



Illinois Department of Insurance

Bruce Rauner
Governor

Anne Melissa Dowling
Acting Director

December 14, 2015

Larry R. Schuneman, President
Lincoln Heritage Life Insurance Company
920 S. Spring Street
Springfield, IL 62704

Re: Lincoln Heritage Life Insurance Company, NAIC 65927
Market Conduct Examination Report Closing Letter

Dear Mr. Schuneman:

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. 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
E-mail: Jack.Engle@Illinois.gov

LINCOLN HERITAGE LIFE INSURANCE COMPANY
EXAMINATION REPORT

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: May 11, 2015 through July 16, 2015

EXAMINATION OF: Lincoln Heritage Life Insurance Company
NAIC Number: 65927

LOCATION: 4343 E Camelback Rd, Suite 400
Phoenix, AZ 85018

PERIOD COVERED
BY EXAMINATION: April 1, 2014 through March 31, 2015 – Claims
January 1, 2013 through March 31, 2015 – Appeals and
Complaints

EXAMINERS: Stan Kupish
Chris Heisler, Examiner-in-Charge

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I. SUMMARY

A comprehensive market conduct examination of Lincoln Heritage Life Insurance Company (“LHLIC” or “Company”) was performed to determine compliance with Illinois statutes and the Illinois Administrative Code.

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

TABLE OF TOTAL VIOLATIONS						
Crit #	Statute/Rule	Description of violation	Population	Files Reviewed	Number of Violations	Error %
#1 Advertising Review	50 Ill. Adm. Code 909.60(a)	Advertisement contained misleading information as to true identity of the insurer.	86	86	4	4.7%
#3 Policy Forms	50 Ill. Adm. Code 1405.40(p)(3)	Policy language that is limiting, reducing or excluding liability for a loss resulting from purely accidental circumstances.	58	58	1	1.7%
#4 Paid Individual Life Claims	50 Ill. Adm. Code 919.70(a)(2)	The Company failed to provide beneficiary with a reasonable explanation for delay beyond 45 days.	1,213	106	2	1.9%
#5 Paid Individual Life Claims	50 Ill. Adm. Code 919.70(a)(2)	The Company failed to provide beneficiary with notice of availability of the Department of Insurance.	1,213	106	11	10.4%
#6 Paid Individual Life Claims	215 ILCS 5/154.6(b) & 50 Ill. Adm. Code 919.40	The Company failed to respond with reasonable promptness upon the initial reporting of the claim by the beneficiary.	1,213	106	8	7.5%
#8 Paid Individual Life Claims	215 ILCS 5/154.6(o)	The Company failed to provide forms necessary to present claims.	1,213	106	6	5.7%
#9 Denied Individual Life Claims	50 Ill. Adm. Code 919.70(a)(2)	The Company failed to provide beneficiary with notice of availability of the Department of Insurance.	56	56	50	89.3%
#11 Life Policy Replacements	50 Ill. Adm. Code 917.70(c)	The Company failed to provide a Buyer’s Guide to the applicant at time of application.	106	44	44	100.0%
#13 Life Policy Replacements	50 Ill. Adm. Code 917.70(c)	The Company failed to forward, to existing insurer, within 3 working days after receipt of application, the Notice Regarding Replacement of Life Insurance.	106	44	23	52.3%

BACKGROUND

Lincoln Heritage Life Insurance Company was originally incorporated in Massachusetts on August 15, 1963, and began business on October 19, 1963, as Massachusetts Life Insurance Company. The Company's name was changed in 1969 to Life of American Insurance Corporation of Boston. Its name was then changed to Life of Boston Insurance Company in 1986. Life of Boston Insurance Company was purchased by Equity Benefit Life Insurance Company on August 6, 1991, and redomesticated to Oklahoma on October 10, 1991. The Company redomesticated to Illinois on August 18, 1999, merged with Lincoln Heritage Life Insurance Company on November 30, 1999, and changed its name to Lincoln Heritage Life Insurance Company.

LHLIC is licensed to do business in 49 states and the District of Columbia. It is not licensed to do business in New York. The Company markets whole life final expense insurance plans.

LHLIC distributes its products through an agency system. The Company uses independent life insurance agents that are licensed to transact business in Illinois. Upon contracting with the Company, the agent is appointed to represent the Company. Leads are generated through advertisements (primarily mail and television). Collected leads are distributed to the Company's independent agents and the Company's independent agents then contact the prospects to sell the insurance policies. The Company had 398 agents that produced new business during the exam period.

In 2011, the Company entered into a 100% coinsurance transaction on its group life preneed business in force with National Guardian Life Insurance Company. This transaction allowed the Company to concentrate its efforts on the individual final expense insurance which has been the Company's main line of business for more than fifty years.

Total Direct Premiums Written in Illinois for Life, Annuities, 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	Medicare Supplement	Current Market Share
2012	\$12,287,610	\$1,100,598	0.045%	\$1,108,725	0.073%
2013	\$12,841,330	\$870,091	0.036%	\$871,366	0.055%
2014	\$14,224,046	\$649,184	0.02%	\$659,141	0.04%

Year	Group Life	Current Market Share	Individual Life	Current Market Share
2012	\$2,166,587	0.16%	\$8,951,197	0.237%
2013	\$1,739,958	0.11%	\$10,140,043	0.18%
2014	\$1,461,974	0.103%	\$11,996,900	0.237%

Year	Individual Annuities	Current Market Share		
2012	\$69,228	0.001%		
2013	\$91,238	0.001%		
2014	\$115,988	0.002%		

II. METHODOLOGY

The Market Conduct Examination covered the business written for the period of April 1, 2014 through March 31, 2015. Appeals and Complaints covered the period of January 1, 2013 through March 31, 2015. Specifically, the examination focused on a review of the following areas:

1. Producer Licensing and Production Analysis
2. Policy Forms and Advertising Material Analysis
3. Claims Analysis
4. Policy Application and Decline Analysis
5. External and Internal Policy Replacement Analysis
6. Consumer and Insurance Department Complaints

The review of these categories was accomplished through examination of appointed and terminated producer files, application files, cash surrendered policy files, extended term and reduced paid-up policy files, claim files, Department and consumer complaint files, policy forms and advertising material. Each of these categories is 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 found violations were cited in the report.

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

Producer Licensing and Production Analysis

Populations for the producer file reviews were determined by whether or not the producers were duly licensed in Illinois. New business listings were retrieved from Company records selecting newly solicited insurance applications, which reflected Illinois addresses for the applicants.

Policy Forms and Advertising Material Analysis

A list of all plans, form letters, riders and advertising materials used in Illinois during the examination period were requested. All were reviewed for compliance as to format, content and terminology as required by Illinois law.

Claims Analysis

Claim surveys were selected using the following criteria:

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 endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*), the Managed Care Reform and Patient Rights Act (Section 134 *et seq.*) and Illinois Administrative Code.

All median payment periods were measured from the date necessary proofs of loss were received to the date of payment or denial to the insured or the beneficiary.

The examination period for the claims review was April 1, 2014 through March 31, 2015.

Policy Application and Decline Analysis

The Company provided a listing of all life and annuity application files relating to those applications that were declined during the survey period. The files were reviewed to determine validity of the reason for denial.

External and Internal Policy Replacement Analysis

The Company provided a listing of life and annuity files for policies that were either internal or external replacements of existing policies. The replacements were reviewed to determine compliance with 215 ILCS 5/224(2) and/or to determine if the required replacement forms were properly executed and or sent.

Consumer and Insurance Department Complaints

The Company provided all files relating to complaints which had been received via the Department of Insurance as well as those received directly by the Company from the insured or his/her representative. A copy of the Company's complaint register was also reviewed.

Median periods were measured from the date of notification of the complaint to the date of response by the Company. The period of review was January 1, 2013 through March 31, 2015.

III. FINDINGS

A. Claims Analysis

1. Paid Individual Life

The median for payment was two (2) days.

A review of 106 paid individual life claims produced five (5) criticisms.

Field Size	1,213
Sample Size	106
Files in Error	2
Error Rate	1.9%

FINDING: Criticism #4; In 2 (two) instances, the Company failed to provide the insured's beneficiary with a reasonable written explanation for delay beyond 45 days in violation of 50 Ill. Adm. Code 919.70(a)(2).

Field Size	1,213
Sample Size	106
Files in Error	11
Error Rate	10.4%

FINDING: Criticism #5; In eleven instances, the Company failed to provide the insured's beneficiary with a notice of availability of the Department of Insurance with the 45 day delay letter in violation of 50 Ill. Adm. Code 919.70(a)(2).

Field Size	1,213
Sample Size	106
Files in Error	8
Error Rate	7.5%

FINDING: Criticism #6; In eight (8) instances, the Company failed to respond with reasonable promptness upon the initial reporting of the claim by the beneficiary in violation of 215 ILCS 5/154.6(b) and 50 Ill. Adm. Code 919.40.

Field Size	1,213
Sample Size	106
Files in Error	6
Error Rate	5.7%

FINDING: Criticism #8; In six (6) instances, the Company failed to provide the forms necessary to present claims in violation of 215 ILCS 5/154.6(o).

2. Denied Individual Life

The median for denial was one (1) day.

Field Size	56
Sample Size	56
Files in Error	50
Error Rate	89.3%

FINDING: Criticism #9; In fifty instances, the Company failed to provide the insured's beneficiary with a notice of availability of the Department of Insurance with the 45 day delay letter in violation of 50 Ill. Adm. Code 919.70(a)(2).

3. Compromised Individual Life Claims

Field Size	2
Sample Size	2
Files in Error	0

FINDING: No violations were found in this review.

The median could not be established.

4. Paid Group Life

Field Size	198
Sample Size	74
Files in Error	0

FINDING: No violations were found in this review.

The median was one (1) day.

Paid Medicare Supplement

Field Size	3,330
Sample Size	103
Files in Error	0

FINDING: No violations were found in this review.

The median was one (1) day.

5. Denied Medicare Supplement

Field Size	268
Sample Size	76
Files in Error	0

FINDING: No violations were found in this review.

The median was one (1) day.

B. Policyholder Services

1. Extended Term / Reduced Paid-Up Non-Forfeiture

Field Size	427
Sample Size	174
Files in Error	0

FINDING: No violations were found in this review.

2. Replacements

Field Size	106
Sample Size	44
Files in Error	44
Error Rate	100.0%

FINDING: Criticism #11; In forty-four instances, the Company failed to provide a Buyer's Guide to the applicant at the time of the application for life insurance or annuity in violation of 50 Ill. Adm. Code 917.70(c).

Field Size	106
Sample Size	44
Files in Error	23
Error Rate	52.3%

FINDING: Criticism #13; In twenty-three instances, the Company failed to forward, to the existing insurer, within 3 working days after receipt of the application, the Notice Regarding Replacement of life insurance or annuity in violation of 50 Ill. Adm. Code 917.70(c).

3. Group Life Cash Surrender

Field Size	7
Sample Size	7
Files in Error	0

FINDING: No violations were found in this review.

4. Individual Life Cash Surrender

Field Size	345
Sample Size	82
Files in Error	0

FINDING: No violations were found in this review.

5. Individual Life Applications – New Business

Field Size	7,867
Sample Size	109
Files in Error	0

FINDING: No violations were found in this review.

6. Individual Life Policies – Declined

Field Size	85
Sample Size	85
Files in Error	0

FINDING: No violations were found in this review.

C. Producer Licensing

Field Size	398
Sample Size	398
Files in Error	0

FINDING: No violations were found in this review.

D. Consumer Complaints

Field Size	2
Sample Size	2
Files in Error	0

FINDING: No violations were found in this review.

E. Department of Insurance Complaints

Field Size	10
Sample Size	10
Files in Error	0

FINDING: No violations were found in this review.

F. Policy Forms and Advertising

1. Policy Forms

Field Size	58
Sample Size	58
Files in Error	1
Error Rate	1.7%

FINDING: Criticism #3; In one (1) instance, the Company used a policy form with language that is limiting, reducing or excluding liability for a loss resulting from purely accidental circumstances (e.g., involuntary or unintentional ingestion of poison or an infectious organism, or inhalation of poisonous gases or fumes) in violation of 50 Ill. Adm. Code 1405.40(p)(3).

2. Advertising

Field Size	86
Sample Size	86
Files in Error	4
Error Rate	4.7%

FINDING: Criticism #1; In four (4) instances, the Company used an advertisement containing misleading information as to the true identity of the insurer in violation of 50 Ill. Adm. Code 909.60(a).

STATE OF ILLINOIS)
) ss
COUNTY OF Tazewell)

Christopher J. Heisler, 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 Lincoln Heritage Life Insurance Company (the "Company"), NAIC #65927,

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;

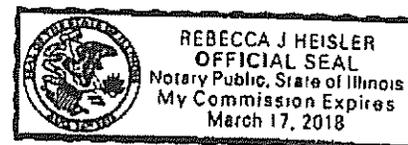
That she/he was the Examiner-In-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

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.

Christopher J. Heisler
Examiner-In-Charge

Subscribed and sworn to before me
this 15 day of August, 2015.

Rebecca J. Heisler
Notary Public



STATE OF ILLINOIS
DEPARTMENT OF INSURANCE



IN THE MATTER OF:

LINCOLN HERITAGE LIFE INSURANCE COMPANY, NAIC 65927
920 S. SPRING STREET
SPRINGFIELD, IL 62704

STIPULATION AND CONSENT ORDER

WHEREAS, the Acting 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, Lincoln Heritage Life Insurance Company ("Company"), NAIC 65927, is authorized under the insurance laws of this State and by the Acting 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 Acting 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 Acting 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 Acting 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 Acting Director that the Company shall:

1. Institute and maintain procedures whereby the Company will provide the insured's beneficiary with a written explanation for delay when a claim remains unresolved for more than 45 calendar days from date reported. Notice of availability of the Department of Insurance shall accompany the written explanation to the insured beneficiary as required by 50 Ill. Adm. Code 919.70(a)(2).
2. Institute and maintain procedures whereby the Company will respond with reasonable promptness upon the initial reporting of a claim by the beneficiary as required by 215 ILCS 5/154.6(b) and defined in 50 Ill. Adm. Code 919.40.
3. Institute and maintain procedures whereby the Company will provide a Buyer's Guide to the applicant at the time of the application for life insurance or annuity as required by 50 Ill. Adm. Code 917.70(c).
4. Institute and maintain procedures whereby the Company will forward to the existing insurer, within 3 working days after the receipt of the application, the Notice Regarding Replacement of life insurance or annuity as required by 50 Ill. Adm. Code 917.70(c).
5. Submit to the Acting Director of Insurance, State of Illinois, proof of compliance with the above four (4) orders within 30 days of execution of this Order.
6. Pay to the Acting Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$26,750 to be paid within 30 days of execution of this Order.

NOTHING contained herein shall prohibit the Acting 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 LINCOLN HERITAGE LIFE INSURANCE COMPANY

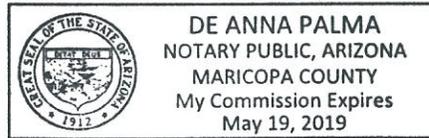
Larry Schuneman
Signature

LARRY Schuneman
Name

President
Title

Subscribed and sworn to before me this
30th day of November 2015.

De Anna Palma
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE 12-7-15

Anne Melissa Dowling
Anne Melissa Dowling JAT
Acting Director