) universal life policy files were found not to have had evidence of the required diligent effort to obtain a signed numerical summary page of the life illustration. Reference Okla. Admin. Code § 365:10-3-57.

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POLICY OWNER'S SERVICE

From a population of eighty-eight (88) surrenders and other non-forfeiture transactions during the examination period, fifty (50) were selected for review. Two (2) errors were found for an error ratio of 4%.

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One (1) error in calculation of the amount of reduced paid up life insurance.

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One (1) violation of Title 36 O.S. §1219 for failure to pay interest on a delayed payment of a claimed policy benefit.

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CONCLUSION

The market conduct examination report on The Chesapeake Life Insurance Company is respectfully submitted to the Honorable Kim Holland, Insurance Commissioner of the State of Oklahoma.

Participation and assistance by Boyd A. (Tony) Higgins FLMI, CLU, ALHC, CIE, independent market conduct examiner, is gratefully acknowledged.

This examiner wishes to express his appreciation for the courteous cooperation and assistance given by the officers and employees of the Company during the course of this examination.

Sincerely,



Charles R. Pickett, MCM, CLU, ChFC, FLMI, CIE
Examiner-In-Charge, State of Oklahoma
Midwestern Zone III, NAIC

