



# Illinois Department of Insurance

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BRUCE RAUNER  
Governor

JAMES A. STEPHENS  
Acting Director

May 19, 2015

Gregory S. Benesh  
President and CEO  
Dearborn National Life Insurance Company  
300 East Randolph St.  
Chicago, IL 60601-5099

Re: Dearborn National Life Insurance Company NAIC #71129  
*Market Conduct Examination Report Closing letter*

Dear Mr. Benesh:

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 available for public inspection as authorized by 215 ILCS 5/132.

If you have any questions, my contact information is listed below.

Sincerely,

Michael P. Rohan  
Deputy Director  
Consumer Education and Protection  
Illinois Department of Insurance  
122 S. Michigan Avenue, 19th Floor  
Chicago, IL 60603  
Phone: 312-814-8206  
E-mail: [Michael.Rohan@illinois.gov](mailto:Michael.Rohan@illinois.gov)

Cc: Gregory S. Benesh  
President and CEO  
Dearborn National Life Insurance Company  
701 East 22<sup>nd</sup> Street, Suite 300  
Lombard, IL 60148

**DEARBORN NATIONAL LIFE INSURANCE COMPANY  
REPORT**

## **MARKET CONDUCT EXAMINATION REPORT**

**DATE OF EXAMINATION:** September 15, 2014 through February 6, 2015

**EXAMINATION OF:** Dearborn National Life Insurance Company  
NAIC Number: 71129

**LOCATION:** 701 E. 22<sup>nd</sup> Street  
Lombard, IL 60148

**PERIOD COVERED  
BY EXAMINATION:** January 1, 2013 through December 31, 2013

**EXAMINERS:** Robert J. McGee, CFE  
Lisa B. Crump, CIE, AMCM, FLMI, ACS, ALHC, AIAA,  
Examiner-in-Charge

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## I. SUMMARY

A comprehensive Market Conduct Examination of Dearborn National Life Insurance Company was performed to determine compliance with Illinois Statutes and Illinois Administrative Code.

The following table represents the general findings with the details of each review located in specific sections of the report.

<b><u>TABLE OF TOTAL VIOLATIONS</u></b>						
<b>Crit #</b>	<b>Statute/Rule</b>	<b>Description of Violation</b>	<b>Population</b>	<b>Files Reviewed</b>	<b>Number of Violations</b>	<b>Error %</b>
3	50 Ill. Adm. Code 919.50, 215 ILCS 5/154.6(c), 215 ILCS 5/154.6(h)	Waiver of Premium Group Claim file failed to comply with requirements for prompt claim handling.	826	40	1	2.5%

## II. BACKGROUND

Fort Dearborn Life Insurance Company was incorporated on August 23, 1966. On September 8, 1966, Fort Dearborn Life Insurance Company was licensed and began writing life, accident and health insurance business in April 1969.

Effective January 1, 2010, Fort Dearborn Life Insurance Company executed a company name change to Dearborn National Life Insurance Company. Dearborn National Life Insurance Company manages two subsidiary companies, Dearborn National Life Insurance Company of New York and Preferred Financial Corporation. Senior Leadership at Dearborn National Life also manages an affiliated company, Dental Network of America, LLC. This company provides dental claims, network and management services for Health Care Service Corporation (HCSC) and other Blue Cross Blue Shield Plans.

Dearborn National Life Insurance Company currently markets Group Life, Short Term Disability, Long Term Disability and Dental plans. Previously, the Company also marketed Individual Term Life and Annuity products, however, these products were no longer marketed for new business after July 2010.

All outstanding stock of Dearborn National is owned by HCSC, an Illinois domiciled mutual legal reserve company, also known as Blue Cross and Blue Shield of Illinois, Blue Cross and Blue Shield of Texas, Blue Cross and Blue Shield of New Mexico, Blue Cross and Blue Shield of Oklahoma, and Blue Cross and Blue Shield of Montana.

Total Direct Premiums Written in Illinois for Accident and Health insurance are as follows:

Year	Total Written Premium In Illinois (Per Schedule T of the Annual Statement)	Individual Accident and Health	Current Market Share	Group Accident and Health	Current Market Share
2011	\$94,493,844	\$65,784	.00003	\$33,531,486	.00309
2012	\$108,554,655	\$58,613	.00003	\$41,791,252	.00320
2013	\$97,880,242	\$61,440	.00003	\$33,089,458	.00241

Year	Group Life	Current Market Share	Individual Life	Current Market Share
2011	\$55,566,544	.04364	\$2,253,679	.00046
2012	\$62,595,631	.04611	\$1,916,497	.00039
2013	\$60,860,845	.03848	\$1,626,164	.00032

Year	Individual Annuities	Current Market Share		
2011	\$3,076,341	.00038		
2012	\$2,192,662	.00029		
2013	\$2,242,335	.00030		

### III. METHODOLOGY

The Market Conduct Examination covered the business written from January 1, 2013 through December 31, 2013. Specifically, the examination focused on a review of the following areas:

1. Sales and Advertising
2. Producer Licensing
3. Underwriting Procedures
4. Claim Procedures
5. Appeals, Department Complaints and Complaints Received Directly from Consumers.

The review of the above categories was accomplished through examination of producer lists, claim files, underwriting 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 a failure to comply with Illinois statutes and/or administrative rules. Criticisms were prepared and communicated to the Company addressing violations found in the review process. All found violations are cited in the report.

The following methods were used to obtain the required samples and to ensure a methodical selection.

#### Producer Licensing

New business was reviewed to determine if solicitations were 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 policy 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.

The period under review was January 1, 2013 through December 31, 2013.

#### Department Complaints and Consumer Appeals

The Company was requested to provide all files relating to complaints received via the Department of Insurance and those received directly from consumers. The examiners also requested all formal appeals handled during the survey period.

The period under review was January 1, 2013 through December 31, 2013.

### IV. FINDINGS

#### A. COMPANY OPERATIONS AND MANAGEMENT

1. Company procedures, plans and guidelines  
A review was conducted of the Company's underwriting guidelines and procedures, internal audits, disaster recovery plan, anti-fraud program and third-party vendor contracts. No violations were noted.
2. Company's Privacy Procedures  
A review of the Company's privacy procedures, which requires the implementation of policies and procedures to prevent the wrongful disclosure of certain data/identifiable information was conducted. No violations were noted.

#### B. COMPLAINTS AND APPEALS

A review of the complaints received by the Company, received by the Illinois Department of Insurance (IDOI) and all Appeals was conducted. No violations were noted.

C.     MARKETING AND SALES

A review of the Company's marketing and sales procedures, including samples of its advertising materials, was conducted. No violations were noted.

D.     PRODUCER LICENSING

A review of the Company's producer licensing guidelines and procedures was conducted, as well as a review of a random sample of the Company's licensed producers. No violations were noted.

E.     FORMS

A review of the Company's form filing process was conducted, as well as a review of a random sample of approved forms. No violations were noted.

F.     UNDERWRITING AND RATING

1.    Group Life Policies Issued

Field Size     445  
Sample Size    82  
Files in Error  0

FINDING: No violations were noted. However, in one file, the life application was missing from the file. The Department recommends as a best practice that the Company institute and implement procedures to maintain life applications as part of their underwriting files to ensure complete file documentation.

2.    Group Short Term Disability Policies Issued

Field Size     87  
Sample Size    40  
Files in Error  0

FINDING: No violations were found in this review.

3.    Group Long Term Disability Policies Issued

Field Size     30  
Sample Size    30  
Files in Error  0

FINDING: No violations were found in this review.

#### 4. Group Dental Policies Issued

Field Size 36  
Sample Size 36  
Files in Error 0

FINDING: No violations were found in this review.

#### 5. Group Life Conversions

Field Size 67  
Sample Size 38  
Files in Error 0

FINDING: No violations were found in this review.

#### 6. Group Life Conversions Policies Declined

Field Size 16  
Sample Size 16  
Files in Error 0

FINDING: No violations were found in this review.

#### 7. Life Certificates Declined

Field Size 136  
Sample Size 40  
Files in Error 0

FINDING: No violations were found in this review.

#### 8. Disability Certificates Declined

Field Size 17  
Sample Size 17  
Files in Error 0

FINDING: No violations were found in this review.

#### 9. Group Life Conversions Not Taken

Field Size 3  
Sample Size 3  
Files in Error 0

FINDING: No violations were found in this review.

## 10. Individual Life Policies Terminated

Field Size 568  
Sample Size 83  
Files in Error 0

FINDING: No violations were found in this review.

## 11. Annuity Contracts Terminated

Field Size 479  
Sample Size 83  
Files in Error 0

FINDING: No violations were found in this review.

## G. INDIVIDUAL AND GROUP CLAIMS

For Group Life and Waiver of Premium claims, the Company is in the process of moving from an older claim system (DOCSQL) to that of a new system (STAR). The Company provided the examiners with claim files from both systems. These files are noted below.

### 1. Individual Life Claims Received

Field Size 1110  
Sample Size 105  
Files in Error 0

FINDING: No violations were found in this review.

### 2. Individual Annuity Claims Received

Field Size 233  
Sample Size 76  
Files in Error 0

FINDING: No violations were found in this review.

### 3. Dental Claims Received

Field Size 159,235  
Sample Size 109  
Files in Error 0

FINDING: No violations were found in this review.

#### 4. DOCSQL Life Claims Received

Field Size 1,552  
Sample Size 105  
Files in Error 0

FINDING: No violations were found in this review.

#### 5. DOCSQL Waiver of Premium Claims Received

Field Size 82  
Sample Size 40  
Files in Error 1  
Error Rate 2.5%

FINDING: The Company failed to handle this claim in a timely manner. The insured's last day of work, due to an accident sustained outside of work, was April 3, 2013. Benefits became available after November 1, 2013, and a claim was filed with the Company.

The Company received the claim on November 7, 2013. However after an e-mail was sent by the Company to the employer/group on November 18, 2013, no further activity occurred with this claim. Seven months later, on June 12, 2014, the Company contacted the insured to notify him that coverage was denied. The group was not notified of the denial until December 16, 2014, over one year from the filing of the claim. This is a violation of 50 Ill. Adm Code 919.50, 215 ILCS 5/154.6(c) and 215 ILCS 5/154.6(h).

#### 6. STAR Life Claims Received

Field Size 868  
Sample Size 102  
Files in Error 0

FINDING: No violations were found in this review.

#### 7. STAR Waiver of Premium Claims Received

Field Size 174  
Sample Size 101  
Files in Error 0

FINDING: No violations were found in this review.

## 8. Long Term Disability Claims Received

Field Size 1,850  
Sample Size 106  
Files in Error 0

FINDING: No violations were found in this review.

## 9. Short Term Disability Claims Received

Field Size 6,484  
Sample Size 109  
Files in Error 0

FINDINGS: No violations were found in this review.

## V. INTERRELATED FINDINGS

The IDOI received a complaint from an agent alleging that the Company was manipulating and/or reducing commission rates as a means to reduce policy premiums. The agent in question was asked to provide any documentation s/he might have to the IDOI. To date, no additional information has been provided other than the original complaint. The IDOI did instruct the examiners to review the Company's commission payment practices and underwriting practices during the present examination to determine whether or not there was any merit to the allegation.

During the course of the examination the examiners selected several files for review of underwriting practices. For the insured in question, however, the underwriting file, including renewal information, was not available to the examiners as this was a Missouri policy and not an Illinois policy. The examiners also determined that the agent making the allegation has a non-resident license as he lives in Missouri.

While the underwriting file for this particular insured was not available to the examiners for review, the examiners did review Illinois underwriting files, agent contracts, including commissions, and other relevant documents. In the course of reviewing agent contracts the examiners note that there is language in the contract allowing the Company to reduce commissions provided the agent is given advance notice.

It would appear that this allegation is a contractual matter but one that is not in the jurisdiction of the IDOI. The matter will be referred to the Missouri Department of Insurance for such further action as they may deem proper.

## VI. TECHNICAL APPENDICES

None

STATE OF MISSOURI        )  
  ) ss  
COUNTY OF GREENE        )

Lisa Crump, EIC, CIE, AMCM, ACS, ALHC, AIAA, FLMI, CPIW, being first duly sworn upon his/her oath, deposes and says:

That she 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 Dearborn National Life Insurance Company, NAIC #71129 (the "Company");

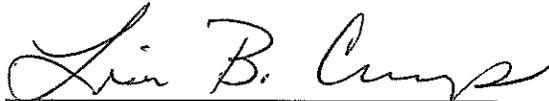
That the Examiner-In-Charge was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish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

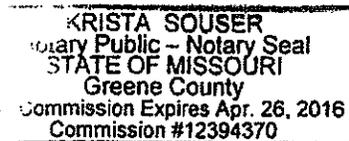
That she was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

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.

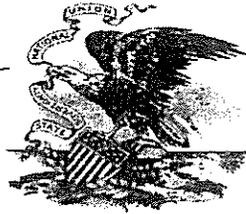
  
Examiner-In-Charge

Subscribed and sworn to before me this 12<sup>th</sup> day of February, 2015.

  
Notary Public Krista Souser



STATE OF ILLINOIS  
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

DEARBORN NATIONAL LIFE INSURANCE COMPANY  
300 EAST RANDOLPH STREET  
CHICAGO, IL 60601-5099

STIPULATION AND CONSENT ORDER

WHEREAS, the Director ("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, Dearborn National Life Insurance Company, NAIC #71129, 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, 407, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, , 5/403, 5/407, 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 its various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, and 407, 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, it waives 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 procedures whereby the Company communicates with the insured in order to establish reasonable standards to ensure the prompt investigation and settlement of claims arising under its policies as required by 215 ILCS 5/154.6(c) and 215 ILCS 154.6(h).
2. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above one (1) order within 30 days of receipt of this Order.
3. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$500 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 DEARBORN NATIONAL LIFE INSURANCE COMPANY

Gregory S. Benesh  
Signature

Gregory S. Benesh  
Name

President & CEO  
Title

Subscribed and sworn to before me this  
12 day of May 2015.

Dina Bernal  
Notary Public



DEPARTMENT OF INSURANCE of the  
State of Illinois:

DATE 5-12-15

James Stephens  
Acting Director