

REPORT ON
TARGET MARKET CONDUCT EXAMINATION
OF
HOUSEHOLD LIFE INSURANCE COMPANY
AS OF MARCH 31, 2011

Conducted from September 29, 2011

through

September 25, 2012

By

Market Conduct Section 1
Life and Health Market Regulation Division
BUREAU OF INSURANCE
STATE CORPORATION COMMISSION
COMMONWEALTH OF VIRGINIA

FEIN: 38-2341728
NAIC: 93777

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Market Conduct Examination of Household Life Insurance Company, conducted at the State Corporation Commission's Bureau of Insurance in Richmond, VA, as of March 31, 2011, is a true copy of the original Report on file with this Bureau, and also includes a true copy of the Company's response to the findings set forth therein, the Bureau's review letter, the Company's offer of settlement, and the State Corporation Commission's Settlement Order in Case No. INS-2013-00052.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of this Bureau at the City of Richmond, Virginia this 30th day of May 2013.

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

Jacqueline K. Cunningham
Commissioner of Insurance

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I. SCOPE OF EXAMINATION

The Target Market Conduct Examination of Household Life Insurance Company, (hereinafter referred to as “Household”), was conducted under the authority of various sections of the Code of Virginia and regulations found in the Virginia Administrative Code, including but not necessarily limited to, the following: §§ 38.2-200, 38.2-515, 38.2-614, 38.2-1317 and 38.2-1809 of the Code of Virginia, (hereinafter referred to as “the Code”), as well as 14 VAC 5-40-60 B.

A previous target market conduct examination covering the period of January 1, 2003 through December 31, 2003, was concluded on September 30, 2005. As a result of that examination, Household offered a monetary settlement that was accepted by the State Corporation Commission on February 1, 2006 in Case No. INS-2005-00299.

The current examination revealed violations that were also noted in the prior examination. Although Household had agreed after the earlier examination to change its practices to comply with the Code and regulations, the current examination revealed certain instances where Household failed to do so. Therefore, in the examiners’ opinion, Household, in some instances, knowingly violated certain sections of the Code and regulations. Section 38.2-218 of the Code sets forth the penalties that may be imposed for knowing violations.

The period of time covered for the current examination, generally, was October 1, 2010 through March 31, 2011. The desk examination was initiated on September 29, 2011, at the office of the State Corporation Commission's Bureau of Insurance in Richmond, Virginia, and concluded on September 25, 2012. The violations cited and the comments included in this Report are the opinions of the examiners. The

examiners may not have discovered every unacceptable or non-compliant activity in which the company is engaged. Failure to identify, comment on, or criticize specific company practices in Virginia or in other jurisdictions does not constitute acceptance of such practices.

The purpose of the examination was to determine whether Household 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 5-40-10 et seq. | Rules Governing Life Insurance and Annuity Marketing Practices; |
| 14 VAC 5-70-10 et seq. | Rules Regarding Accelerated Benefit Provisions; |
| 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 5-130-10 et seq. | Rules Governing the Filing of Rates for Individual and Certain Group Accident and Sickness Insurance Policy Forms; |
| 14 VAC 5-140-10 et seq. | Rules Governing the Implementation of the Individual Accident and Sickness Insurance Minimum Standards Act; |
| 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 |

The examination included the following areas:

- Advertising/Marketing Communications
- Policy and Other Forms
- Agents
- Underwriting/Unfair Discrimination/Insurance Information and Privacy Protection Act
- Cancellations/Non-Renewals
- Complaints
- Claim Practices

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

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II. COMPANY HISTORY

Household Life Insurance Company (Household), a stock life and health insurance company, domesticated in the State of Michigan was issued a license on December 11, 1987, to transact the business of insurance in the Commonwealth of Virginia.

Household was incorporated as Security Trust Life Insurance Company of America; and its name was changed to Hamilton National Life Insurance Company on April 13, 1987. Household was incorporated as part of the insurance holding company system on December 18, 1980, as a wholly-owned subsidiary of Alexander Hamilton Life Insurance Company of America (AHL) which, in turn, was controlled by Household Finance Corporation (hereinafter called "HFC"), through its wholly-owned subsidiary Household Group, Inc. One hundred percent (100%) of HFC's stock is held by Household International, Inc. (hereinafter sometimes called "HII") which is the "ultimate controlling person" of Household. On October 6, 1995, AHL was dissolved and certain portions of its assets merged into Jefferson-Pilot Pension Life Insurance Company. Prior to the merger, ownership of one hundred percent (100%) of Household's stock was transferred to Household Group, Inc.

On June 10, 1999, Household Group, Inc. ("HGI", now known as HFC Company LLC) transferred to Household Insurance Group Holding Company (HIGH) one hundred percent (100%) of the voting securities of Household in exchange for Preferred Stock of HIGH. On October 24, 2000, HIGH formed a new wholly-owned Delaware life insurance company, Household Life Insurance Company of Delaware (HLICD). On January 2, 2001, HIGH contributed all of the voting securities of Household to HLICD.

One hundred percent (100%) of HLICD's stock is held by HIGH, a Delaware corporation, which in turn is a wholly-owned subsidiary of HII, which in turn is a wholly-owned subsidiary of HSBC Holdings plc, a United Kingdom corporation, which is the "ultimate controlling person" of Household.

On November 14, 2002, Household International, Inc. ("HII" now known as "HSBC Finance Corporation") and HSBC Holdings plc (HSBC) signed an Agreement and Plan of Merger, which was subsequently submitted for approval with the Arizona, Delaware, Michigan, Ohio, and New York Departments of Insurance. The Agreement and Plan of Merger provided that HII would merge with and into H2 Acquisition Corporation, a wholly-owned subsidiary of HSBC, with H2 Acquisition Corporation becoming the surviving corporation and changing its name to Household International, Inc. Having obtained the proper approval from the aforementioned Departments of Insurance, the merger was consummated on March 28, 2003, at which time HSBC became the ultimate controlling entity in the holding company system.

As of December 31, 2010, total direct life insurance premiums in Virginia were \$3,612,094 and direct accident and health insurance premiums totaled \$1,048,214.

III. ADVERTISING/MARKETING COMMUNICATIONS

A review was conducted of Household's advertising materials to determine compliance with the Unfair Trade Practices Act, to include §§ 38.2-502, 38.2-503 and 38.2-504 of the Code, as well as 14 VAC 5-40-10 et seq., Rules Governing Life Insurance and Annuity Marketing Practices. Effective July 1, 2011, 14 VAC 5-40-10 et seq. was repealed and replaced with 14 VAC 5-41-10 et seq., Rules Governing Advertisement of Life Insurance and Annuities.

A cited violation of certain sections of the regulation does not necessarily mean that the marketing communication has actually misled or deceived any individual to whom the marketing communication was presented. A marketing communication may be cited for violations of certain sections of the regulations, if it is determined by the Bureau of Insurance, that a marketing communication has the tendency or capacity to mislead from the overall impression that the marketing communication may be reasonably expected to create upon a person of average education or intelligence within the segment of the public to which it is directed. (14 VAC 5-40-40 A 1)

14 VAC 5-40-60 B (currently 14 VAC 5-41-150 C) require an insurer to maintain at its home or principal office a complete file of all marketing communications with a notation indicating the manner and extent of distribution and the form number of any policy referred to in the marketing communication. The review revealed that Household was in substantial compliance.

A sample of 11 was selected from a population of 43 marketing communications distributed in Virginia during the examination time frame. The review revealed that 2 of

the marketing communications contained violations. In the aggregate, there were 2 violations, which are discussed in the following paragraphs.

14 VAC 5-40-40 A 1 (currently 14 VAC 5-41-30 B) states that a marketing communication shall be truthful and not misleading in fact or by implication. The review revealed 1 violation of this section. As discussed in Review Sheet AD08B, the marketing communication made the misleading statement that “For over 140 years, the HSBC Group has challenged the status quo in the financial services marketplace with a steady stream of innovations.” Household disagreed with the examiners’ observations and stated that:

HLIC disagrees that this statement constitutes an advertising violation. In this statement, the HSBC Group is described as an innovative financial services leader, drawing from its experience as one of the oldest and largest financial institutions in the world. The statement is nonfactual, generalized, and descriptive, and does not represent a statement of fact that can be disproved as untrue. If, for example, the statement had said: “HSBC has developed 75 innovations...,” then the statement would be factual and specific, and thus subject to verification. The statement in question, by contrast, constitutes mere puffing and therefore, does not violate Virginia's advertising laws.

The examiners responded that the statement in question did not describe Household “...as an innovative financial services leader, drawing from its experience as one of the oldest and largest financial institutions in the world” and that Household could not provide any credible examples of the Company challenging the status quo in the financial services marketplace with innovations over the past 140 years.

14 VAC 5-40-40 F 1 (currently 14 VAC 5-41-90 A) states that no marketing communication shall contain a recommendation by any commercial rating service unless it clearly defines the scope and extent of such recommendation. The review revealed 1 violation of this section. As discussed in Review Sheet AD03C, in 2

instances, the marketing communication contained a recommendation by a commercial rating service and failed to clearly define the scope and extent of the recommendation. Household acknowledged the oversight and indicated that its internal compliance officers have since corrected it.

SUMMARY

Household violated 14 VAC 5-40-40 A 1 (currently 14 VAC 5-41-30 B) and 14 VAC 5-40-40 F 1 (currently 14 VAC 5-41-90 A), which placed it in violation of subsection 1 of § 38.2-502 and § 38.2-503 of the Code.

COPY

IV. POLICY AND OTHER FORMS

A review was made to determine if Household 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.

Section 38.2-3725 of the Code sets forth the requirements for filing and approval of credit life and credit accident and sickness insurance forms that are issued for delivery in this Commonwealth. Section 38.2-3737 of the Code sets the standards for the use of application or enrollment forms for credit insurance contracts.

Household did not issue any group or individual credit life or credit accident & sickness insurance certificates during the examination time frame. However, a sample of 50 from a population of 11,163 in-force group credit life certificates was reviewed along with sample of 30 from a population of 7,119 in-force credit disability certificates.

The review revealed that the in-force Credit Life and Credit Accident and Sickness certificates of coverage and applications in the files had been filed with and approved by the Commission.

TERM LIFE INSURANCE

The examiners reviewed a sample of 24 from the total population of 114 term life policies issued during the examination time frame.

The review revealed that the policies and the amendments/riders issued were filed with and approved by the Commission.

APPLICATIONS

Sections 38.2-316 B and 38.2-316 C 1 of the Code set forth the requirements for the filing and approval of application forms prior to use. 14 VAC 5-100-40 2 states that forms which are submitted as replacements, revisions or modifications of previously approved forms, must be clearly indicated in the letter of transmittal and shall set forth the exact changes that are intended. 14 VAC 5-100-50 3 states that a form must be submitted in the final form in which it is to be marketed or issued.

As discussed in Review Sheets PF04 and PF05, the review revealed 2 instances where the online APPLICATION FOR INDIVIDUAL TERM LIFE INSURANCE, Form # HLI-2-212(VA)-809, had been altered from the filed and approved form and was issued to the policyholder. The replacement question, "*Do you plan to discontinue, replace, change or modify any existing life insurance policy or annuity contract as a result of this application?*," was deleted from the form, in violation of §§ 38.2-316 B and 38.2-316 C 1 of the Code.

Household agreed with the examiners' observations and stated that "...the customers began their applications on a partner site and responded negatively to the replacement question." Household also informed the examiners that "...the replacement question was inadvertently deleted..." due to "...a malfunction that went undetected during product implementation testing."

V. AGENTS

The purpose of this review was to determine compliance with various sections of Title 38.2 of Chapter 18 of the Code. The 12 writing agents and 2 agencies designated in the 24 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 contracts. The review revealed that Household 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 3 violations of this section. An example is discussed in Review Sheet AG03, where a review of the file indicated that Household had accepted an application submitted by an agent that was not appointed. Household agreed with the examiners' observations.

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 3 violations of this section. An example is discussed in Review Sheet AG02, where Household paid a commission to an agent that was not appointed. Household agreed with the examiners observations.

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 was selected from the total population of 619 agents whose appointments terminated during the examination time frame.

As discussed in Review Sheet AG06, the review revealed that Household failed to notify the agent within 5 calendar days of the termination of the appointment in 15 instances, in violation of § 38.2-1834 D of the Code in each instance. Household agreed with examiners' observations.

Due to the fact that violations of § 38.2-1834 D of the Code were discussed in the prior Report, the current violations could be construed as knowing. Section 38.2-218 of the Code sets forth the penalties for knowing violations.

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

The examination included a review of Household's underwriting practices to determine compliance with the Unfair Trade Practices Act, §§ 38.2-500 through 38.2-514; the Insurance Information and Privacy Protection Act, §§ 38.2-600 through 38.2-620; and the Credit Life Insurance and Credit Accident and Sickness Insurance Act, §§ 38.2-3717 through 38.2-3738 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

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

UNDERWRITING REVIEW

The examiners reviewed a sample of 50 from a population of 11,163 in-force group credit life certificates and a sample of 30 from a population of 7,119 in-force credit disability certificates. The examiners reviewed a sample of 24 from the total population of 114 term life 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 Household was in substantial compliance.

MECHANICAL RATING REVIEW

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

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.

The review revealed that the NIP forms provided to applicants for coverage complied with the requirements of this section.

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.

The review revealed that Household's disclosure authorization forms were in substantial compliance.

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.

Household did not offer an Accelerated Benefit Rider with the term life policies it issued during the examination time frame.

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 Household did not receive any requests for access to recorded personal information in the files reviewed by the examiners.

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. Administrative Letter 1981-15 provides life and health insurers with a prototype Adverse Underwriting Decision (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 57 from a total population of 343 declined applicant files was selected by the examiners for review.

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. As discussed in Review Sheet UN03, the review revealed 13 violations of this section. Household disagreed with the examiners' observations and stated that:

...the Company provided the customer with a web screen notice. The web screen notice informed the customer of the declination and the general reason for the declination. It also informed the customer of the ability to obtain more specific information about the decision, and provided contact information for the Company department responsible for responding to such requests. It therefore complied with § 38.2-610 A 1 of the Code.

The examiners responded that the "web screen notice" referred to in Household's response failed to advise the applicant that, upon written request, he or she may receive the specific reason or reasons for the adverse underwriting decisions in writing and, therefore, failed to comply with the requirements of § 38.2-610 A 1 of the Code.

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 20 violations of this section. An example is discussed in Review Sheet UN05 where the declination letter sent to the declined applicant failed to provide the applicant with a summary of the rights and failed to contain language that was substantially similar to the language used in the prototype AUD Notice that accompanied Administrative Letter 1981-15.

In response to the examiners' findings, Household stated that "...the Company wishes to note that it ceased the sale of term life insurance on January 8, 2012.

Consequently, the Company's term life block of business is in run-off, eliminating the need for corrective action."

Due to the fact that violations of § 38.2-610 A 2 were discussed in the prior Report, the current violations could be construed as knowing. Section 38.2-218 of the Code sets forth the penalties for knowing violations.

INSURANCE REPLACEMENT

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

TERM LIFE INSURANCE

14 VAC 5-30-60 A 2 states that each insurer shall maintain a system of supervision and control to insure compliance with the requirements of this chapter, and shall provide to each agent a written statement of the company's position with respect to the acceptability of replacements, providing guidance to its agents as to the appropriateness of these transactions.

Page 9 of Household's Field Underwriting Guide states that, "...policies may not be used to replace any currently in force insurance policy. Applicants indicating intent to replace an existing policy will be declined as ineligible."

The review revealed that Household was in substantial compliance with its established procedures.

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 Household was in substantial compliance.

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VII. CANCELLATIONS/NONRENEWALS

The examination included a review of Household's cancellation practices and procedures to determine compliance with its policy provisions; the requirements of § 38.2-508 of the Code covering unfair discrimination; and § 38.2-3729 of the Code concerning credit insurance premium refunds.

The examiners reviewed a sample of 35 from a population of 72 term life cancellations; a sample of 80 from a population of 1,387 credit life cancellations; and a sample of 40 from a population of 684 credit accident and sickness cancellation.

The review revealed that Household was in substantial compliance.

COPY

VIII. COMPLAINTS

Household'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 4 written complaints received during the examination time frame was reviewed. As discussed in Review Sheet CP01, a written complaint was found by the examiners in a denied claim file. This complaint was not included in the population of written complaints provided to the examiners at the start of the examination, in violation of § 38.2-511 of the Code. Household agreed with the examiners' observations.

IX. CLAIM PRACTICES

The examination included a review of Household's claim practices for compliance with §§ 38.2-510, 38.2-3115 and 38.2-3731 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 term life, credit life and credit disability claims. The examiners were provided a copy of Household's claim handling procedures.

PAID CLAIM REVIEW

A sample of 29 from a total population of 120 paid credit life claims; a sample of 1 from a total population of 4 paid term life claims; and a sample of 100 from a total population of 2,266 paid credit accident and sickness claims were reviewed. The review revealed that the claims were paid in accordance with the policy provisions.

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.

As discussed in Review Sheet CL41, the review revealed 1 violation of this section for the failure to pay the statutory interest due upon a credit life claim payment. Household agreed with the examiners' observations.

TIME PAYMENT STUDY

The time payment study was computed by measuring the time it took Household, after receiving the properly executed proof of loss, to issue a check for payment. The term “working days” does not include Saturdays, Sundays, or holidays. The study was conducted on the total sample of 130 paid claims.

PAID CLAIMS		
<u>Working Days To Pay</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 – 15	125	96%
16 – 20	1	0.8%
Over 20	4	3.2%

Of the 130 paid claims reviewed for the time study, 4% of the claims were not settled within 15 working days.

DENIED CLAIM REVIEW

The total population of 14 credit life and 5 credit disability 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 149 paid and denied claims was also reviewed for compliance with 14 VAC 5-400-10 et seq., Rules Governing Unfair Claim Settlement Practices and § 38.2-3731 A of the Code, 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. All violations noted below involved the credit life and credit disability lines of business, except for the 1 term life example discussed.

14 VAC 5-400-30 requires that a claim file contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed.

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 5-400-50 C requires that an appropriate reply be made within 10 working days on all other pertinent communications from a claimant which reasonably suggest that a response is expected.

14 VAC 5-400-50 D requires every insurer, upon receiving notification of a claim, shall promptly provide instructions and reasonable assistance to the claimant.

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 5-400-70 D requires that in any case where there is no dispute as to coverage or liability, every insurer must offer to a first party claimant, an amount which is fair and reasonable as shown by the investigation of the claim.

The review was conducted using the date the check was mailed as the settlement date. The areas of non-compliance are discussed in the following paragraphs.

14 VAC 5-400-30 – In 6 instances, all notes and work papers pertaining to the claim were not maintained in such detail that pertinent events and the dates of such events could be reconstructed. An example is discussed in Review Sheet CL55, where the claim file failed to contain the documents necessary to determine whether the appropriate benefit amount was paid. Household agreed with the examiners' observations.

14 VAC 5-400-50 A – In 3 instances, claims were not acknowledged within 10 working days upon receipt of notification. An example is discussed in Review Sheet CL03, where Household took 464 working days to acknowledge a claim. Household agreed with the examiners' observations.

14 VAC 5-400-50 C – In 2 instances, a claimant was not given an appropriate reply within 10 working days when the communication from the claimant reasonably suggested that a response was expected. An example is discussed in Review Sheet CL25.

14 VAC 5-400-50 D – As discussed in Review Sheet CL16, the review revealed 1 instance where a claimant was not provided with the necessary instructions and assistance for filing a claim.

14 VAC 5-400-60 A – In 6 instances, a claimant was not advised of acceptance or denial of a claim within 15 working days after proof of loss was received. An example is discussed in Review Sheet CL18, where Household took 21 working days to advise

the claimant of acceptance of the claim. Household disagreed with the examiners' observations and stated that additional documentation was subsequently requested. The examiners responded that a benefit determination was made after the claimant presented Household with the same information that was previously provided. Therefore, Household had sufficient documentation to determine that benefits were payable initially and did not advise of acceptance of the claim within 15 working days.

14 VAC 5-400-60 B – In 2 instances, within 45 days from the date of notification of a claim and every 45 days thereafter, Household failed to send the claimant a letter setting forth the reasons additional time was needed for investigation. Household's procedures indicate that ... "claimants must at least be notified of the status of all unsettled claims within 30 days of the last notification." An example is discussed in Review Sheet CL20, where notices within the term life claim file were not sent every 45 days. Household agreed with the examiners' observations.

14 VAC 5-400-70 D – in 12 instances, Household failed to offer to the first party claimant an amount fair and reasonable as shown by the investigation of the claim. An example is discussed in Review Sheet CL23, where Household conceded that the monthly disability benefit had been underpaid. The benefit underpayments were limited to the credit disability claims and ranged from \$1.07 to \$295.87, totaling \$339.46.

Household's failure to comply with 14 VAC 5-400-70 D occurred with such frequency as to indicate a general business practice and placed Household in violation of § 38.2-510 A 6 of the Code.

Additionally, Household's failure to comply with 14 VAC 5-400-30, 14 VAC 5-400-50 A, 14 VAC 5-400-60 A and 14 VAC 5-400-70 D placed it in violation of § 38.2-3731 A of the Code in 27 instances.

THREATENED LITIGATION

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

COPY

X. CORRECTIVE ACTION PLAN

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

1. Establish and maintain procedures to ensure that its advertisements comply with 14 VAC 5-41-10 et seq. (previously 14 VAC 5-40-10 et seq.);
2. Strengthen its procedures for the filing for approval of its application forms with the Commission, in order to maintain compliance with §§ 38.2-316 B and 38.2-316 C 1 of the Code;
3. Strengthen its procedures for compliance with the requirements of §§ 38.2-1812 A and 38.2-1833 A 1 of the Code regarding the payment of commission to agents and the appointment of agents;
4. As recommended in the prior Report, establish and maintain procedures for compliance with § 38.2-1834 D of the Code concerning the termination of agent appointments;
5. As recommended in the prior Report, 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 Letters 1981-15 and 2003-6;
6. Establish and maintain procedures to ensure that a complete record of all written complaints is maintained, as required by § 38.2-511 of the Code;
7. Review and strengthen its procedures for the payment of interest due on life claims, as required by § 38.2-3115 of the Code;

8. Establish and maintain procedures to ensure that claim files contain all notes and work papers in such detail that pertinent events and the dates of such events can be reconstructed, as required by 14 VAC 5-400-30;
9. As recommended in the prior Report, establish and maintain procedures to ensure that claims are acknowledged within 10 working days of receipt of notification of a claim, as required by 14 VAC 5-400-50 A;
10. Review and strengthen its established procedures to ensure that an appropriate reply is made within 10 working days from receipt of a pertinent communication from a claimant, as required by 14 VAC 5-400-50 C;
11. Review and strengthen its established procedures to ensure that claimants are provided with instructions and reasonable assistance for filing a claim, as required by 14 VAC 5-400-50 D;
12. Establish and maintain 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;
13. Review and strengthen its established procedures to ensure that notification of a pending claim under investigation is sent to the claimant every 45 days, as required by 14 VAC 5-400-60 B;
14. Establish and maintain procedures to ensure that a first party claimant is offered an amount which is fair and reasonable, as required by 14 VAC 5-400-70 D and § 38.2-510 A 6 of the Code;
15. Review and reopen all credit disability claims processed during the years 2008, 2009, 2010, 2011 and the current year to determine whether the

benefits were properly calculated and paid in accordance with policy provisions. Send a check to the claimant for any additional amount due along with a letter of explanation stating that “As a result of a Target Market Conduct Examination by the State Corporation Commission’s Bureau of Insurance, it was determined that this claim was underpaid”;

16. Review and strengthen its established procedures to ensure that adequate claim files are maintained and that all claims are settled as soon as possible and in accordance with the terms of the insurance contract, as required by § 38.2-3731 A of the Code; and
17. Within 120 days of this Report being finalized, furnish the examiners with documentation that each of the above actions has been completed.

COPY

XI. ACKNOWLEDGMENT

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

Gregory Lee, FLMI, CIE, Laura Wilson and Daedre Dabney of the Bureau of Insurance participated in the work of the examination and writing of the Report.

Respectfully submitted,

Carly B. Daniel, AIE, AIRC
Principal Insurance Market Examiner
Market Conduct Section 1
Life and Health Market Regulation Division
Bureau of Insurance

COPY

XII. AREA VIOLATIONS SUMMARY BY REVIEW SHEET

ADVERTISING/MARKETING COMMUNICATIONS
14 VAC 5-40-40 A 1, 1 violation, AD08B
14 VAC 5-40-40 F 1, 1 violation, AD03C
POLICY AND OTHER FORMS
§§ 38.2-316 B and 38.2-316 C 1, 2 violations, PF04, PF05
AGENTS
§§ 38.2-1812 A and 38.2-1833 A 1, 3 violations, AG01, AG02, AG03
§ 38.2-1834 D, 15 violations, AG06
UNDERWRITING/UNFAIR DISCRIMINATION/INSURANCE INFORMATION AND PRIVACY PROTECTION ACT/INSURANCE REPLACEMENT
§ 38.2-610 A 1, 13 violations, UN03
§ 38.2-610 A 2, 20 violations, UN03 (13), UN04, UN05, UN05, UN07, UN08, UN09, UN10
COMPLAINTS
§ 38.2-511, 1 violation, CP01
CLAIM PRACTICES
§ 38.2-3115 B, 1 violation, CL41
14 VAC 5-400-30, 6 violations, CL11, CL48, CL54 (3), CL55
14 VAC 5-400-50 A, 3 violations, CL03, CL11, CL48
14 VAC 5-400-50 C, 2 violations, CL01, CL25
14 VAC 5-400-50 D, 1 violation, CL16
14 VAC 5-400-60 A, 6 violations, CL03, CL11, CL16, CL18, CL51, CL52
14 VAC 5-400-60 B, 2 violations, CL11, CL20
14 VAC 5-400-70 D and § 38.2-510 A 6, 12 violations, CL12, CL23, CL24, CL31, CL32, CL33, CL34, CL35, CL54 (3), CL55

CLAIM PRACTICES

§ 38.2-3731 A, **27** violations, CL03 (**2**), CL11 (**3**), CL12, CL16, CL18, CL23, CL24, CL31, CL32, CL33, CL34, CL35, CL48 (**2**), CL51, CL52, CL54 (**6**), CL55 (**2**)

COPY

COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
www.scc.virginia.gov/boi

December 17, 2012

CERTIFIED MAIL 7011 0110 0001 6085 2175
RETURN RECEIPT REQUESTED

Mr. Marc Giacobelli
VP and Exam Manager
Household Life Insurance Company
State Regulatory Administration Department
HSBC – North America
26525 North Riverwoods Boulevard
Mettawa, IL 60045

RE: Market Conduct Examination Report
Exposure Draft

Dear Mr. Giacobelli:

Recently, the Bureau of Insurance conducted a Market Conduct Examination of Household Life Insurance Company (Household) for the period of October 1, 2010 through March 31, 2011. 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 Household, 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. Household's 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,

Carly B. Daniel, AIE, AIRC
Principal Insurance Market Examiner
Market Conduct Section 1
Life and Health Division
Bureau of Insurance
(804) 371-9492

CBD:mhh
Enclosure
cc: Althelia Battle



Carly B. Daniel, AIE, AIRC
Principal Insurance Market Examiner
Market Conduct Section 1
Life and Health Market Regulation Division
Virginia Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

January 30, 2013

**Re: Market Conduct Examination Report, Exposure Draft
Household Life Insurance Company (NAIC #93777)**

Dear Ms. Daniel:

This is in response to the above-referenced exposure draft of the market conduct examination report (the "Report") for Household Life Insurance Company (the "Company"). The Company appreciates the opportunity to respond to the Report. As requested, please find below those Report items with which we agree, and our intended method of compliance, as well as those items with which we disagree, and the reasons therefore.

- I. One (1) violation of 14 VAC 5-40-40 A 1 (currently 14 VAC 5-41-30 B). The Company agrees with this finding. The Company wishes to note that it discontinued the marketing and sale of its term product on January 8, 2012, and that its life and credit insurance business is in run-off. It also wishes to note that the business and its assets will be sold, pending regulatory approval, on April 1, 2013. Consequently, we respectfully submit that corrective action regarding this matter is unnecessary.
- II. One (1) violation of 14 VAC 5-40-40 F 1 (currently 14 VAC 5-41-90 A). The Company agrees with this finding. As noted in its response to the initial finding, the Company generally included the required disclosure in marketing materials that referenced rating organization ratings. In the marketing piece at issue, the disclosure was inadvertently omitted. However, the piece was in use for only a short period of time before Company compliance officers discovered the omission and corrected it. In any event, as noted above, the Company discontinued the marketing and sale of its term product on January 8, 2012, and its life and credit insurance business is in run-off. Consequently, we respectfully submit that corrective action regarding this matter is unnecessary.
- III. Two (2) violations of Section 38.2-316 B of the Code of Virginia (the "Code") and Section 38.2-316 C 1 of the Code. The Company agrees with this finding. The

Company submitted and received approval to use application form number HLI-1-212(VA)-809 for use in its direct response channel. That form contained one question regarding replacements. In the direct response channel, the customer initiated an application on a third-party web site, and responded to a series of application questions, including the replacement question, before being transferred to the Company's direct web site to complete the application. However, during implementation, a system error arose, causing the replacement question to be deleted during the delivery of the application and policy to the customer for certain applications started on two partner web sites.

Based on the foregoing, the Company believes that it complied with 14 VAC 5-30-70, in that it required, the customer, as part of each direct response completed application, to respond to the applicable replacement question. It acknowledges, though, that the application that was ultimately printed and provided to certain customers lacked the replacement question that was included in the form approved for use by Virginia. Nevertheless, it respectfully submits that customers affected by the error were not harmed, since the application form that they completed was identical to the approved form.

While the Company is no longer marketing and selling insurance, and has no plans to do so, it does nevertheless permit in-force term life insurance customers to convert to a whole life insurance policy. The Company has validated that the application form currently in use conforms to the approved form in the State of Virginia. It will also modify its quality control procedures to ensure that any future changes or revisions to the application form itself and/or the method of delivery of that form conform to the requirements of Section 38.2-316 B and C 1 of the Code.

- IV. Three (3) violations of Section 38.2-1833 A 1 of the Code. The Company agrees with this finding. However, because the Company no longer sells insurance, and will be sold (pending regulatory approval) on April 1, 2013, corrective action regarding this matter is unnecessary.
- V. 15 violations of Section 38.2-1834 D of the Code. The Company agrees with this finding. The Company has 48 producers whose Virginia appointments will be terminated prior to the sale of the business on April 1, 2013. It will modify its appointment termination procedures to ensure that such terminations comply with Section 38.2-1834 D of the Code.
- VI. 13 violations of Section 38.2-610 A 1 of the Code. The Company respectfully disagrees with this finding. Section 38.2-610 A 1 of the Code states that

In the event of an "adverse underwriting decision," the insurance institution or agent responsible for the decision shall give a written notice in a form approved by the Commission that either provides the applicant, policyholder or individual proposed for coverage 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.

In Administrative Letter 1981-15, the Bureau promulgated a prototype adverse underwriting decision notice (the "Prototype") which, when used verbatim or with "substantially similar" language by an insurer, was deemed by the Bureau to be approved without filing. The Prototype states in relevant part:

In connection with your application for _____ we have found it necessary to take the following action: _____. The reasons for this action are as follows: (the reasons for the action may be given here or in lieu of this sentence the following sentence may be substituted: "You have a right to obtain the specific reason(s) for this decision by submitting a written request to the company.").

With respect to the 13 violations cited by the examiners, the customer was declined by the Company's web-based underwriting platform prior to completing the application. In these 13 cases, the customer was declined as a result of providing an ineligible answer to a preliminary underwriting question(s). An ineligible response to one of these questions rendered the customer ineligible for insurance and ineligible to complete the remainder of the application. As such, the Company provided the customer with a web screen notice of declination (the "Notice") with the following language:



For help from a licensed insurance specialist call toll-free: **866-925-4722** M-F 8am-10pm, Saturdays 9am-5pm (ET)

Declined

We're sorry, but at this time, we must decline your application because the information developed during our underwriting evaluation does not meet our current criteria.

If you wish, upon your written request, we can provide further information about our decline decision in accordance with our usual company practices. Please send your request to Underwriting Department, PO Box 915, New Castle, DE 19720, or fax to 302-327-2806.

If you have any questions, please call Customer Service at 800-323-1317. Thank you for your interest in Household Life Insurance Company.

The language in the Notice, which was not filed for approval with the Bureau, differs from the Prototype in that it uses the phrase "if you wish ... we can provide further information about our decline decision" instead of (as stated in the prototype) "you have the right to obtain the specific reasons" Notwithstanding those differences, though, the Company believes that its language is "substantially similar" to the Prototype because

the phrase “if you wish” indicates that the customer has the option, but not the obligation, to obtain more information.

Additionally, the phrase “we can provide further information about our decline decision” alerted the customer that the Company would, upon request, explain its basis for a decline decision, i.e., provide specific reasons. Consequently, because the Company believes that its Notice was “substantially similar” to the Prototype, it respectfully submits that it complied with Section 38.2-610 A 1 of the Code.

- VII. 20 violations of Section 38.2-610 A 2 of the Code. The Company agrees with this finding. Because it may still, prior to April 1, make underwriting decisions with respect to customers who wish to reinstate coverage, the Company will modify its procedures to ensure that any such customer who is declined receives an AUD notice that is identical to the prototype letter promulgated under Administrative Letter 1981-15.
- VIII. One (1) violation of Section 38.2-511 of the Code. The Company agrees with this finding. The Company will modify its claims procedures to ensure that any complaints received by the Claims department are properly treated in accordance with the Company’s complaint procedures, which include requirements for proper archiving and retention.
- IX. One (1) violation of Section 38.2-3115 B of the Code. The Company agrees with this finding. The Company will review and strengthen its claims procedures to ensure that interest payable on claims is properly calculated in accordance with Section 38.2-3115 B.
- X. Six (6) violations of 14 VAC 5-400-30. The Company agrees with this finding. The Company will modify its claims procedures to ensure that claim correspondence is properly archived so that a claim can be reconstructed in accordance with 14 VAC 5-400-30.
- XI. Three (3) violations of 14 VAC 5-400-50 A. The Company agrees with this finding. The Company will review and strengthen its claims procedures to ensure that claims are acknowledged within 10 working days of receipt of notification in accordance with 14 VAC 5-400-50 A.
- XII. Two (2) violations of 14 VAC 5-400-50 C. The Company agrees with this finding. The Company will review and strengthen its claims procedures to ensure that pertinent communications are acknowledged within 10 working days of receipt of the communication in accordance with 14 VAC 5-400-50 C.
- XIII. One (1) violation of 14 VAC 5-400-50 D. The Company agrees with this finding. The Company will review and strengthen its claims procedures to ensure that claimants are provided with instructions and reasonable assistance for filing a claim in accordance with 14 VAC 5-400-50 D.

- XIV. Six (6) violations of 14 VAC 5-400-60 A. The Company agrees with this finding. The Company will modify its claims procedures to ensure that claimants are advised of acceptance or denial of a claim within 15 working days of receipt of proof of loss in accordance with 14 VAC 5-400-60 A.
- XV. Two (2) violations of 14 VAC 5-400-60 B. The Company agrees with this finding. The Company will review and strengthen its claims procedures to ensure that notification of a pending claim under investigation is sent to a claimant every 45 days in accordance with 14 VAC 5-400-60 B.
- XVI. 12 violations of 14 VAC 5-400-70 D. The Company agrees with this finding. Nevertheless, the Company respectfully disagrees with the Bureau's conclusion that the failure to comply occurred with such frequency as to indicate a general business practice in violation of Section 38.2-510 A 6 of the Code.

Section 38.2-510 A 6 of the Code prohibits any person from "not attempting in good faith to make prompt, fair and equitable settlements of claims in which liability has become reasonably clear" with such a frequency as to indicate a general business practice. The Company believes that it has always operated in good faith in the processing and payment of claims. As evidence of this good faith, the Company provides regular training to its claims staff with respect to claims-handling and claims settlement, and implemented and maintains detailed claims-handling procedures for use by its claim staff. It also performs quality reviews on approved and denied claims, the results of which are shared with management for appropriate follow-up. Finally, the Company believes that the 8% error rate (12 violations from a sample of 149 files) in this case does not constitute a general business practice, but is more indicative of non-systemic error.

Notwithstanding the foregoing, the Company will review and strengthen its procedures to ensure that in any case where there is no dispute as to coverage or liability, first party claimants (or their authorized representatives) are offered an amount which is fair and reasonable as shown by the investigation of the claim, provided the amount so offered is within policy limits and in accordance with policy provisions.

In addition, the Company will reopen and review all claims processed during the period 2008-2012 to determine whether benefits were properly calculated and paid in accordance with policy provisions. To the extent it must make any additional payments, it will send with any such a payment the letter of explanation specified in the Report.

- XVII. 27 violations of Section 38.2-3731 A of the Code. The Company agrees with this finding. The Company will review and strengthen its procedures to ensure that adequate claim files are maintained and that all claims are settled as soon as possible and in accordance with the terms of the insurance contract, as required by Section 38.2-3731 A of the Code.

Once again, thank you for the opportunity to respond to the Report. Please let me know if you have any comments or questions regarding our response.

Respectfully,

/s/

Charles J. Zangara
Director, HSBC General Compliance
545 Washington Boulevard, 11th Floor
Jersey City, NJ 07310
Ph: 201.386.2721
Email: Charles.X.Zangara@us.hsbc.com

COPY

COMMONWEALTH OF VIRGINIA

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



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February 27, 2013

**CERTIFIED MAIL 7002 0860 0001 3221 4185
RETURN RECEIPT REQUESTED**

Charles J. Zangara
Director, HSBC General Compliance
Household Life Insurance Company
545 Washington Boulevard, 11th Floor
Jersey City, New Jersey 07310

**RE: Household Life Insurance Company
Response to the Draft Examination Report**

Dear Mr. Zangara:

The examiners have received and reviewed your January 30, 2013, response to the Target Market Conduct Examination Report of Household Life Insurance Company (Household or Company) sent with my letter of December 17, 2012.

Your response addresses report findings and corrective actions Household Life will take or has taken as part of the Corrective Action Plan, as well as modifications the Company would like made to the Report. This letter addresses each item in the same order as presented in your January 30th response.

- I. & II. Household's agreement with the Report's findings is acknowledged. However, Corrective Action #1 will remain in the Report so that any prospective purchaser of the Company conducting due diligence will be aware of the entity's regulatory history in regards to the marketing of life insurance in Virginia.
- III. Household's agreement to implement Corrective Action #2 is acknowledged.
- IV. Household's agreement with the findings is acknowledged. However, Corrective Action #3 will remain in the Report so that any prospective purchaser of the Company conducting due diligence will be aware of the entity's regulatory history in regards to the appointment of agents in Virginia.
- V. Household's agreement to implement Corrective Action #4 is acknowledged.
- VI. The web screen notice fails to clearly indicate that an individual can request and obtain the specific reason(s) for the adverse underwriting decision. The report appears correct as written.
- VII. Household's agreement to implement Corrective Action #5 in regards to § 38.2 610 A 2 of the Code is acknowledged.
- VIII. Household's agreement to implement Corrective Action #6 is acknowledged.

- IX. Household's agreement to implement Corrective Action #7 is acknowledged.
- X. Household's agreement to implement Corrective Action #8 is acknowledged.
- XI. Household's agreement to implement Corrective Action #9 is acknowledged.
- XII. Household's agreement to implement Corrective Action #10 is acknowledged.
- XIII. Household's agreement to implement Corrective Action #11 is acknowledged.
- XIV. Household's agreement to implement Corrective Action #12 is acknowledged.
- XV. Household's agreement to implement Corrective Action #13 is acknowledged.
- XVI. Due to the fact that violations cited for 14 VAC 5-400-70 D were isolated to the paid disability claims, the failure to comply occurred with such frequency as to indicate a general business practice. The Report and Corrective Action #14 appear correct as written.

Household's agreement to implement Corrective Action #15 is acknowledged.
- XVII. Household's agreement to implement Corrective Action #16 is acknowledged.

There are no revisions to the Report. Household will be required to complete the Corrective Actions within 120 days of this Report being finalized.

On the basis of our review of the entire file, it appears that Household violated the Unfair Trade Practices Act, specifically subsection 1 of § 38.2-502 and §§ 38.2-503, 38.2-510 A 6 and 38.2-511 of the Code.

It also appears that Household has violated §§ 38.2-316 B and 38.2-316 C 1, 38.2-610 A 1, 38.2-610 A 2, 38.2-1812 A, 38.2-1833 A 1, 38.2-1834 D, 38.2-3115 B and 38.2-3731 A of the Code and 14 VAC 5-40-40 A 1, 14 VAC 5-40-40 F 1 of Rules Governing Life Insurance and Annuity Marketing Practices and 14 VAC 5-400-30, 14 VAC 5-400-50 A, 14 VAC 5-400-50 C, 14 VAC 5-400-50 D, 14 VAC 5-400-60 A, 14 VAC 5-400-60 B, 14 VAC 5-400-70 D of Rules Governing Unfair Claim Settlement Practices.

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

Carly B Daniel, AIE, AIRC
Principal Insurance Market Examiner
Market Conduct Section 1
Life and Health Market Regulation Division
Telephone (804) 371-9492

Charles J. Zangara STATE CORP COMMISSION
Director, HSBC General Compliance OF INSURANCE
Household Life Insurance Company
545 Washington Boulevard, 1103 Room 29 AM 10: 28
Jersey City, New Jersey 07310

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

530087

RE: Alleged Violations of the Unfair Trade Practices Act, specifically subsection 1 of § 38.2-502 and §§ 38.2-503, 38.2-510 A 6 and 38.2-511 of the Code as well as §§ 38.2-316 B 38.2-316 C 1, 38.2-610 A 1, 38.2-610 A 2, 38.2-1812 A, 38.2-1833 A 1, 38.2-1834 D, 38.2-3115 B and 38.2-3731 A of the Code and 14 VAC 5-40-40 A 1 and 14 VAC 5-40-40 F 1 of Rules Governing Life Insurance and Annuity Marketing Practices and 14 VAC 5-400-30, 14 VAC 5-400-50 A, 14 VAC 5-400-50 C, 14 VAC 5-400-50 D, 14 VAC 5-400-60 A, 14 VAC 5-400-60 B, and 14 VAC 5-400-70 D of Rules Governing Unfair Claim Settlement Practices.

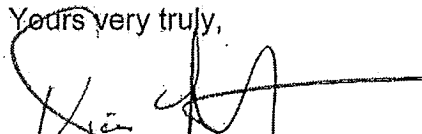
Dear Ms. Battle:

This will acknowledge receipt of your letter dated April 1, 2013, concerning the above-captioned matter.

Household Life Insurance 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 \$20,000 payable to the Treasurer of Virginia. The Company further understands that as part of the Commission's Order accepting the offer of settlement, it is entitled to a hearing in this matter and waives its right to such a hearing and agrees to cease and desist from future violations of §§ 38.2-1812 A, 38.2-1833 A 1, 38.2-1834 D, 38.2-610 A 1, 38.2-610 A 2, and 38.2-510 A 6 of the Code as well as 14 VAC 5-400-70 D, and agrees to comply with the Corrective Action Plan contained in the Target Market Conduct Examination Report as of March 31, 2011.

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

Yours very truly,



Company Representative

04/25/13

Date

Enclosure (check)

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

130560052

AT RICHMOND, MAY 22, 2013

SCC-CLERK'S OFFICE
DOCUMENT CONTROL CENTER

2013 MAY 22 P 4: 09

COMMONWEALTH OF VIRGINIA, *ex rel.*

STATE CORPORATION COMMISSION

v.

CASE NO. INS-2013-00052

HOUSEHOLD LIFE INSURANCE COMPANY,
Defendant

SETTLEMENT ORDER

Based on a target market conduct examination performed by the Bureau of Insurance ("Bureau"), it is alleged that Household Life Insurance Company ("Defendant"), duly licensed by the State Corporation Commission ("Commission") to transact the business of insurance in the Commonwealth of Virginia ("Commonwealth"), in certain instances, violated §§ 38.2-316 B and 38.2-316 C (1) of the Code of Virginia ("Code") by failing to comply with policy and form filing requirements; violated § 38.2-502 (1) of the Code by misrepresenting the benefits, advantages, conditions or terms of an insurance policy; violated § 38.2-503 of the Code by making, publishing, disseminating, circulating, or placing before the public an advertisement, announcement or statement containing an assertion, representation or statement relating to the business of insurance which was untrue, deceptive or misleading; violated § 38.2-510 A (6) of the Code by failing to make prompt, fair and equitable settlements of claims in which liability had become reasonably clear; violated § 38.2-511 of the Code by failing to maintain a complete record of complaints; violated §§ 38.2-610 A (1) and 38.2-610 A (2) of the Code by failing to accurately provide the required adverse underwriting decision and reasons to insureds; violated § 38.2-1812 A of the Code by paying a commission for services as an agent to a person who was not properly licensed and appointed; violated §§ 38.2-1833 A (1) and 38.2-1834 D of the Code

by failing to comply with agent licensing requirements; violated § 38.2-3115 B of the Code by failing to properly pay interest on life insurance proceeds; violated § 38.2-3731 A of the Code by failing to properly handle claims; violated 14 VAC 5-40-40 A (1) and 14 VAC 5-40-40 F (1) of the Commission's Rules Governing Life Insurance and Annuity Marketing Practices ("Rules"), 14 VAC 5-40-10 *et seq.*, by failing to maintain files and record documentation as required by the Commission;¹ and violated 14 VAC 5-400-30, 14 VAC 5-400-50 A, 14 VAC 5-400-50 C, 14 VAC 5-400-50 D, 14 VAC 5-400-60 A, 14 VAC 5-400-60 B, and 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*, by failing to properly handle claims with such frequency as to indicate a general business practice.

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

The Defendant has been advised of its right to a hearing in this matter whereupon the Defendant, without admitting any violation of Virginia law, has made an offer of settlement to the Commission wherein the Defendant has tendered to the Commonwealth the sum of Twenty Thousand Dollars (\$20,000), waived its right to a hearing, agreed to the entry by the Commission of a cease and desist order, and agreed to comply with the corrective action plan contained in the Target Market Conduct Examination Report as of March 31, 2011.

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.

¹ The current version of these Rules is found at 14 VAC 5-41-10 *et seq.*

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:

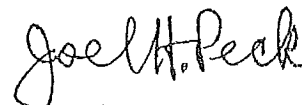
(1) The offer of Household Life Insurance Company in settlement of the matter set forth herein is hereby accepted.

(2) Household Life Insurance Company shall cease and desist from any future violations of §§ 38.2-510 A (6), 38.2-610 A (1), 38.2-610 A (2), 38.2-1812 A, 38.2-1833 A (1), or 38.2-1834 D of the Code of Virginia, or 14 VAC 5-400-70 D of the Commission's Rules Governing Unfair Claim Settlement Practices, 14 VAC 5-400-10 *et seq.*

(3) This case is dismissed, and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Charles J. Zangara, Director, HSBC General Compliance, Household Life Insurance Company, 545 Washington Boulevard, 11th Floor, Jersey City, New Jersey 07310; and a copy shall be delivered to the Commission's Office of General Counsel and the Bureau of Insurance in care of Deputy Commissioner Althelia P. Battle.

A True Copy
Teste:



Clerk of the
State Corporation Commission