

REPORT ON
TARGET MARKET CONDUCT EXAMINATION
OF
COMMONWEALTH DEALERS LIFE INSURANCE
COMPANY
AS OF MARCH 31, 2012

Conducted from September 11, 2012

through

November 15, 2012

By

Market Conduct Section

Life and Health Division

BUREAU OF INSURANCE

STATE CORPORATION COMMISSION

COMMONWEALTH OF VIRGINIA

FEIN: 54-1438901
NAIC: 88374

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination of Commonwealth Dealers Life Insurance Company, conducted at its Home Office the State Corporation Commission's Bureau of Insurance in Richmond, VA, as of March 31, 2012, is a true copy of the original Report on file with this Bureau, and also includes a true copy of the Company's response to the findings set forth therein, the Bureau's review letter, the Company's offer of settlement, and the State Corporation Commission's Settlement Order in Case No. INS-2013-00032.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of this Bureau at the City of Richmond, Virginia this 27th day of March, 2013.

Jacqueline K. Cunningham
Commissioner of Insurance

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TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
I. SCOPE OF EXAMINATION	1
II. COMPANY HISTORY	3
III. CANCELLATIONS/NONRENEWALS	4
IV. COMPLAINTS	7
V. CLAIM PRACTICES	8
GENERAL HANDLING STUDY.....	8
PAID CLAIM REVIEW.....	8
TIME PAYMENT STUDY	9
DENIED CLAIM REVIEW.....	9
UNFAIR CLAIM SETTLEMENT PRACTICES REVIEW.....	10
THREATENED LITIGATION.....	10
VI. CORRECTIVE ACTION PLAN.....	11
VII. ACKNOWLEDGMENT.....	12
VIII. AREA VIOLATIONS SUMMARY BY REVIEW SHEET	13

I. SCOPE OF EXAMINATION

The Target Market Conduct Examination of Commonwealth Dealers Life Insurance Company, (hereinafter referred to as “CDLIC”), was conducted under the authority of various sections of the Code of Virginia (hereinafter referred to as “the Code”) and regulations found in the Virginia Administrative Code (hereinafter referred to as “VAC”), including but not necessarily limited to, the following: §§ 38.2-200, 38.2-515, 38.2-614, 38.2-1317 and 38.2-1809 of the Code, as well as 14 VAC 5-41-150 C and 14 VAC 5-90-170 A.

Previous Market Conduct Examinations covering the periods of January 1, 2002 through December 31, 2002, and January 1, 2006, through December 31, 2006, were concluded on September 29, 2003, and January 30, 2008, respectively. As a result of these examinations, CDLIC made monetary settlement offers that were accepted by the State Corporation Commission on March 26, 2004 (Correcting Order entered March 31, 2004), in Case No. INS-2004-00067 and on October 2, 2008, in Case No. INS-2008-00093.

The current examination revealed violations that were also noted in previous Reports. Although CDLIC had agreed after the earlier Reports to change its practices in these instances to comply with the Code and regulations, the current examination revealed several instances where CDLIC has not done so. In the examiners’ opinion, therefore, CDLIC has knowingly violated certain sections of the Code and regulations. Section 38.2-218 of the Code sets forth the penalties that may be imposed for knowing violations.

The period of time covered for the current examination, generally, was October 1, 2011, through March 31, 2012. The desk examination was initiated on

September 11, 2012, at the office of the State Corporation Commission's Bureau of Insurance in Richmond, Virginia, and concluded on November 15, 2012. The violations cited and the comments included in this Report are the opinions of the examiners. The examiners may not have discovered every unacceptable or non-compliant activity in which the company is engaged. Failure to identify, comment on, or criticize specific company practices in Virginia or in other jurisdictions does not constitute acceptance of such practices.

The purpose of the examination was to determine whether CDLIC was in compliance with various provisions of the Code and regulations found in the Virginia Administrative Code. Compliance with the following regulations was considered in this examination process:

14 VAC 5-400-10 et seq. Rules Governing Unfair Claim Settlement Practices.

The examination included the following areas:

- Cancellations/Nonrenewals
- Complaints
- Claim Practices

Examples referred to in this Report are keyed to the numbers of the examiners' Review Sheets furnished to CDLIC during the course of the examination.

II. COMPANY HISTORY

On December 16, 1987, Commonwealth Dealers Life Insurance Company, an Arizona reinsurance company, caused Rebel Insurance Company (Rebel) to be incorporated as a Virginia Corporation. Rebel was formed for the purpose of making formal application to the Bureau of Insurance for a license to directly write credit life and credit accident and sickness insurance and was granted a license on February 8, 1989. On March 24, 1989, the Commission approved the merger of Commonwealth Dealers Insurance Company into Rebel and Rebel's name was changed to Commonwealth Dealers Life Insurance Company, a Virginia corporation.

CDLIC is licensed to issue life, credit life, accident and sickness, and credit accident and sickness insurance in Delaware, Florida, Georgia, Indiana, Kentucky, Maryland, North Carolina, Pennsylvania, Ohio, South Carolina, Tennessee, and Virginia. Until September 27, 2007, CDLIC was engaged in the business of writing direct credit life and credit accident and sickness business through automobile dealerships, who generally are stockholders of CDLIC. On September 27, 2007, the CDLIC Board of Directors authorized and approved the proposal for CDLIC to cease writing insurance policies, enter into run-off, and, upon completion of the run-off, dissolve and terminate CDLIC. Effective December 1, 2007, CDLIC engaged a third party administrator, LOTsolutions, Inc., to manage the run-off process of the credit life and credit accident and sickness insurance business. CDLIC anticipates that the run-off of the credit business will be completed by the end of 2014.

As of December 31, 2011, CDLIC's admitted assets totaled \$ 7,978,361. Direct credit life premium income in Virginia totaled (\$267) and direct accident and sickness income totaled (\$1,335).

III. CANCELLATIONS/NONRENEWALS

The examination included a review of CDLIC's cancellation practices and procedures to determine compliance with its contract provisions; the requirements of § 38.2-508 of the Code covering unfair discrimination; and § 38.2-3729 of the Code, covering credit insurance premium refunds. In 2009, § 38.2-3729 of the Code was amended to delete former subsection G, which read "Refunds shall be made in accordance with this chapter without regard as to whether or not the refund has been requested by the debtor", and to re-designate former subsections H and I as subsections G and H.

The examiners reviewed the entire population of 3 credit life insurance cancellations and 2 credit accident and sickness insurance cancellations. Cancellations of single premium credit insurance involve those certificates no longer in force but having premium refunds payable due to early payoff, repossession of the vehicle, non-payment of insurance premiums, or those for which the insured's request for cancellation has been received by the insurer prior to the scheduled maturity date of the loan.

Section 38.2-3725 E of the Code requires that the benefits provided by any credit accident and sickness insurance form shall be considered reasonable in relation to the premium charged provided that the rate does not exceed the current prima facie rates set by the Commission. Subsection 1 of § 38.2-3732 of the Code requires, in part, that any insurer that delegates the duty of determining that proper insurance rates are being charged shall be responsible for ensuring that the creditor discharges such duty in accordance with Virginia statute. The review revealed 1 violation of each section. As discussed in Review Sheet CN02, the initial premium charged exceeded

the Commission's published 2004-2006 Prima Facie Credit Accident and Sickness rate of \$4.31 per \$100. Since the premiums were calculated incorrectly by the creditor, the violation of § 38.2-3725 E of the Code places CDLIC in violation of Subsection 1 of § 38.2-3732 of the Code. CDLIC agreed with the examiners observation.

Section 38.2-3729 G 2 (formerly designated as § 38.2-3729 H 2) of the Code requires that if a debtor prepays the indebtedness other than as a result of death, any credit accident and sickness insurance covering such indebtedness shall be terminated and an appropriate refund of the premium shall be paid to the debtor. Subsection 2 of § 38.2-3732 of the Code requires, in part, that any insurer that delegates the duty of providing proper refunds shall be responsible for ensuring that the creditor discharges such duty in accordance with Virginia statute. The review revealed 2 violations of each section. An example is discussed in Review Sheet CN02, where CDLIC underpaid the premium refund by \$2.15. Since the refunds are calculated and paid by the creditor, the 2 violations of § 38.2-3729 G 2 (formerly designated as § 38.2-3729 H 2) of the Code are also violations of Subsection 2 of § 38.2-3732 of the Code. CDLIC agreed with the examiners observations.

Due to the fact that the violations of § 38.2-3729 G 2 (formerly designated as § 38.2-3729 H 2) and Subsection 2 of § 38.2-3732 of the Code were discussed in the prior Report, the current violations could be construed as knowing. Section 38.2-218 of the Code sets forth the penalties that may be imposed for knowing violations. In addition, CDLIC is in violation of the Commission's Order to cease and desist issued October 2, 2008, in Case No. INS-2008-00093. Section 12.1-33 of the Code sets forth the penalties for such violations.

Expired Policies

A sample of 10 credit life and credit accident and sickness expired policies was selected from a total population of 273 to determine compliance with CDLIC's established procedures and policy provisions.

The review revealed that CDLIC was in substantial compliance with its established procedures and policy provisions.

COPY

IV. COMPLAINTS

CDLIC's complaint records were reviewed for compliance with § 38.2-511 of the Code. This section sets forth the requirements for maintaining complete records of complaints to include the number of complaints, the classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. A "complaint," is defined by this section as "any written communication from a policyholder, subscriber or claimant primarily expressing a grievance."

CDLIC informed the examiners that no written complaints were received during the examination time period.

COPY

V. CLAIM PRACTICES

The examination included a review of CDLIC's claim practices for compliance with §§ 38.2-510, 38.2-3115 and 38.2-3731 of the Code as well as 14 VAC 5-400-10 et seq., Rules Governing Unfair Claim Settlement Practices.

GENERAL HANDLING STUDY

The review consisted of the entire population of 6 closed credit life and credit accident and sickness claims. All claims were processed by LOTsolutions, Inc. and adjudicated according to the terms in the certificate of insurance. All checks were mailed from a secure location. The checks are placed in the mail one business day after they are issued.

PAID CLAIM REVIEW

Credit Life

The entire population of 1 claim paid during the examination time frame was selected for review. The review revealed that CDLIC was in substantial compliance with its established procedures and policy provisions.

Interest on Life Claims

Section 38.2-3115 B of the Code states that interest upon the principal sum shall be paid at an annual rate of 2.5% or the annual rate currently paid by the insurer on proceeds left under the interest settlement option, whichever is greater.

The review revealed that CDLIC was in substantial compliance with this section.

Credit Accident and Sickness

The entire population of 4 claims paid during the examination time frame was selected for review. The review revealed that CDLIC was in substantial compliance with its established procedures and policy provisions.

TIME PAYMENT STUDY

The time payment study was computed by measuring the time it took CDLIC, after receiving the properly executed proof of loss, to issue a check for payment. The term “working days” does not include Saturdays, Sundays, or holidays. The study was conducted on the total population of 5 paid claims.

The review revealed that all 5 claims were paid within 15 working days from receipt of complete proof of loss.

DENIED CLAIM REVIEW

Credit Life

CDLIC informed the examiners that there were no denied credit life claims during the examination time frame.

Credit Accident and Sickness

The entire population of 1 credit accident and sickness claim denied during the examination time frame was selected for review. The review revealed that the claim was handled in accordance with the policy provisions.

UNFAIR CLAIM SETTLEMENT PRACTICES REVIEW

The entire population of 5 paid claims and 1 denied claim was also reviewed for compliance with 14 VAC 5-400-10 et seq., Rules Governing Unfair Claim Settlement Practices.

The review revealed that CDLIC was in substantial compliance with these sections.

THREATENED LITIGATION

The examiners were informed by CDLIC that it received no claims involving threatened litigation during the examination time frame.

COPY

VI. CORRECTIVE ACTION PLAN

CDLIC shall:

1. Establish and maintain procedures to review, upon receipt of notice of cancellation or a claim, premiums calculated by its creditors at issue to ensure that its creditors calculated premiums in accordance with CDLIC's filed and approved premium formulas, as required by § 38.2-3725 E and subsection 1 of § 38.2-3732 of the Code, and refund excess premiums paid, when appropriate;
2. Review and recalculate all premium refunds for the years of 2008, 2009, 2010, 2011, 2012 and the current year. Determine which premium refunds were calculated in noncompliance with the requirements of § 38.2-3729 G 2 of the Code, and send checks for the required refunds to the debtor along with a letter of explanation stating that as a result of a Target Market Conduct Examination by the Virginia State Corporation Commission's Bureau of Insurance, it was determined that the premium refund had not been properly calculated;
3. Establish and maintain procedures to ensure that the creditors to whom it delegates the duty of making proper premium refunds discharge such duties in accordance with Virginia statute, as required by § 38.23729 G 2 and subsection 2 of § 38.2-3732 of the Code; and
4. Within 90 days of this Report being finalized, furnish the examiners with documentation that each of the above sections has been completed.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by CDLIC's officers and employees during the course of this examination is gratefully acknowledged.

Arthur Dodd, MBA, FLMI, MCM, AIE, AIRC and Melissa Gerachis, FLMI, AIRC of the Bureau of Insurance participated in the work of the examination and writing of the Report.

Respectfully submitted,

Julie R. Fairbanks, AIE, AIRC, FLMI, ACS
Principal Insurance Market Examiner
Market Conduct Section II
Life and Health Division
Bureau of Insurance

COPY

VIII. AREA VIOLATIONS SUMMARY BY REVIEW SHEET

CANCELLATIONS/NONRENEWALS

§ 38.2-3725 E, 1 violation, CN02

§ 38.2-3729 G 2, 2 violations, CN01 and CN02

Subsection 1 of § 38.2-3732, 1 violation, CN02

Subsection 2 of § 38.2-3732, 2 violations, CN01 and CN02

COPY

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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January 9, 2013

CERTIFIED MAIL 7011 0110 0001 6085 2182
RETURN RECEIPT REQUESTED

Ms. Kaye Biby
Consultant and Assistant Treasurer
Commonwealth Dealers Life Insurance Company
4720 Salisbury Road
Jacksonville, FL 32256

RE: Market Conduct Examination Report
Exposure Draft

Dear Ms. Biby:

Recently, the Bureau of Insurance conducted a Market Conduct Examination of Commonwealth Dealers Life Insurance Company (CDLIC) for the period of October 1, 2011, through March 31, 2012. A preliminary draft of the Report is enclosed for your review.

Since it appears from a reading of the Report that there have been violations of Virginia Insurance Laws and Regulations on the part of CDLIC, I would urge you to read the enclosed draft and furnish me with your written response within 30 days of the date of this letter. Please specify in your response those items with which you agree, giving me your intended method of compliance, and those items with which you disagree, giving your specific reasons for disagreement. CDLIC response(s) to the draft Report will be attached to and become part of the final Report.

Once we have received and reviewed your response, we will make any justified revisions to the Report and will then be in a position to determine the appropriate disposition of this matter.

Thank you for your prompt attention to this matter.

Yours truly,

Julie R. Fairbanks, AIE, AIRC, FLMI, ACS
Principal Insurance Market Examiner
Market Conduct Section II
Life and Health Division
Bureau of Insurance
(804) 371-9385

JRF:mhh
Enclosure
cc: Althelia Battle

CDLIC

Commonwealth Dealers Life Insurance Company
4720 Salisbury Road, Suite 20, Jacksonville FL 32256

February 9, 2013

Julie R. Fairbanks, AIE, AIRC, FLMI, ACS
Principal Insurance Market Examiner
Market Conduct Section II
Life and Health Division
Bureau of Insurance
Commonwealth of Virginia

RE: Market Conduct Examination Report

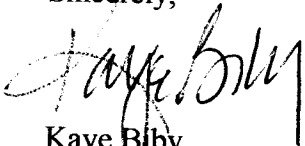
Dear Ms. Fairbanks,

As per the recent Market Conduct Examination of Commonwealth Dealers Life Ins Co (CDLIC) we have received and reviewed the findings of the exam.

Commonwealth will follow the recommendations of the Department and agree that all of the findings were accurate and will follow the recommendations of the Department and make all necessary changes and provide the documentation that each of the items in the Corrective Action Plan were followed.

Thank you for your help in this Exam.

Sincerely,



Kaye Bby
Consultant

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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February 13, 2013

**CERTIFIED MAIL 7002 0860 0001 3221 3935
RETURN RECEIPT REQUESTED**

Ms. Kaye Biby
Consultant and Assistant Treasurer
Commonwealth Dealers Life Insurance Company
4720 Salisbury Road
Jacksonville, FL 32256

Dear Ms. Biby:

The Bureau of Insurance (BOI) has completed its review of your February 9, 2012, response to the Target Conduct Market Examination Report of Commonwealth Dealers Life Insurance Company (CDLIC) sent with my letter of January 9, 2013.

Your response indicates that CDLIC is in agreement with the findings of the report and will document compliance with each item in the Corrective Action Plan within 90 days of the finalization of this exam.

On the basis of our review of the entire file, CDLIC is in violation of § 38.2-3725 E, § 38.2-3729 G 2, Subsection 1 of § 38.2-3732 and Subsection 2 of § 38.2-3732 of the Code of Virginia.

Violations of the above sections of the Code can subject CDLIC to monetary penalties of up to \$5,000 for each violation and the suspension or revocation of its license to transact business in Virginia.

In light of the foregoing, this office will be in further communication with you shortly regarding the appropriate disposition of this matter.

Yours truly,

Julie R. Fairbanks, AIE, AIRC, FLMI, ACS
Principal Insurance Market Examiner
Market Conduct Section II
Life and Health Division
Bureau of Insurance
(804) 371-9385

Ms. Kaye Biby
Consultant and Assistant Treasurer
Commonwealth Dealers Life Insurance Company
4720 Salisbury Road
Jacksonville, FL 32256

STATE CORP. COMMISSION
BUREAU OF INSURANCE
13 MAR -8 AM 9:28

Althelia P. Battle, FLMI, HIA, AIE, MHP, AIRC, ACS
Deputy Commissioner
Bureau of Insurance
Post Office Box 1157
Richmond, VA 23218

530082

RE: Alleged Violations of § 38.2-3725 E, § 38.2-3729 G 2, Subsection 1 of § 38.2-3732 and Subsection 2 of § 38.2-3732 of the Code of Virginia.

Dear Ms. Battle:

This will acknowledge receipt of your letter dated February 20, 2013, concerning the above-captioned matter.


CDLIC wishes to make a settlement offer for the alleged violations cited above. Enclosed with this letter is a check (certified, cashier's or company) in the amount of \$3,500 payable to the Treasurer of Virginia. The Company further understands that as part of the Commission's Order accepting the offer of settlement, it is entitled to a hearing in this matter and waives its right to such a hearing and agrees to cease and desist from future violations of § 38.2-3729 G 2, Subsection 1 of § 38.2-3732 and Subsection 2 of § 38.2-3732 of the Code, and agrees to comply with the Corrective Action Plan contained in the Target Market Conduct Examination Report as of March 31, 2012.

This offer is being made solely for the purpose of a settlement and does not constitute, nor should it be construed as, an admission of any violation of law.

Yours very truly,



Company Representative



Date

Enclosure (check)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

130330108

AT RICHMOND, MARCH 21, 2013

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER
2013 MAR 21 P 2:55

COMMONWEALTH OF VIRGINIA, *ex rel.*
STATE CORPORATION COMMISSION

v.

CASE NO. INS-2013-00032

COMMONWEALTH DEALERS LIFE
INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Commonwealth Dealers Life Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), in certain instances violated §§ 38.2-3725 E, 38.2-3729 G (2), and subsections 1 and 2 of § 38.2-3732 of the Code of Virginia ("Code") by failing to comply with the laws regarding the use of approved rates, by failing to comply with the laws regarding appropriate refund of credit accident and sickness insurance premiums, and by failing to comply with the laws regarding delegation of duties.

The Commission is authorized by §§ 38.2-218, 38.2-219, and 38.2-1040 of the Code to impose certain monetary penalties, issue cease and desist orders, and suspend or revoke a defendant's license upon a finding by the Commission, after notice and opportunity to be heard, that a defendant has committed the aforesaid alleged violations.

The Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Three

Thousand Five Hundred Dollars (\$3,500), agreed to the entry by the Commission of a cease and desist order with regards to § 38.2-3729 G (2) and subsections 1 and 2 of § 38.2-3732 of the Code, waived its right to a hearing, and agreed to comply with the corrective action plan contained in the Market Conduct Examination Report as of March 31, 2012.

The Bureau has recommended that the Commission accept the offer of settlement of the Defendant pursuant to the authority granted the Commission in § 12.1-15 of the Code.

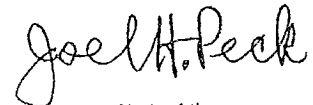
NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of Commonwealth Dealers Life Insurance Company in the settlement of the matter set forth herein is hereby accepted.
- (2) Commonwealth Dealers Life Insurance Company shall cease and desist from any future conduct that constitutes a violation of § 38.2-3729 G (2) or subsections 1 and 2 of § 38.2-3732 of the Code of Virginia.
- (3) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Kaye Biby, Consultant and Assistant Treasurer, Commonwealth Dealers Life Insurance Company, 4720 Salisbury Road, Jacksonville, Florida 32256; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Althelia P. Battle.

A True Copy
Teste:



Clerk of the
State Corporation Commission