

REPORT ON
TARGET MARKET CONDUCT EXAMINATION
OF
5 STAR LIFE INSURANCE COMPANY
AS OF JULY 1, 2015

Conducted from January 11, 2016

through

April 6, 2017

By

Market Conduct Section
Life and Health Market Regulation Division
BUREAU OF INSURANCE
STATE CORPORATION COMMISSION
COMMONWEALTH OF VIRGINIA

FEIN: 54-1829709
NAIC: 77879

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Mel Gerachis, Principal Insurance Market Examiner of the Bureau of Insurance (Bureau), do hereby certify that the attached copy of the Target Market Conduct Examination Report of 5 Star Life Insurance Company as of July 1, 2015, conducted at the State Corporation Commission in Richmond, VA is a true copy of the original Report on file with the Bureau and also includes a true copy of the Company's response to the findings set forth therein, and of the Bureau's review letters and the State Corporation Commission's Order in Case No. INS-2018-00004 finalizing the Report.

IN WITNESS WHEREOF, I have
hereunto set my hand and affixed
the official seal of the Bureau at
the City of Richmond, Virginia,
this 22nd day of February, 2018.

Mel Gerachis
Examiner in Charge

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I. SCOPE OF EXAMINATION

The Target Market Conduct Examination of 5 Star Life Insurance Company, (hereinafter referred to as “5 Star”), 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, 38.2-1317.1 and 38.2-1809 of the Code, as well as 14 VAC 5-41-150 C and 14 VAC 5-90-170 A.

The period of time covered for the current examination, generally, was January 1, 2014, through July 1, 2015. The desk examination was initiated on January 11, 2016, at the office of the State Corporation Commission's Bureau of Insurance in Richmond, Virginia, and concluded on April 6, 2017. 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 5 Star 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 5-30-10 et seq. | Rules Governing Life Insurance and Annuity Replacements; |
| 14 VAC 5-41-10 et seq. | Rules Governing Advertisement of Life Insurance and Annuities; |

14 VAC 5-43-10 et seq.	Rules Governing Use of Senior-Specific Certifications and Professional Designations in Sale of Life or Accident and Sickness Insurance or Annuities;
14 VAC 5-70-10 et seq.	Rules Regarding Accelerated Benefit Provisions;
14 VAC 5-90-10 et seq.	Rules Governing Advertisement of Accident and Sickness Insurance;
14 VAC 5-100-10 et seq.	Rules Governing the Submission for Approval of Life, Accident and Sickness, Annuity, Credit Life and Credit Accident and Sickness Policy Forms;
14 VAC 5-180-10 et seq.	Rules Governing Underwriting Practices and Coverage Limitations and Exclusions for Acquired Immunodeficiency Syndrome (AIDS);
14 VAC 5-400-10 et seq.	Rules Governing Unfair Claim Settlement Practices; and
14 VAC 5-420-10 et seq.	Rules Governing Military Sales Practices.

The examination included the following areas:

- Advertising
- Policy and Other Forms
- Agents
- Underwriting/Unfair Discrimination/Insurance Information and Privacy Protection Act
- Premium Notices/Collections/Reinstatements/Policy Loans & Loan Interest
- Cancellations/Non-Renewals/Conversions
- Complaints
- Claim Practices

Examples referred to in this Report are keyed to the numbers of the examiners' Review Sheets furnished to 5 Star during the course of the examination.

II. COMPANY HISTORY

5 Star Life Insurance Company (5 Star), originally incorporated as The Economy Service Insurance Company (Economy Service) in 1943, is a life insurance company domiciled in Louisiana. In 1968, the Company changed its name from Economy Service to United Agents Life Insurance Company of America (United Agents). In 1984, Bankers General Life Insurance Company was merged into the Company. In 1985, the Company changed its name from United Agents to Western Fidelity Insurance Company (Western Fidelity). On February 14, 1994, the Company was acquired by JMJ Financial Corporation. Effective July 1, 1996, the Company was acquired by 5 Star Financial, LLC (formerly Armed Forces Benefit Services, Inc.), and its name was changed from Western Fidelity to AFBA Life Insurance Company. On October 26, 2000, the Company changed its name to 5 Star.

5 Star is currently licensed in 49 states, the District of Columbia, and other U.S. territories. The Company is also authorized by the Department of Defense to sell insurance to military service members in European and Pacific Region commands. 5 Star is a member of the consolidated group of 5 Star Financial, LLC that provides insurance products through wholly-owned subsidiaries, as well as other financial services through affinity partnerships to members of its sole owner, the Armed Forces Benefit Association (AFBA). AFBA is a not-for-profit membership association established in 1947, whose principal operation is to provide benefits and services for its members, including life insurance without war clauses that is underwritten by 5 Star.

Net admitted assets as of June 30, 2015, totaled \$277,521,324. As of June 30, 2015, total life insurance premiums in Virginia were \$4,173,583.

III. ADVERTISING

A review was conducted of 5 Star's advertisements to determine compliance with the Unfair Trade Practices Act, specifically §§ 38.2-502, 38.2-503, and 38.2-504 of the Code, as well as 14 VAC 5-41-10 et seq., Rules Governing Advertisement of Life Insurance and Annuities; 14 VAC 5-90-10 et seq., Rules Governing Advertisement of Accident and Sickness Insurance; and 14 VAC 5-420-10 et seq., Rules Governing Military Sales Practices.

Where this Report cites a violation of this regulation it does not necessarily mean that the advertisement has actually misled or deceived any individual to whom the advertisement was presented. An advertisement may be cited for violations of certain sections of the regulations if it is determined by the Bureau of Insurance that the advertisement has the capacity or tendency to mislead or deceive from the overall impression that the advertisement may be reasonably expected to create within the segment of the public to which it is directed. (14 VAC 5-41-30 B and 14 VAC 5-90-50)

14 VAC 5-41-150 C and 14 VAC 5-90-170 A require each insurer to maintain at its home or principal office a complete file of all advertisements with a notation indicating the manner and extent of distribution and the form number of any policy referred to in the advertisement. The review revealed 1 violation each of 14 VAC 5-41-150 C and 14 VAC 5-90-170 A. As discussed in Review Sheet AD01, 5 Star failed to indicate the manner and extent of distribution of the advertisements selected for review. 5 Star agreed with the examiners' observations.

The examiners reviewed a sample of 40 from a total population of 136 advertisements used in the Commonwealth of Virginia during the examination time

frame. The review revealed that 33 of the advertisements contained violations. In the aggregate, there were 122 violations which are discussed in the following paragraphs.

LIFE INSURANCE AND ANNUITY ADVERTISING

14 VAC 5-41-30 A states that an advertisement shall not be combined or included with an advertisement of a product or service that is not life insurance or an annuity that disguises, misleads, misinforms or otherwise minimizes the nature of the advertisement. The review revealed 26 violations of this section. An example is discussed in Review Sheet AD02 where the advertisement highlights benefits of both the life insurance policy underwritten by 5 Star and the association membership with the Armed Forces Benefits Association (AFBA); however, the advertisement does not clearly distinguish between the benefits of the life insurance policy and the benefits of being a member of AFBA. Specifically, it is not clear whether the Blanton Survivor Scholarship Benefit is a life insurance benefit or an association membership benefit. 5 Star agreed with the examiners' observations and indicated that the scholarship "...will be advertised, offered and otherwise identified as a member benefit distinct and independent of any life insurance benefit."

14 VAC 5-41-40 B states that if an advertisement uses the terms "nonmedical," "no medical examination required," or similar terms where issue is not guaranteed, these terms shall be accompanied by a further disclosure of equal prominence and juxtaposition to the effect that issuance of the policy may depend upon the answers to the health questions contained in the application. The review revealed 7 violations of this section. An example is discussed in Review Sheet AD24 where the advertisement indicates that a medical exam is not required for certain coverage amounts and ages, and that the proposed insured must answer a few health questions. However, the

advertisement fails to disclose that the issuance of the policy may depend on the answers to the health questions contained in the application. 5 Star agreed with the examiners' observations.

14 VAC 5-41-40 C sets forth that an advertisement shall not contain figures, dollar amounts, or statistical information unless it accurately reflects recent and relevant facts. The source of any figures, dollar amounts, or statistics used in advertisements shall be identified therein. The review revealed 3 violations of this section. An example is discussed in Review Sheet AD24 where the brochure failed to identify the source of the following statistic: "Many financial advisors indicate that families need life insurance coverage that equals 5 to 7 times their annual income." 5 Star agreed with the examiners' observations and indicated that the brochure will be revised to "...include reference(s) relative to the stats."

14 VAC 5-41-70 B states that an advertisement shall clearly and prominently describe the true nature or type of policy advertised. The review revealed 1 violation of this section. As discussed in Review Sheet AD10, 5 Star failed to clearly identify in the advertisement the type of life insurance policy being advertised. 5 Star agreed with the examiners' observations and indicated it will insert language into "...the advertisement to clearly identify the type of policy being offered."

14 VAC 5-41-80 A states that the words "free," "no cost," "without cost," "no additional cost," "at no extra cost," or words of similar import shall not be used with respect to any benefit or service being made available with a policy unless true. If there is no charge to the insured, then the identity of the payer and the amount of the payment shall be prominently disclosed. An advertisement may specify the charge for a benefit or a service or may state that a charge is included in the premium or use other

appropriate language. The review revealed 2 violations of this section. An example is discussed in AD10 where the advertisement states, "This coverage is automatically given..." implying that it is free. 5 Star agreed with the examiners' observations and indicated that "...the language that implies that the coverage is automatically free will be revised."

14 VAC 5-41-80 B states that an advertisement of a particular policy shall not use the phrase "inexpensive," "low cost" or any similar term unless that fact is capable of being demonstrated to the satisfaction of the commission. The review revealed 22 violations of this section. An example is discussed in Review Sheet AD05 where the term "affordable" is not substantiated or demonstrated to be true in the advertisement. The term is used to generally describe the policy's rates; therefore, the examiners requested evidence to support the claim that the coverage advertised was affordable compared to other similar products offered by similar companies. Without substantiation of the affordability of the rates, the advertisement is considered to have the capacity or tendency to mislead or deceive. 5 Star agreed with the examiners' observations, stating:

In relationship to premiums payable, the reference to "affordable" cannot readily be substantiated with certainty. The language will be modified.

14 VAC 5-41-90 C states that the name of the insurer shall be clearly identified in all advertisements about the insurer or its products. 14 VAC 5-41-90 D states that an advertisement shall not use a trade name, an insurance group designation, name of the parent company of the insurer, name of a particular division of the insurer, a reinsurer of the insurer, service mark, slogan, symbol, or other device or reference without disclosing the name of the insurer if the advertisement would have the capacity or

tendency to mislead or deceive as to the true identity of the insurer, or create the impression that a company other than the insurer would have any responsibility for the financial obligations under a policy. As discussed in Review Sheet AD34, the review revealed 28 violations of each of these sections. The 28 advertisements cited include statements that have the potential to confuse the reader as to the true identity of the insurer. Statements such as “AFBA offers term life coverage at competitive rates...” and “Secure a Term Life Insurance Policy from AFBA today” seem to indicate that AFBA is the insurer instead of 5 Star. In response, 5 Star partially disagreed and stated that “5 Star Life is the underwriter for all products offered by AFBA.” While most of the advertisements contain a footnote stating that the life insurance product is underwritten by 5 Star, the advertisements use AFBA and 5 Star interchangeably and do not clearly identify 5 Star as the issuer of the policy being advertised.

14 VAC 5-41-110 A states that an advertisement of one policy or combination of policies shall not state or imply that the policy or combination of policies is an introductory, initial, or special offer, or that applicants will receive substantial advantages not available at a later date, or that the offer is available only to a specified group of individuals, unless that is the fact. An advertisement shall not describe an enrollment period as "special" or "limited" or use similar words or phrases in describing it when the insurer uses successive enrollment periods as its usual method of marketing its policies. The review revealed 1 violation of this section. As discussed in Review Sheet AD22, the advertisement states, “Act by June 30”, which gives the impression that it is a special offer or limited-time offer that may not be available at a later date. This statement further implies that there is a special or limited enrollment period where

substantial advantages will not be available after that date. 5 Star failed to respond to the examiners' observations.

ACCIDENT AND SICKNESS INSURANCE ADVERTISING

14 VAC 5-90-60 A 1 states that an advertisement shall not omit information or use words, phrases, statements, references or illustrations if the omission of the information or use of the words, phrases, statements, references or illustrations has the capacity, tendency or effect of misleading or deceiving purchasers or prospective purchasers as to the nature or extent of any policy benefit payable, loss covered or premium payable. The fact that the policy offered is made available to a prospective insured for inspection prior to consummation of the sale or an offer is made to refund the premium if the purchaser is not satisfied, does not remedy misleading statements. The review revealed 1 violation of this section. As discussed in Review Sheet AD08, the advertisement references the coverage offered as both "Critical Illness Group Life Insurance" and "Group Critical Illness Coverage"; however, the coverage is offered through a Group Specified Critical Illness policy. Therefore, the nature or extent of any policy benefit payable or loss covered is not clear. The advertisement's failure to clearly identify the nature of the policy has the tendency or capacity to confuse or mislead. 5 Star agreed with the examiners' observations. 5 Star should also note that there are additional disclosure requirements set forth in 14 VAC 5-90-55 A and 14 VAC 5-90-60 B 6 that should be addressed when advertising coverage provided under its Group Specified Critical Illness Policy.

14 VAC 5-90-90 C states that the source of any statistics used in an advertisement shall be identified in the advertisement. The review revealed 1 violation of this section. As discussed in Review Sheet AD09, the brochure contains 3

paragraphs, each with various statistics; however, 5 Star provided the source of only one of the statistics. 5 Star agreed with the examiners' observations and stated that "...the brochure will be revised to include the appropriate references."

SUMMARY

5 Star violated 14 VAC 5-41-30 A, 14 VAC 5-41-40 B, 14 VAC 5-41-40 C, 14 VAC 5-41-70 B, 14 VAC 5-41-80 A, 14 VAC 5-41-80 B, 14 VAC 5-41-90 C, 14 VAC 5-41-90 D, 14 VAC 5-41-110 A, 14 VAC 5-41-150 C, 14 VAC 5-90-60 A 1, 14 VAC 5-90-90 C, and 14 VAC 5-90-170 A placing it in violation of subsection 1 of § 38.2-502 and § 38.2-503 of the Code.

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IV. POLICY AND OTHER FORMS

A review was conducted to determine if 5 Star complied with various statutory, regulatory and administrative requirements governing the filing and approval of forms.

Section 38.2-316 of the Code sets forth the filing and approval requirements for forms and rates that are to be issued or issued for delivery in Virginia.

The examiners reviewed a sample of 115 from the total population of 310 life insurance policies and certificates issued during the examination time frame.

POLICIES AND CERTIFICATES OF COVERAGE

Section 38.2-316 B of the Code state that no individual certificate shall be used in connection with any group life insurance policy unless the certificate has been filed with the Commission.

The review revealed 62 violations of § 38.2-316 B of the Code. As discussed in Review Sheet PF01, 5 Star issued group life certificate forms that were not filed with the Commission, as required. 5 Star agreed with the examiners' observations.

APPLICATION AND ENROLLMENT FORMS

Section 38.2-316 B of the Code set forth the requirements for the filing of application and enrollment forms prior to use.

The review revealed 143 violations of § 38.2-316 B of the Code. As discussed in Review Sheet PF01, 5 Star issued application and enrollment forms that were not filed with the Commission, as required. 5 Star agreed with the examiners' observations.

SUMMARY

The following table summarizes the policy form violations discussed above:

FORM NUMBER	DESCRIPTION OF FORM	CODE SECTION VIOLATION	INSTANCES	REVIEW SHEET EXAMPLE
5KLT NoCost Enrollment R214	Enrollment Form for Non-Renewable \$5,000 One-Year Group Term Life Insurance	38.2-316 B	10	PF01
Child's LT App R314- VA	Children's Group Level Term Life Insurance Application	38.2-316 B	2	PF01
ESP/Gov't App R410- VA	Emergency Service Personnel and Government Enrollment Form	38.2-316 B	13	PF01
Form ALCMF-100 (R608)-VA	Application	38.2-316 B	37	PF01
G-Term App R509E-VA	Group Level Term Programs Enrollment Form	38.2-316 B	18	PF01
G-Term App R509-VA	Group Level Term Programs Enrollment Form	38.2-316 B	23	PF01
PREMED R107	Preferred Checklist Application	38.2-316 B	35	PF01
SSLI BA Combo App R311-VA	National Guard State Sponsored Life Insurance Enrollment Form	38.2-316 B	5	PF01
BA-805 R509	Better Alternative Group Level Term Life Insurance Certificate	38.2-316 B	7	PF01
GST10- 1209-25	Group Select Level with 10 Year Contribution Guarantee Certificate	38.2-316 B	3	PF01
GST805	Group Select Level Term Life Insurance Certificate	38.2-316 B	34	PF01
LTCERT805	Group Term Life Insurance Certificate	38.2-316 B	15	PF01
LTCERT805 -1	Group Term Life Insurance Dependent Children Rider Certificate	38.2-316 B	3	PF01

V. AGENTS

A review was conducted to determine compliance with various sections of Title 38.2 of Chapter 18 of the Code.

A sample of 15 from a population of 139 agent and agency appointments was selected for review. In addition, the writing agents or agencies designated in the 115 new business files were reviewed.

LICENSED AGENT REVIEW

Section 38.2-1822 A of the Code requires that a person be licensed prior to soliciting insurance contracts or receiving or sharing, directly or indirectly, any commission or other valuable consideration. The review revealed that 5 Star was in substantial compliance.

APPOINTED AGENT REVIEW

Section 38.2-1833 A 1 of the Code requires that an insurer, within 30 calendar days of the date of execution of the first application submitted by a licensed but not yet appointed agent, either reject such application or appoint the agent. The review revealed that 5 Star was in substantial compliance.

COMMISSIONS

Section 38.2-1812 A of the Code prohibits the payment of commission or other valuable consideration to an agent that was not appointed at the time of the transaction. The review revealed that 5 Star was in substantial compliance.

TERMINATED AGENT APPOINTMENT REVIEW

Section 38.2-1834 D of the Code requires that an insurer notify the agent within 5 calendar days, and the Commission within 30 calendar days, upon termination of the agent's appointment.

A sample of 15 from a population of 80 agent and agency terminations processed during the examination time frame was selected for review. The review revealed 3 violations of this section. An example is discussed in Review Sheet AG02, where 5 Star failed to notify the agent within 5 calendar days of the appointment termination. 5 Star agreed with the examiners' observations.

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VI. UNDERWRITING/UNFAIR DISCRIMINATION/INSURANCE INFORMATION AND PRIVACY PROTECTION ACT/ INSURANCE REPLACEMENT

The examination included a review of 5 Star's underwriting practices to determine compliance with the Unfair Trade Practices Act, §§ 38.2-500 through 38.2-514; and the Insurance Information and Privacy Protection Act, §§ 38.2-600 through 38.2-620 of the Code, as well as 14 VAC 5-30-10 et seq., Rules Governing Life Insurance and Annuity Replacements and 14 VAC 5-180-10 et seq., Rules Governing Underwriting Practices and Coverage Limitations and Exclusions for Acquired Immunodeficiency Syndrome (AIDS).

UNDERWRITING/UNFAIR DISCRIMINATION

A review was conducted to determine whether 5 Star's underwriting guidelines were unfairly discriminatory, whether applications were underwritten in accordance with 5 Star's procedures, and that correct premiums were being charged.

UNDERWRITING REVIEW

The examiners reviewed a sample of 115 from the total population of 310 life insurance policies issued during the examination time frame.

The review revealed no evidence of unfair discrimination.

UNDERWRITING PRACTICES – AIDS

14 VAC 5-180-10 et seq. sets forth rules and procedural requirements that the Commission deems necessary to regulate underwriting practices and policy limitations and exclusions with regard to HIV infection and AIDS.

The review revealed that 5 Star was in substantial compliance.

MECHANICAL RATING REVIEW

The review revealed that 5 Star calculated premium amounts in accordance with its established guidelines.

CHARLES C. BLANTON AFBA FAMILY SURVIVOR COLLEGE SCHOLARSHIP

Subsection 2 of § 38.2-508 of the Code states that no person shall unfairly discriminate or permit any unfair discrimination between individuals of the same class and of essentially the same hazard (ii) in the benefits payable under such policy or contract, or (iv) in any other manner. Subsection 1 of § 38.2-509 A of the Code sets forth that except as otherwise expressly provided by law, no person shall knowingly permit, offer, or make any insurance or annuity contract or agreement which is not plainly expressed in the contract issued. Subsection 2 of § 38.2-509 A of the Code sets forth that except as otherwise expressly provided by law, no person shall pay, allow or give, or offer to pay, allow or give, directly or indirectly, as inducement to any insurance or annuity contract, any rebate of premium payable on the contract, any special favor or advantage in the dividends or other benefits on the contract, any valuable consideration or inducement not specified in the contract, except in accordance with an applicable rating plan authorized for use in this Commonwealth. The review revealed that 5 Star is in violation of each of these sections. As discussed in Review Sheet UN57, it appears that the scholarship benefit available to surviving spouses and children of eligible members, which is advertised in 26 out of the 40 advertisements reviewed, is not expressed in the policy and is considered to be an inducement to purchase life insurance. In addition, the scholarship benefit has a tendency to discriminate against those without dependents or those without eligible dependents. 5 Star responded:

The Charles C. Blanton AFBA Family Survivor Scholarship was not structured to discriminate against those without dependents or those without eligible dependents. It was structured with the intent to exhibit appreciation to the servicemen and women who sacrificed their life to protect the country. The Charles C. Blanton AFBA Family Survivor Scholarship was not structured as an inducement. In fact, it is reported a minimum number of dependents, on an annual basis, apply for the member benefit.

The Charles C. Blanton AFBA Family Survivor Scholarship is a member benefit. 5 Star Life Insurance Company is looking at marketing the benefit in a manner that sets it apart from life insurance.

The examiners disagreed. The scholarship benefit is tied to the purchase of life insurance from 5 Star and the benefit is not described in the life insurance policy. Additionally, the benefit has a value of up to \$40,000 that is not available to all life insurance policyholders. Therefore, the scholarship is an inducement to purchase a life insurance policy and discriminates against those who would not qualify. 5 Star responded further stating:

5 Star Life Insurance Company ("5 Star Life") acknowledges that the scholarship benefit is not mentioned or described in our group life insurance certificates. As the scholarship is not an insurance product and is not offered by an insurance company, 5 Star Life respectfully submits it should not be described in a life insurance certificate. Please note that reference to the scholarship benefit is not communicated as a "membership benefit" offered to the member in a manner that clearly sets it apart from life insurance or death benefit offerings. 5 Star Life respectfully disagrees with the Department's application of § 38.2-509 A of the Virginia Code to the Blanton scholarship. The scholarship is a member benefit offered by the Armed Forces Benefit Association ("AFBA"). As AFBA is a voluntary employee benefit association, AFBA members are those who are eligible for "life, sick, or disability benefits." Pursuant to the Internal Revenue Code and Treasury regulations, these benefits may include educational benefits. Accordingly, the scholarship is co-incident to, and not an inducement for, the death benefits funded with 5 Star Life. Given the scholarship is a member benefit of a voluntary employee benefit association, it is not discriminatory in any way contemplated by § 38.2-508.

The examiners indicated that 5 Star's comments were taken into consideration; however, 5 Star confirmed during the course of the examination that in the event that an

individual covered by an individual or group life insurance policy terminates coverage, the individual is still considered a member of AFBA but will no longer be eligible for the scholarship benefit. As such, it appears that the scholarship is tied to the purchase of a life insurance policy and not solely a benefit of AFBA membership.

INSURANCE INFORMATION AND PRIVACY PROTECTION ACT

Title 38.2, Chapter 6 of the Code requires a company to establish standards for collection, use and disclosure of personal/privileged information gathered in connection with insurance transactions.

NOTICE OF INSURANCE INFORMATION PRACTICES (NIP)

Section 38.2-604 of the Code sets forth the requirements for a NIP, either full or abbreviated, to be provided to all applicants that are individually underwritten. Section 38.2-604 A of the Code requires that a NIP be provided to all applicants or policyholders in connection with insurance transactions.

The review revealed 59 violations of § 38.2-604 A 1 of the Code for failing to provide the NIP form to an applicant or policyholder as required. An example is discussed in Review Sheet UN10. 5 Star agreed with the examiners' observations.

DISCLOSURE AUTHORIZATION FORMS

Section 38.2-606 of the Code sets forth standards for the content and use of the disclosure authorization forms to be used when collecting personal or privileged information about individuals in connection with insurance transactions.

The examiners reviewed the disclosure authorization forms used during the underwriting process and found them to be in substantial compliance with this section.

ACCELERATED BENEFITS

14 VAC 5-70-80 requires that a written disclosure, including a brief description of the provisions of an Accelerated Benefit Rider, be given to each applicant and an acknowledgment of the disclosure shall be signed by the applicant and agent.

The review revealed that 5 Star was in substantial compliance.

ACCESS TO RECORDED PERSONAL INFORMATION

Section 38.2-608 sets forth the requirements of providing access to personal information and the correction or amendment of such information.

The review revealed that 5 Star was in substantial compliance.

ADVERSE UNDERWRITING DECISIONS (AUD)

Section 38.2-610 A of the Code requires that, in the event of an adverse underwriting decision, the insurance institution responsible for the decision shall give a written notice in a form approved by the Commission.

Effective March 30, 2015, Administrative Letter 1981-15 was withdrawn and replaced by Administrative Letter 2015-07. Administrative Letters 1981-15 and 2015-07 provide life and health insurers with a prototype AUD notice. An AUD notice containing wording substantially similar to the wording in the prototype notice is deemed to be approved for use in Virginia.

A sample of 55 from a total population of 214 declined applicant files was selected by the examiners for review. Additionally, the 115 new business files were reviewed for situations where an AUD notice was required to have been provided to an applicant for coverage.

Section 38.2-610 A 1 of the Code states that, in the event of an adverse underwriting decision, the insurer shall give a written notice that either provides the applicant with the specific reason or reasons for the adverse underwriting decision in writing or advises such person that upon written request he may receive the specific reason or reasons in writing.

The review revealed 2 violations of this section. An example is discussed in Review Sheet UN04. 5 Star agreed with the examiners' observations.

Section 38.2-610 A 2 of the Code states that, in the event of an adverse underwriting decision, the insurer responsible for the decision shall give a written notice in a form approved by the Commission that provides the applicant with a summary of the rights established under subsection B of this section and §§ 38.2-608 and 38.2-609 of the Code.

The review revealed 36 violations of this section. In 1 instance, 5 Star failed to send an AUD Notice as required by § 38.2-610 A 2 of the Code. In the remaining 35 instances, 5 Star sent an AUD notice to the applicant, but the notice used wording that was not substantially similar to the wording contained in the prototype AUD notice in Administrative Letters 1981-15 and 2015-07, and; therefore, failed to comply with the requirements of § 38.2-610 A 2 of the Code. An example is discussed in Review Sheet UN01. 5 Star agreed with the examiners' observations.

Effective March 30, 2015, Administrative Letter 2003-6 was withdrawn and replaced by Administrative Letter 2015-07. Administrative Letters 2003-6 and 2015-07 state that any offer of coverage with benefits other than as applied for, constitutes an adverse underwriting decision, and an AUD notice must be furnished.

The review revealed 16 instances where the applicant was offered coverage with benefits other than as applied for and no AUD notice was provided by 5 Star, in violation of § 38.2-610 A 2 of the Code. An example is discussed in Review Sheet UN11. 5 Star agreed with the examiners' observations.

Additionally, Administrative Letters 2003-6 and 2015-07 state that when an application file is closed because the applicant or any other individual or entity furnishing information relating to the applicant's insurance application, fails to furnish requested information, such closure is considered a declination of coverage. Because the closure of an application file resulting from lack of information, failure to respond to requests for information, or any other related situation is considered an Adverse Underwriting Decision, the AUD notice must be furnished.

The review revealed 5 instances where 5 Star failed to provide the applicant with an AUD notice when an application file was closed due to the failure to provide requested information, in violation of §§ 38.2-610 A 1 and 38.2-610 A 2 of the Code. An example is discussed in Review Sheet UN02. 5 Star agreed with the examiners' observations.

INSURANCE REPLACEMENT

A review was conducted to determine if 5 Star was in compliance with the requirements of 14 VAC 5-30-10 et seq., Rules Governing Life Insurance and Annuity Replacements.

14 VAC 5-30-51 A 2 states that when a replacement is involved in the transaction, the replacing insurer shall notify any other existing insurer that may be

affected by the proposed replacement within 5 business days of receipt of a completed application indicating replacement.

The review revealed 3 violations of this section. An example is discussed in Review Sheet UN14. 5 Star agreed with the examiners' observations.

14 VAC 5-30-51 B states that in transactions where the replacing insurer and the existing insurer are the same or subsidiaries or affiliates under common ownership or control, credit shall be allowed for the period of time that has elapsed under the replaced policy's or contract's incontestability and suicide period up to the face value of the existing policy or contract.

The review revealed 12 violations of this section where internal replacements were not provided credit for the period of time elapsed under the replaced policy's incontestability and suicide period. An example is discussed in Review Sheet UN26. 5 Star agreed with the examiners' observations.

14 VAC 5-30-60 C states that each insurer shall require with or as a part of each application for life insurance or an annuity a signed statement by both the applicant and the agent as to whether the applicant has existing policies or contracts.

14 VAC 5-30-60 G that, if an application does not meet the requirements of this chapter, each insurer shall notify the agent and applicant and fulfill the outstanding requirements.

The review revealed 18 violations of each of these sections. An example is discussed in Review Sheet UN33, where the Other Coverage section of the application was not completed and 5 Star did not notify the agent and applicant and fulfill the outstanding requirements. 5 Star agreed with the examiners' observations.

14 VAC 5-30-60 D states that each insurer shall require a completed notice regarding replacements (Form 30-A) with each application for life insurance or an annuity that indicates an existing policy or contract. 14 VAC 5-30-60 E requires an insurer to be able to produce copies of any marketing communications required by 14 VAC 5-30-40 E. 14 VAC 5-30-60 G states that, if an application does not meet the requirements of this chapter, each insurer shall notify the agent and applicant and fulfill the outstanding requirements.

The review revealed 13 violations of sections 14 VAC 5-30-60 D and 14 VAC 5-30-60 E and 31 violations of section 14 VAC 5-30-60 G. An example is discussed in Review Sheet UN32. 5 Star agreed with the examiners' observations.

14 VAC 5-30-60 A 5 states that each insurer shall maintain a system of supervision and control that shall include procedures to detect transactions that are replacements of existing policies or contracts by the existing insurer, but that have not been reported by the applicant or agent. Compliance with this chapter may include, but shall not be limited to, systematic customer surveys, interviews, confirmation letters, or programs of internal monitoring. 14 VAC 5-30-60 B 4 requires an insurer's capacity to monitor to include the ability to produce records for each agent's number of transactions that are unreported replacements of existing policies or contracts by the existing insurer detected by the company's monitoring system as required by subdivision A 5 of this section.

As discussed in Review Sheet UN58, 5 Star was in violation of each of these sections. A review of procedures and agent training materials revealed that 5 Star's system for supervision and control had no means to detect transactions that were

replacements of existing policies or contracts by the existing insurer, but had not been reported by the applicant or agent.

ADMINISTRATIVE LETTER 2010-12

The purpose of this Administrative Letter was to inform life and accident and sickness insurers of the disclaimer required to be attached to policies in order to comply with § 38.2-1715 B of the Code, which states that an insurer may not deliver a policy or contract to a policy or contract owner unless the summary document is delivered to the policy or contract owner at the time of delivery of the policy or contract. The summary document, Notice of Protection Provided by the Virginia Life, Accident and Sickness Insurance Guaranty Association, was approved effective November 1, 2010.

The review revealed that 5 Star was in substantial compliance.

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VII. PREMIUM NOTICES/REINSTATEMENTS/ POLICY LOANS/LOAN INTEREST

The examiners reviewed 5 Star procedures and practices for processing premium notices, reinstatements and policy loans.

PREMIUM NOTICES

5 Star provided the examiners with the established premium billing procedures for its Term, Traditional Whole Life, Universal Life and Interest Sensitive Whole Life Products.

The review revealed that 5 Star was in substantial compliance with its premium billing procedures.

REINSTATEMENTS

A policy will be considered for reinstatement if the policy has been lapsed for less than the time period set forth in the contract. For written requests for reinstatement, 5 Star sends a letter of explanation confirming the total premium due along with a Certification of Health Form and Credit Card or Checkmatic Authorization Form for completion. Any premium included with the written request for reinstatement is returned. 5 Star also allows verbal reinstatement requests up to 9 months after the policy has lapsed. The Customer Service Representative (CSR) informs the policyowner that the telephone conversation is recorded and that at the conclusion of the call the policyowner must electronically "sign" the Certification of Health Form certifying each answer provided is true and correct to the best of their ability. The CSR reads the Statement of Health questions listed on the Certification of Health Form to the policyowner and records each response as dictated. For both written and verbal

reinstatements, if the answer to each question on the Certification of Health Form is “No,” the policy is reinstated and the premium will be debited from the credit card or bank account. If a question on the Certification of Health Form is “Yes,” the policyowner is advised the Certification of Health Form will be forwarded to the medical Underwriting Department for review. If reinstatement is denied, a declination letter is sent. If the reinstatement is approved, the policyowner is notified of the reinstatement and the premium is debited from the credit card or bank account.

A sample of 20 was selected from a population of 169 life insurance policies for which reinstatement was requested. The review revealed that 5 Star was in substantial compliance with its established procedures.

POLICY LOANS AND LOAN INTEREST

The examiners reviewed a sample of 16 policy loan transactions from a total population of 156 life insurance policies with loan activity.

The review revealed that policy loans and loan interest were calculated in accordance with established procedures and the policy provisions.

VIII. CANCELLATIONS / NONRENEWALS/CONVERSIONS

The examination included a review of 5 Star's cancellation/nonrenewal practices and procedures to determine compliance with its policy provisions and the requirements of § 38.2-508 of the Code concerning unfair discrimination.

The examiners reviewed a sample of 25 from a total population of 1,508 that lapsed during the examination time frame.

The review revealed that the policies were terminated in accordance with 5 Star's established procedures and the policy provisions.

Cash Surrenders

The total population of 3 policies surrendered for cash during the examination time frame was reviewed. The examiners reviewed the policy values and calculations for each surrender.

The review revealed that 5 Star calculated the surrender amounts in accordance with the policy provisions.

Extended Term Insurance

The examiners reviewed a sample of 10 from a population of 91 policies converted to extended term insurance during the examination time frame.

The review revealed that 5 Star was in substantial compliance with its established procedures and policy provisions.

Conversions

A sample of 15 was selected from a total population of 67 policies that involved a conversion during the examination time frame.

The review revealed that the conversions were handled in accordance with established procedures and the policy provisions.

IX. COMPLAINTS

5 Star'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."

The total population of 9 written complaints received during the examination time frame was reviewed. As discussed in Review Sheet CP01, the review revealed that the complaint log failed to include 2 complaints that were sent to 5 Star by the Bureau of Insurance on the behalf of the complainants during the examination time frame, in violation of § 38.2-511 of the Code and in non-compliance with 5 Star's complaint procedures. 5 Star agreed with the examiners' observations.

X. CLAIM PRACTICES

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

GENERAL HANDLING STUDY

The review consisted of a sampling of closed life death claims. The examiners were provided access to 5 Star's claim handling procedures.

PAID CLAIM REVIEW

A sample of 55 from a total population of 532 life insurance claims paid during the examination time frame was reviewed.

The review revealed that the claims were paid in accordance with the policy provisions.

Statutory Interest – Life Insurance

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 of paid annuity death claims revealed 2 violations of this section. An example is discussed in Review Sheet CL18, where 5 Star failed to pay interest. 5 Star agreed with the examiners' observations.

TIME PAYMENT STUDY

The time payment study was computed by measuring the time it took 5 Star, 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.

PAID CLAIMS		
<u>Working Days To Settle</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 – 15	38	69.1%
16 – 20	8	14.5%
Over 20	9	16.4%

Of the 55 claims reviewed for the time study, 17 claims (30.9%) were not settled within 15 working days. The examiners recommend that 5 Star reviews its procedures to reduce the percentage of claims paid after 15 working days.

DENIED CLAIM REVIEW

The total population of 12 claims denied during the examination time frame was reviewed. The review revealed that the claims were handled in accordance with the policy provisions.

UNFAIR CLAIM SETTLEMENT PRACTICES REVIEW

A total sample of 67 paid and denied claims was reviewed for compliance with 14 VAC 5-400-10 et seq., Rules Governing Unfair Claim Settlement Practices, which requires that an insurer maintain adequate claim files and that all claims be settled as soon as possible in accordance with the terms of the insurance contract.

14 VAC 5-400-50 A requires every insurer to acknowledge the receipt of notification of a claim within 10 working days, unless payment is made within that time.

14 VAC 5-400-60 A requires that within 15 working days after receipt of properly executed proofs of loss, the insurer shall advise the claimant of acceptance or denial of the claim by the insurer.

14 VAC 5-400-60 B requires that if the investigation of a claim has not been completed, every insurer shall, within 45 days from the date of the notification of the claim and every 45 days thereafter, send to the claimant a letter setting forth the reasons additional time is needed for investigation.

14 VAC 5-400-50 A – In 1 instance, a claim was not acknowledged within 10 working days upon receipt of notification. An example is discussed in Review Sheet CL01. 5 Star agreed with the examiners' observations.

14 VAC 5-400-60 A – In 18 instances, a claimant was not advised of the acceptance or denial of a claim within 15 working days after proof of loss was received. An example is discussed in Review Sheet CL04, where 5 Star took 25 working days to affirm the claim after receipt of proof of loss. 5 Star agreed with the examiners' observations.

14 VAC 5-400-60 B – As discussed in Review Sheet CL13, in 1 instance, within 45 days from the date of notification of a claim, 5 Star failed to send the claimant a letter setting forth the reasons additional time was needed for investigation. 5 Star agreed with the examiners' observations.

The violations of 14 VAC 5-400-60 A occurred with such frequency as to indicate a general business practice placing 5 Star in violation of this section.

THREATENED LITIGATION

There were no files that involved threatened litigation received during the examination time frame.

XI. CORRECTIVE ACTION PLAN

Based on the findings of the Report, it is recommended that 5 Star implement the following corrective actions:

1. Revise and strengthen its procedures for maintaining a complete advertising file that complies with the requirements of 14 VAC 5-41-150 C and 14 VAC 5-90-170 A;
2. Review and revise its procedures to ensure that advertisements comply with 14 VAC 5-41-10 et seq. and 14 VAC 5-90-10 et seq., as well as subsection 1 of § 38.2-502 and § 38.2-503 of the Code;
3. Immediately cease offering any non-insurance benefits that are tied to the purchase of a life insurance product and are not included in the policy to bring its operations into compliance with subsection 2 of § 38.2-508 of the Code, and subsections 1 and 2 of § 38.2-509 A of the Code. Review and revise all of its advertisements to clearly distinguish between the life insurance policy benefits and the AFBA association membership benefits;
4. Establish and maintain procedures to ensure that all group life certificates, applications and enrollment forms are filed with the Commission prior to use, as required by § 38.2-316 B of the Code;
5. Strengthen its procedures for compliance with § 38.2-1834 D of the Code concerning the appointment termination of agents/agencies;
6. Establish and maintain procedures to ensure that the NIP form is provided to applicants as required by § 38.2-604 A 1 of the Code;

7. Establish and maintain procedures to ensure that the AUD notice required by §§ 38.2-610 A 1 and 38.2-610 A 2 of the Code is provided to applicants in accordance with the guidelines established by Administrative Letter 2015-07;
8. Strengthen and maintain its procedures to ensure that when a replacement is involved, the existing insurer is notified within 5 business days of receipt of the completed application, as required by 14 VAC 5-30-51 A 2;
9. Strengthen and maintain its procedures to ensure that transactions where the replacing insurer and the existing insurer are the same that credit is allowed for the period of time elapsed under the replaced policy's incontestability and suicide period up to the face value of the existing policy, as required by 14 VAC 5-30-51 B;
10. Reopen and review the underwriting files of all Virginia policies and certificates where a replacement was involved for the years 2014, 2015, 2016 and the current year to determine if the replacing insurer and the existing insurer were the same, then update the policy file to show credit for the period of time elapsed under the replaced policy's incontestability and suicide period up to the face value of the existing policy, as required by 14 VAC 5-30-51 B;
11. Reopen and review all Virginia death claims that were denied during the contestability period to determine if the policy was a replacement where the replacing insurer and the existing insurer were the same. Determine the credit due for the period of time elapsed under the replaced policy's incontestability and suicide period and make payments, plus statutory interest, for any claims that were no longer in the contestability period after

the credit was applied, as required by § 38.2-3115 B of the Code and 14 VAC 5-30-51 B. Send checks for the required death benefit amount and statutory interest to the appropriate beneficiaries along with letters of explanation stating that “As the result of a Target Market Conduct Examination conducted by the Virginia State Corporation Commission’s Bureau of Insurance, it was determined that the death benefit and statutory interest were payable. Please accept the enclosed check for the additional amounts due”;

12. Establish and maintain a system of supervision and control to detect transactions that are replacements of existing policies or contracts by the existing insurer, but that have not been reported by the applicant or the agent, as required by 14 VAC 5-30-60 A 5 and 14 VAC 5-30-60 B 4;
13. Strengthen and maintain its procedures to ensure that each application for life insurance has a signed statement by both the applicant and agent as to whether the applicant has existing policies, as required by 14 VAC 5-30-60 C;
14. Strengthen and maintain its procedures to ensure that a completed notice regarding replacements (Form 30-A) is obtained with each application for life insurance that indicates an existing policy, as required by 14 VAC 5-30-60 D;
15. Establish and maintain procedures to ensure that copies of all marketing communications used in connection with a replacement transaction are received and maintained, as required by 14 VAC 5-30-60 E;
16. Establish and maintain procedures to ensure that agents and applicants are notified and outstanding requirements are fulfilled when the application does

not meet the requirements of Chapter 30 of the Virginia Administrative Code, *Rules Governing Life Insurance and Annuity Replacements*, as required by 14 VAC 5-30-60 G;

17. Strengthen and maintain its procedures for the maintenance of a complete record of all written complaints, as required by § 38.2-511 of the Code;
18. Strengthen its procedures for the payment of interest due on life insurance as required by § 38.2-3115 B of the Code;
19. Reopen all of the Virginia National Guard State Sponsored Life Insurance claims for the years 2014, 2015, 2016 and the current year and make interest payments, as required by § 38.2-3115 B of the Code. Send checks for the required statutory interest to the appropriate beneficiaries along with letters of explanation stating that “As the result of a Target Market Conduct Examination conducted by the Virginia State Corporation Commission’s Bureau of Insurance, it was determined that statutory interest was payable. Please accept the enclosed check for the additional amount due”;
20. Strengthen its established procedures to ensure that claimants are advised of the acceptance or denial of a claim within 15 working days of receipt of proof of loss, as required by 14 VAC 5-400-60 A; and
21. Within 90 days of this Report being finalized, furnish the examiners with documentation that each of the above actions has been completed.

XII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by 5 Star's officers and employees during the course of this examination is gratefully acknowledged.

Melissa Gerachis, FLMI, AMCM, AIRC, Laura Klanian, HIA, MCM, and Arthur Dodd, MBA, FLMI, AMCM, CIE, AIRC, of the Bureau of Insurance participated in the work of the examination and writing of the Report.

Respectfully submitted,



Julie Fairbanks, AIE, FLMI, AIRC, MCM
BOI Manager
Market Conduct Section
Life and Health Division

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XIII. AREA VIOLATIONS SUMMARY BY REVIEW SHEET

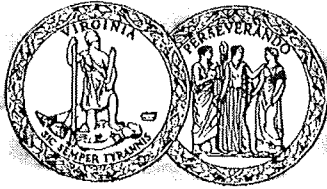
ADVERTISING
14 VAC 5-41-150 C, 1 violation, AD01
14 VAC 5-90-170 A, 1 violation, AD01
14 VAC 5-41-30 A, 26 violations, AD02, AD03, AD04, AD05, AD06, AD07, AD10, AD11, AD12, AD14, AD15, AD17, AD18, AD19, AD20, AD21, AD22, AD24, AD25, AD26, AD28, AD29, AD30, AD31, AD32, AD35
14 VAC 5-41-40 B, 7 violations, AD04, AD12, AD15, AD24, AD27, AD28, AD35
14 VAC 5-41-40 C, 3 violations, AD24, AD32, AD35
14 VAC 5-41-70 B, 1 violation, AD10
14 VAC 5-41-80 A, 2 violations, AD10, AD35
14 VAC 5-41-80 B, 22 violations, AD02, AD05, AD06, AD07, AD10, AD11, AD14, AD16, AD17, AD18, AD19, AD20, AD21, AD22, AD23, AD24, AD26, AD27, AD29, AD31, AD32, AD35
14 VAC 5-41-90 C, 28 violations, AD34 (28)
14 VAC 5-41-90 D, 28 violations, AD34 (28)
14 VAC 5-41-110 A, 1 violation, AD22
14 VAC 5-90-60 A 1, 1 violation, AD08
14 VAC 5-90-90 C, 1 violation, AD09
POLICY AND OTHER FORMS
§ 38.2-316 B, 205 violations, PF01
AGENTS
§ 38.2-1834 D, 3 violations, AG02
UNDERWRITING/UNFAIR DISCRIMINATION/INSURANCE INFORMATION AND PRIVACY PROTECTION ACT/INSURANCE REPLACEMENT AND SUITABILITY
Subsection 2 of § 38.2-508, UN57

Subsection 1 of § 38.2-509 A, UN57
Subsection 2 of § 38.2-509 A, UN57
§ 38.2-604 A 1, 59 violations, UN09, UN10 (24), UN11, UN12, UN13, UN15, UN16, UN18, UN22, UN24, UN25, UN28, UN29, UN30, UN31, UN33, UN34, UN35, UN36, UN37, UN38, UN39, UN40, UN41, UN42, UN44, UN45, UN46, UN47, UN50, UN51, UN52, UN53, UN54, UN55, UN56
§ 38.2-610 A 1, 7 violations, UN02, UN03, UN04, UN05, UN06, UN07, UN08
§ 38.2-610 A 2, 57 violations, UN01 (34), UN02, UN03, UN04, UN05, UN06, UN07, UN08, UN09, UN11, UN12, UN13, UN16, UN17, UN19, UN20, UN21, UN23, UN25, UN28, UN29, UN35, UN37, UN38
14 VAC 5-30-51 A 2, 3 violations, UN14, UN27, UN43
14 VAC 5-30-51 B, 12 violations, UN09, UN11, UN12, UN13, UN15, UN16, UN18, UN24, UN23, UN30, UN31, UN36
14 VAC 5-30-60 C, 18 violations, UN33, UN34, UN39, UN40, UN41, UN42, UN44, UN45, UN46, UN47, UN49, UN50, UN51, UN52, UN53, UN54, UN55, UN56
14 VAC 5-30-60 D, 13 violations, UN09, UN11, UN12, UN13, UN15, UN16, UN18, UN19, UN22, UN24, UN31, UN32, UN36
14 VAC 5-30-60 E, 13 violations, UN09, UN11, UN12, UN13, UN15, UN16, UN18, UN19, UN22, UN24, UN31, UN32, UN36
14 VAC 5-30-60 G, 31 violations, UN09, UN11, UN12, UN13, UN15, UN16, UN18, UN19, UN22, UN24, UN31, UN32, UN33, UN34, UN36, UN39, UN40, UN41, UN42, UN44, UN45, UN46, UN47, UN49, UN50, UN51, UN52, UN53, UN54, UN55, UN56
14 VAC 5-30-60 A 5, 1 violation, UN58
14 VAC 5-30-60 B 4, 1 violation, UN58
COMPLAINTS
§ 38.2-511, 1 violation, CP01

CLAIM PRACTICES
§ 38.2-3115 B, 2 violations, CL18, CL19
14 VAC 5-400-50 A, 1 instance of non-compliance, CL01
14 VAC 5-400-60 A, 18 violations, CL02, CL03, CL04, CL05, CL06, CL07, CL08, CL09, CL10, CL11, CL12, CL13, CL14, CL15, CL16, CL17, CL21, CL22
14 VAC 5-400-60 B, 1 instance of non-compliance, CL13

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COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION
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August 3, 2017

CERTIFIED MAIL 7015 1520 0003 0919 0065
RETURN RECEIPT REQUESTED

Ms. Mildred E. Hunt, MSLS
Director, Compliance
5 Star Life Insurance Company
909 North Washington Street
Alexandria, VA 22314

RE: Market Conduct Examination Report
Exposure Draft

Dear Ms. Hunt:

Recently, the Bureau of Insurance conducted a Market Conduct Examination of 5 Star Life Insurance Company for the period of January 1, 2014 through July 1, 2015. 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 5 Star Life Insurance Company, 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. 5 Star Life Insurance Company 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 Fairbanks, AIE, AIRC, FLMI, ACS, MCM
Principal Insurance Market Examiner
Market Conduct
Life and Health Division
Bureau of Insurance

JRF:mhh
Enclosure
cc: Julie Blauvelt



September 12, 2017

Mildred E. Hunt, MSLS
Director, Compliance

VIA ELECTRONIC & FEDERAL EXPRESS

Ms. Julie Fairbanks, AIE, AIRC, FLMI, ACS, MCM
Principal Insurance Market Examiner
Market Conduct
Life and Health Division
Bureau of Insurance
Commonwealth of Virginia
1300 E. Main Street
Richmond, VA 23219

Re: ***Market Conduct Examination Response to Exposure Draft***

Dear Ms. Fairbanks:

Thank you for the opportunity to respond to the preliminary draft of the Report on Target Market Conduct Examination of 5 Star Life Insurance Company as of July 1, 2015, (the "Preliminary Report"). 5Star values the privilege of serving Virginia's residents and of course readily recognizes this service entails complying with all applicable laws. For that reason, 5Star welcomes this opportunity to become more fully compliant with most of the matters found to be deficient in the Preliminary Report. As discussed below, there are a few findings in the Preliminary Report for which 5Star wishes to provide further clarifications. 5Star's responses below adopt the numbers and text of headings, the definitions, and the sequence of the Preliminary Report. Activities which the Bureau found to be substantially in compliance with applicable law are not specifically addressed in this response.

II. Company History

For technical precision, as the Bureau notes in the Preliminary Report discussion of 14 VAC 5-41-90 D, AFBA does not offer low-cost life insurance. Rather, it offers a benefit payable on the member's death that is underwritten (i.e., funded) by 5Star life insurance policies. We offer this clarification for your consideration.

909 North Washington Street, Alexandria, VA 22314

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(800) 776-2322 x2204

(703) 224-0214 (fax)

III. Advertising

14 VAC 5-41-150 C and **14 VAC 5-90-170 A** (*Agree*): 5Star will provide the Bureau a revised and strengthened procedures for maintaining a complete advertising file that complies with the requirements of *14 VAC 5-41-150 C* and *14 VAC 5-90-170 A* [Corrective Action #1].

14 VAC 5-41-30 A (*Agree*): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and § 38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-30 B (*Agree*): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-30 C (*Agree*): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-70 B (*Agree*): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-80 A (*Agree*): 5Star will review its and provide the Bureau a revised procedure to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-90 C and **D** (*Agree*): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-90 E (Clarification): The seal used on the advertisements reviewed by the Bureau is used by the Armed Forces Benefit Association in connection with the State Sponsored Life Insurance (SSLI) program. SSLI is made available pursuant a grant of authority in *37 USC §707* to enable The Secretary of the Army or the Secretary of the Air Force to allow each state's National Guard Association to sponsor a life insurance program. Twenty-two such National Guard Associations, including Virginia's, operate collectively as the Group of Pooling States State Sponsored Life Insurance and use the symbol in question. These 22 National Guard Associations have entered into arrangements with AFBA to make the SSLI benefits available to the National Guard members. 5Star is the exclusive carrier that underwrites coverage to fund the SSLI benefits in those states. As such, the advertisements are not misleading in that the coverage described in them is through a program whereby payments are made pursuant to government authorization. 5Star regrets any confusion caused by its previous responses concerning the use of this seal.

14 VAC 5-41-110 (Agree): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of §38.2-502 and §38.2-503 of the Code. [Corrective Action #2].

14 VAC 5-41-140 C (Clarification): As noted in relation to *14 VAC 5-41-90 E* above, the advertisements containing the Command Sergeant Major's quote relates to SSLI and is not misleading in that the coverage described in it is made available through a governmental authorization of the program. 5Star again regrets any confusion caused by its previous responses concerning the quote.

14 VAC 5-420-50 B 1 (Clarification): The enabling statute for the SSLI program provides in pertinent part,

The Secretary of the Army or the Secretary of the Air Force, as the case may be, may allow a member of the National Guard who is not on active duty to make allotments from his pay under §§ 204 and 206 of this title for the payment of premiums under a group life insurance program sponsored by the military department of the State in which such member holds his National Guard membership or by the National Guard association of such State if the State or association concerned has agreed in writing to reimburse the United States for

all costs incurred by the United States in providing for such allotments. (*37 USC §707*; emphasis added).

Thus, the ability of a National Guard soldier or airman to make contributions to fund a SSLI benefit is contingent on the Secretary of the Army or the Secretary of the Air Force exercise of discretion over that National Guard member's payroll allotment. Given this circumstance and that 5Star does not represent that any other circumstance exists, 5Star respectfully submits its practices are in accord with the requirements of *14 VAC 5-420-50 B 1*.

14 VAC 5-90-60 A 1 (Agree): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of *§38.2-502* and *§38.2-503* of the Code. [Corrective Action #2].

14 VAC 5-90-90 C (Agree): 5Star will review its procedures and provide the Bureau with revisions to ensure that advertisements comply with *14 VAC 5-41-10 et seq.*, *14 VAC 5-90-10 et seq.*, and *14 VAC 5-420-10 et seq.*, as well as subsection 1 of *§38.2-502* and *§38.2-503* of the Code. [Corrective Action #2].

IV. Policy and Other Forms

VA CODE §§38.2-316 B and C 1 (Agree with Clarification): 5Star acknowledges the Bureau's interpretation of *VA REV STAT §§38.2-316 B and C 1* and will file future forms consistent with that interpretation. To demonstrate 5Star's good faith interpretation of *VA REV STAT §§38.2-316 B and C 1*, 5Star asks the Bureau to please consider the attached 1998 letter from the Bureau, a 2007 memorandum from an industry leading forms compliance consultant, and a 2016 memorandum from a different industry leading forms compliance consultant. Each of these documents leads to the reasonable conclusion that the forms cited in the Preliminary Report need not, and in the case of the letter from the Bureau *would not*, be reviewed by the Bureau. As 5Star now understands the Bureau's interpretation, it will adopt and maintain procedures to ensure such forms are filed for approval prior to using those forms. [Corrective Action #4].

V. Agents

VA CODE §38.2-1834 D (Agree): 5Star will strengthen its procedures for compliance with §38.2-1834 D of the Code concerning the appointment termination of agents/agencies. [Corrective Action #5].

VI. Underwriting/Unfair Discrimination

VA CODE §§38.2-508 and 38.2-509 A (Agree in Part and Disagree in Part): In conjunction with the changes to advertising practices regarding more clearly distinguishing the Charles C. Blanton Scholarship from AFBA's death benefits as addressed above in the 14 VAC 5-41-30 A response, 5Star will adopt procedures to ensure AFBA members are aware the use of AFBA contributions are not exclusively for death benefits funded by 5Star underwritten insurance but for the educational benefits as well. To further ensure members appreciate this distinction, AFBA will require members to elect whether they wish their contributions to fund a death benefits, the educational benefit, both, or neither. In this manner, the member will be made fully aware that the member death benefit and member educational benefit, while requiring contributions, are not otherwise contingent on the other in any way. 5Star disagrees to the extent that the "tying" of the death benefits to the scholarship may indicate that the AFBA contributions are premiums received by 5Star. Please note that since AFBA pays premiums on an accrued retrospective basis, those premiums are not equivalent to member contributions and as such 5Star is not "offer[ing], or make[ing] any insurance or annuity contract or agreement" that on its face relates to other non-insurance benefits subject to §38.2-508. With respect to Code §38.2-509 A, given that Code §38.2-508.2 prohibits discrimination on the basis of an "individual's race, color, religion, national origin or gender," 5Star contends that the perils of parenthood and marriage are not "hazards" and that parents and spouses are not "classes" covered by Code §38.2-509 A.

VI. (con't) Insurance Information and Privacy Protection Act

VA CODE §38.2-604 (Agree): 5Star will establish and maintain procedures to ensure that the NIP form is provided to applicants as required by §38.2-604 A 1 of the Code. [Corrective Action #6]

VA CODE §§38.2-610 A 1 and 38.2-610 A 2(Agree): 5Star will establish and maintain procedures to ensure that the AUD notice required by §§ 38.2-610 A 1 and 38.2-610 A 2 of the Code is provided to applicants in accordance with the guidelines established by Administrative Letter 2015-07. [Corrective Action #7]

VI. (con't) Insurance Replacement

14 VAC 5-30-51 A 2 (Agree): 5Star will strengthen and maintain its procedures to ensure that when a replacement is involved, the existing insurer is notified within five (5) business days of receipt of the completed application, as required by 14 VAC 5-30-51 A 2. [Corrective Action #8]

14 VAC 5-30-51 B (Agree): 5Star will strengthen and maintain its procedures to ensure that transactions where the replacing and the existing insurer are the same that credit is allowed for the period of time elapsed under the replaced policy's incontestability and suicide period up to the face value of the existing policy, as required by 14 VAC 5-30-51 B. [Corrective Action #9]

5Star will also reopen and review the underwriting files of all Virginia policies and certificates where a replacement was involved for the years 2014, 2015, 2016 and the current year to determine if the replacing insurer and the existing insurer were the same, then update the policy file to show credit for the period of time elapsed under the replaced policy's incontestability and suicide period up to the face value of the existing policy, as required by 14 VAC 5-30-51 B. [Corrective Action #10]

§38.2-3115 B of the Code and 14 VAC 5-30-51 8 (Agree): 5Star will reopen and review all Virginia death claims that were denied during the contestability period to determine if the policy was a replacement where the replacing insurer and the existing insurer were the same. Determine the credit due for the period of time elapsed under the replaced policy's incontestability and suicide period and make payments, plus statutory interest, for any claims that were no longer in the contestability period after the credit was applied, as required by §38.2-3115 B of the Code and 14 VAC 5-30-51 8. 5Star will send checks for the required death benefit amount and statutory interest to the appropriate beneficiaries along with letters of explanation stating that "As the result of a Target Market Conduct Examination conducted by the Virginia State Corporation Commission's Bureau of Insurance, it

was determined that the death benefit and statutory interest were payable. Please accept the enclosed check for the additional amounts due". [Corrective Action #11]

14 VAC 5-30-60 A 5 and **14 VAC 5-30-60 B 4**. (*Agree*): 5Star will establish and maintain a system of supervision and control to detect transactions that are replacements of existing policies or contracts by the existing insurer, but that have not been reported by the applicant or the agent, as required by **14 VAC 5-30-60 A 5** and **14 VAC 5-30-60 B 4**. [Corrective Action #12]

14 VAC 5-30-60 C (*Agree*): 5Star will strengthen and maintain its procedures to ensure that each application for life insurance has a signed statement by both the applicant and agent as to whether the applicant has existing policies, as required by **14 VAC 5-30-60 C**. [Corrective Action #13]

14 VAC 5-30-60 D (*Agree*): 5Star will strengthen and maintain its procedures to ensure that a completed notice regarding replacements (Form 30-A) is obtained with each application for life insurance that indicates an existing policy, as required by **14 VAC 5-30-60 D**. [Corrective Action #14]

14 VAC 5-30-60 E (*Agree*): 5Star will establish and maintain procedures to ensure that copies of all marketing communications used in connection with a replacement transaction are received and maintained, as required by **14 VAC 5-30-60 E**. [Corrective Action #15]

14 VAC 5-30-60 G (*Agree*): 5Star will establish and maintain procedures to ensure that agents and applicants are notified and outstanding requirements are fulfilled when the application does not meet the requirements of Chapter 30 of the Virginia Administrative Code, Rules Governing Life Insurance and Annuity Replacements, as required by **14 VAC 5-30-60 G**. [Corrective Action #16]

IX. Complaints

VA CODE §38.2-511 (*Agree*): 5Star will strengthen and maintain its procedures for the maintenance of a complete record of all written complaints, as required by §38.2-511 of the Code. [Corrective Action #17]

X. Claims Practices

VA CODE §38.2-3115 B (Agree): 5Star will strengthen its procedures for the payment of interest due on life insurance as required by §38.2-3115 B of the Code. [Corrective Action #18]

5Star will also reopen all Virginia National Guard State Sponsored Life Insurance claims for the years 2014, 2015, 2016 and the current year and make interest payments, as required by §38.2-3115 B of the Code. 5Star will send checks for the required statutory interest to the appropriate beneficiaries along with letters of explanation stating that "As the result of a Target Market Conduct Examination conducted by the Virginia State Corporation Commission's Bureau of Insurance, it was determined that statutory interest was payable. Please accept the enclosed check for the additional amount due". [Corrective Action #19]

14 VAC 5-400-60 A (Agree): 5Star will strengthen its established procedures to ensure that claimants are advised of the acceptance or denial of a claim within 15 working days of receipt of proof of loss, as required by 14 VAC 5-400-60 A. [Corrective Action #20]

Within 90 days of this Report being finalized, 5Star will furnish the examiners with documentation that each of the actions as indicated above has been completed.

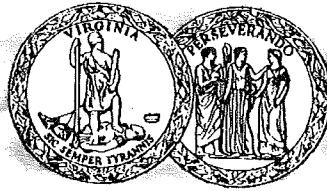
5Star thanks the Bureau for the opportunity to respond to the examination findings. Kindly contact me at (703) 706-5975 or mhunt@afba.com, or Michael Moser at (703) 706-5965 or mmoser@afba.com with any comments or questions you may have regarding this response.

Respectfully submitted,

Mildred E. Hunt, MSLS
Director, Compliance

Enclosures

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

January 3, 2018

**CERTIFIED MAIL 7014 1200 0001 3578 9983
RETURN RECEIPT REQUESTED**

Ms. Mildred E. Hunt, MSLS
Director, Compliance
5 Star Life Insurance Company
909 N. Washington St.
Alexandria, VA 22314

Re: Target Market Conduct Examination Report

Dear Ms. Hunt:

The Bureau of Insurance (hereinafter referred to as "the Bureau") has completed its review of your September 12, 2017, response to the Target Market Conduct Examination Report of 5 Star Life Insurance Company (hereinafter referred to as "5 Star" or "the Company") sent with my letter of August 3, 2017.

Your response indicates that 5 Star has concerns regarding the writing of the Report. This letter addresses those concerns in the same order as presented in your September 12th response. Since 5 Star's response will be attached to the final Report, this response does not address those issues where the Company indicated agreement.

The Bureau acknowledges the corrective actions that 5 Star has already taken as the result of this examination. As noted in Corrective Action Plan (CAP) Item 21, within 90 days of finalization of the Report, 5 Star will be required to document compliance with all of the corrective action items included in the Final Report. Upon receipt, the examiners will review the documentation provided and communicate with you and your staff if they have any questions or require additional documentation or further action.

Section II. Company History

Based on 5 Star's clarification, we have changed the sentence "AFBA is a not-for-profit membership association established in 1947, whose principal operation is to provide benefits and services for its members, including low-cost life insurance without war clauses." to "AFBA is a not-for-profit membership association established in 1947, whose principal operation is to provide benefits and services for its members, including life insurance without war clauses that is underwritten by 5 Star."

Section III. Advertising

Based upon the additional explanation provided with 5 Star's response, the violations of 14 VAC 5-41-90 E, 14 VAC 5-41-140 C and 14 VAC 5-420-50 B 1 have been removed from the Report.

Section IV. Policy and Other Forms

5 Star has submitted documentation supporting their interpretation that forms do not have to be filed with the Bureau. The Bureau acknowledges that the filing requirements for group life insurance forms where the master policy is issued outside of Virginia have changed from not requiring informational form filings in 1998 to requiring informational filings. The Bureau notes that the memorandum 5 Star submitted from Compliance Research Services states that they had conversations with the Commission in 2005 and were advised that all group forms should be filed. In addition, 5 Star has submitted 10 group form filings to the Bureau between February 12, 2008, and May 27, 2015, which indicates that 5 Star was aware that group forms were required to be filed. The examiners do not agree that the forms cited in the Report do not need to be reviewed by the Bureau. It is the Commission's position that, even if the forms were filed and approved in Washington, D.C., the forms are required to be submitted to the Forms section of the Bureau in an informational filing. Although the examiners acknowledge that 5 Star has indicated that it will submit forms for informational filing going forward, the forms that 5 Star issued during the examination time frame had not been filed. The Report will be revised to remove the violations of § 38.2-316 C 1, however, the violations of § 38.2-316 B will remain.

Section VI. Underwriting/Unfair Discrimination

The examiners acknowledge 5 Star's disagreement that the "tying" of the death benefits to the scholarship may indicate that the AFBA contributions are premiums received by 5 Star. The Bureau disagrees with 5 Star's analysis and, as previously stated, finds that the scholarship benefit is not expressed in the policy and is an inducement to purchase life insurance. Subsection 2 of § 38.2-509 A of the Code of Virginia ("Code") establishes several criteria that must be met for a payment, special favor or other valuable consideration to be deemed an unlawful rebate. For example, the payment, special favor or other valuable consideration must qualify as an inducement to contract. 5 Star's offering of the scholarship benefit as a policy feature constitutes an inducement or incentive to a consumer that is tied to the consumer's purchase of an insurance contract. In addition, 5 Star has confirmed that in the event that an individual covered by an individual or group life insurance policy terminates coverage, the individual will no longer be eligible for the scholarship benefit, even if they continue to be a member of AFBA. The offer of the scholarship benefit does qualify as an unlawful rebate since it would constitute an inducement to contract and because the benefit is not specified in the policy.

5 Star also disagreed that the scholarship benefit unfairly discriminates against policyholders without eligible dependents, stating "With respect to Code §38.2-509 A,

given that Code §38.2-508.2 prohibits discrimination on the basis of an individual's race, color, national origin or gender, 5 Star contends that the perils of parenthood and marriage are not "hazards" and that parents and spouses are not "classes" covered by Code § 38.2-509 A." The examiners would note that 5 Star was cited for violating subsection 2 of § 38.2-508 of the Code, rather than §38.2-508.2 of the Code. Subsection 2 of § 38.2-508 of the Code states that no person shall unfairly discriminate or permit unfair discrimination between individuals of the same class and essentially the same hazard (i) in the benefits payable under such a policy or contract, or (iv) in any other manner. Although there is no statutory definition of "class" and "hazard", we take the usual and common meaning of these terms in the context in which they are used. The Dictionary of Insurance Terms, 3rd Edition, defines "class" as a "group of insureds with the same characteristics, established for rate-making purposes." "Hazard" is defined as a "circumstance that increases the likelihood or probable severity of a loss." Therefore, it would appear that 5 Star's life insurance policyholders constitute a "class." Making a distinction between the members of that "class" based on something arbitrary like marriage or parenthood when determining eligibility for benefits is unfairly discriminatory. The Report appears correct as written.

5 Star should not only revise its advertisements to clarify the benefits of the AFBA membership versus the life insurance benefits of the policies underwritten by 5 Star, but must also determine how to offer and administer the scholarship to bring 5 Star into compliance with §§38.2-509 A and subsection 2 of § 38.2-508 of the Code. The Bureau is willing to discuss potential remedies for the issues outlined in the Report prior to 5 Star and AFBA taking any corrective action.

The examiners appreciate 5 Star's stated intent to comply with the Report's Corrective Action Plan.

A copy of the entire Report with revised pages is attached and the revised pages contain the only substantive revisions we plan to make before the Report becomes final.

On the basis of our review of this entire file, it appears that 5 Star has violated the Unfair Trade Practices Act, specifically subsection 1 of § 38.2-502, § 38.2-503, subsection 2 of § 38.2-508, subsections 1 and 2 of § 38.2-509 A, and § 38.2-511 of the Code of Virginia.

In addition, there were violations of §§ 38.2-316 B, 38.2-604 A 1, 38.2-610 A 1, 38.2-610 A 2, 38.2-1834 D, and 38.2-3115 B of the Code of Virginia, as well as 14 VAC 5-30-51 A 2, 14 VAC 5-30-51 B, 14 VAC 5-30-60 A 5, 14 VAC 5-30-60 B 4, 14 VAC 5-30-60 C, 14 VAC 5-30-60 D, 14 VAC 5-30-60 E, and 14 VAC 5-30-60 G of the Rules Governing Life Insurance and Annuity Replacements, 14 VAC 5-41-30 A, 14 VAC 5-41-40 B, 14 VAC 5-41-40 C, 14 VAC 5-41-70 B, 14 VAC 5-41-80 A, 14 VAC 5-41-80 B, 14 VAC 5-41-90 C, 14 VAC 5-41-90 D, 14 VAC 5-41-110 A and 14 VAC 5-41-150 C of the Rules Governing Advertisement of Life Insurance and Annuities, 14 VAC 5-90-60 A 1, 14 VAC 5-90-90 C, and 14 VAC 5-90-170 A of the Rules Governing Advertisement of Accident and Sickness Insurance, and 14 VAC 5-400-60 A of the Rules Governing Unfair Claim Settlement Practices.

Violations of the above sections of the Code of Virginia can subject 5 Star to monetary penalties of up to \$5,000 for each violation and 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.

Very truly yours,



Julie R. Fairbanks, AIE, AIRC, FLMI, MCM
BOI Manager
Market Conduct Section
Life and Health Market Regulation Division
Telephone (804) 371-9385

COPY

Ms. Mildred E. Hunt, MSLS
Director, Compliance
5 Star Life Insurance Company
909 N. Washington St.
Alexandria, VA 22314

Julie Blauvelt
Deputy Commissioner
Bureau of Insurance
1300 East Main Street
Richmond, VA 23219

RE: Alleged violations of the Unfair Trade Practices Act, specifically subsection 1 of § 38.2-502, § 38.2-503, subsection 2 of § 38.2-508, subsections 1 and 2 of § 38.2-509 A, and § 38.2-511 of the Code of Virginia, as well as, violations of §§ 38.2-316 B, 38.2-604 A 1, 38.2-610 A 1, 38.2-610 A 2, 38.2-1834 D, and 38.2-3115 B of the Code of Virginia, as well as 14 VAC 5-30-51 A 2, 14 VAC 5-30-51 B, 14 VAC 5-30-60 A 5, 14 VAC 5-30-60 B 4, 14 VAC 5-30-60 C, 14 VAC 5-30-60 D, 14 VAC 5-30-60 E, and 14 VAC 5-30-60 G of the Rules Governing Life Insurance and Annuity Replacements, 14 VAC 5-41-30 A, 14 VAC 5-41-40 B, 14 VAC 5-41-40 C, 14 VAC 5-41-70 B, 14 VAC 5-41-80 A, 14 VAC 5-41-80 B, 14 VAC 5-41-90 C, 14 VAC 5-41-90 D, 14 VAC 5-41-110 A and 14 VAC 5-41-150 C of the Rules Governing Advertisement of Life Insurance and Annuities, 14 VAC 5-90-60 A 1, 14 VAC 5-90-90 C, and 14 VAC 5-90-170 A of the Rules Governing Advertisement of Accident and Sickness Insurance, and 14 VAC 5-400-60 A of the Rules Governing Unfair Claim Settlement Practices.


Dear Ms. Blauvelt:

This will acknowledge receipt of your letter dated January 16, 2018, concerning the above-captioned matter.

5 Star (Company) 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 \$46,000, payable to the Treasurer of Virginia. The Company further understands that, as part of the State Corporation Commission's Order accepting the offer of settlement; it waives its right to the hearing to which it is entitled, and agrees to comply with the Corrective Action Plan contained in the Market Conduct Examination Report as of July 1, 2015.

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,


MILDRED E. HUNT
Company Representative

FEBRUARY 1, 2018
Date

Enclosure (check)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, FEBRUARY 12, 2018

180220071

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2018 FEB 12 A 10:05

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2018-00004

5 STAR LIFE INSURANCE COMPANY
Defendant

SETTLEMENT ORDER

Based on a target market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that 5 Star Life Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Virginia"), violated: § 38.2-316 B of the Code of Virginia ("Code") by failing to comply with policy form filing requirements; § 38.2-502 (1) of the Code by misrepresenting the terms of the policy; § 38.2-503 of the Code by using false information and advertising; § 38.2-508 (2) of the Code by engaging in unfair discrimination; §§ 38.2-509 (A) (1) and 38.2-509 (A) (2) of the Code by unlawfully paying, directly or indirectly, as inducement to an insurance or annuity contract, any valuable consideration or inducement not specified in the insurance or annuity contract; § 38.2-511 of the Code by failing to maintain a record of complaints; § 38.2-604 (A) (1) of the Code by failing to provide a notice of insurance information collection and disclosure practices; §§ 38.2-610 (A) (1) and 38.2-610 (A) (2) of the Code by failing to provide the specific reason or reasons and written notice of an adverse underwriting decision, and by failing to provide a summary of rights in the form approved by the Commission; § 38.2-1834 D of the Code by failing to comply with the Commission's notification requirements of the termination of agent appointments; § 38.2-3115 B of the Code by failing to

properly pay interest on life insurance and annuity contract proceeds; 14 VAC 5-30-51 A (2), 14 VAC 5-30-51 B, 14 VAC 5-30-60 A (5), 14 VAC 5-30-60 B (4), 14 VAC 5-30-60 C, 14 VAC 5-30-60 D, 14 VAC 5-30-60 E, 14 VAC 5-30-60 G of the Commission's Rules Governing Life Insurance and Annuity Replacements, 14 VAC 5-30-10 *et seq.*, by failing to comply with life insurance and annuity replacement procedures and requirements; 14 VAC 5-41-30 A, 14 VAC 5-41-40 B, 14 VAC 5-41-40 C, 14 VAC 5-41-70 B, 14 VAC 5-41-80 A, 14 VAC 5-41-80 B, 14 VAC 5-41-90 C, 14 VAC 5-41-90 D, 14 VAC 5-41-110 A, 14 VAC 5-41-150 C of the Commission's Rules Governing Advertisement of Life Insurance and Annuities, 14 VAC 5-41-10 *et seq.*, by failing to comply with requirements related to the advertisement of life insurance and annuities; 14 VAC 5-90-60 A (1) of the Commission's Rules Governing Advertisement of Accident and Sickness Insurance, 14 VAC 5-90-10 *et seq.* ("Rules"), by failing to comply with requirements applicable to advertisements of covered benefits; 14 VAC 5-90-90 C of the Commission's Rules by failing to disclose the source of any statistics used in an advertisement; 14 VAC 5-90-170 A of the Commission's Rules by failing to maintain an advertisement file in accordance with the requirements set forth by the Commission, and 14 VAC 5-400-60 A of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to provide claimants timely notification of acceptance or denial of claims.

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 Virginia the sum of Forty-Six Thousand Dollars (\$46,000), waived its right to a hearing, and agreed to comply with the Corrective Action Plan contained in the Bureau's letter dated January 3, 2018.

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.

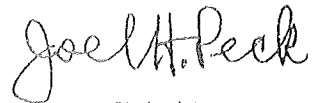
NOW THE COMMISSION, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Bureau, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS ORDERED THAT:

- (1) The offer of the Defendant in settlement of the matter set forth herein is hereby accepted.
- (2) 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: Mildred E. Hunt, MSLS, Director, Compliance, 5 Star Life Insurance Company, 909 North Washington Street, Alexandria, Virginia 22314; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Julie Blauvelt.

A True Copy
Teste:



Clerk of the
State Corporation Commission