



OFFICE OF
INSURANCE COMMISSIONER

In the Matter of) No. 12-0094
)
The Market Conduct Examination of) FINDINGS, CONCLUSIONS,
) AND ORDER ADOPTING REPORT
MEGA Life and Health Insurance) OF
Company)
Mid-West National Life Insurance)
Company of Tennessee, and)
Chesapeake Life Insurance Company)
) MARKET CONDUCT EXAMINATION
)
Authorized Foreign Life and Disability)
Insurance Companies)

BACKGROUND

A multi-state examination of the market conduct of MEGA Life and Health Insurance Company, Midwest National Life Insurance Company of Tennessee and Chesapeake Life Insurance Company (the Companies) as of December 31, 2010, was conducted by the Washington Office of the Insurance Commissioner (OIC) and the Alaska Division of Insurance as lead states. MEGA Life and Health Insurance Company and Chesapeake Life Insurance Company are domiciled in the state of Oklahoma and Midwest National Life Insurance Company of Tennessee is domiciled in Texas. The Companies hold Washington certificates of authority as life and disability insurance companies. This examination was conducted in compliance with the laws and regulations of the states of Washington and Alaska, and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings and comments was transmitted to the Companies for their comments on March 13, 2012. The Companies' response is attached to this order only for the purpose of providing a more convenient review of the response.

The Commissioner, or a designee, has considered the report, the relevant portions of the examiners' work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04

MEGA Life and Health Insurance Company
Midwest National Life Insurance Company of Tennessee
Chesapeake Life Insurance Company
Order Adopting Examination Report



and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings contained in the report on pages 6 through 81.

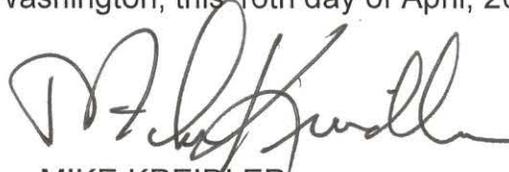
CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the market conduct examination of **MEGA Life and Health Insurance Company, Midwest National Life Insurance Company of Tennessee and Chesapeake Life Insurance Company.**

ORDER

The market conduct examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report. IT IS FURTHER ORDERED THAT, the Companies file with the Chief Market Conduct Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Olympia, Washington, this 16th day of April, 2012.



MIKE KREIDLER
Insurance Commissioner

**The MEGA Life and Health
Insurance CompanySM**

**Mid-West National Life
Insurance Company of TennesseeSM**

**The Chesapeake Life
Insurance Company[®]**

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3 April 2012

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**RE: *Multi-State Market Conduct Examination of
The MEGA Life and Health Insurance Company,
Mid-West National Life Insurance Company of Tennessee, and
The Chesapeake Life Insurance Company***

Dear Director Hall and Commissioners Kreidler, Jones, Doak, Kitzman:

On behalf of The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company of Tennessee and The Chesapeake Life Insurance Company (hereinafter collectively "the Companies"), we appreciate the opportunity to provide our Response to the Multi-State Market Conduct Examination Draft Report ("Draft Report") dated March 13, 2012 pursuant to R.C.W.48.37.060 (12)(c).

HealthMarkets[®] is the brand name for products underwritten and issued by the insurance subsidiaries of HealthMarkets, Inc. –The Chesapeake Life Insurance Company[®], Mid-West National Life Insurance Company of TennesseeSM and The MEGA Life and Health Insurance Company.SM

In July, 2010, the Monitoring Regulators concluded that the Companies were compliant with 45 of the 93 Standards of Performance Measurement ("Standards") required by the Regulatory Settlement Agreement ("Agreement") entered into between the Companies and the Signatory Regulators in mid-2008. Now, after further examination, the Draft Report confirms that we are compliant with an additional 43 of the remaining 48 Standards for a total percentage of compliance of 95%. As noted below, we believe the rate should be reported as 100% compliant with the Agreement.

The Examiners found the Companies' performance satisfactory for each and every category regarding Standards 3, 5, 7 & 8. Specifically, the Examiners noted zero errors in 17 of 21 items tested for these Standards and only minimal errors—well within the agreed tolerances—for the other 4 items for these Standards. We believe that the overall outcome is more than "satisfactory" given the significance of the categories tested—claims, customer relationships, complaints and cancellations—each of which relates to core operations. We also note the Draft Report shows the Companies were 100% compliant with the Standards regarding disclosure of relationships with unaffiliated associations, financial information of certain affiliates, compliance program, claims manual, and specific reporting requirements (Standards 4, 6, 9, 10, 11, 12 & 13).

The only categories in which the Examiners noted any issues of possible non-compliance were a few items in Standards 1 & 2 related to Agent Training and Oversight. We note that these two Standards are unique to the Agreement and are not based on law or regulations. The language of each item in these Standards is brief. We understood that the Signatory Regulators expected the Companies to build robust processes and practical business solutions that reasonably fulfilled the requirements of the Standards to achieve compliance – much like the process regulatory agencies follow to implement legislation. We have achieved that goal.

Our approach to assuring that we met the Standards was straightforward and was shared with the Monitoring Regulators during the semi-annual reporting phase and at the onset of the examination –

- 1) The Companies developed processes that were reasonably related to the words and requirements of the 93 Standards, including Policies and Procedures when appropriate
- 2) The Companies followed these processes in a timely, compliant and business-like manner
- 3) The Companies documented our actions

We believe that the Draft Report should accurately and consistently present all the facts regarding the Companies' actions in support of our compliance with the Agreement and the Standards as written. We also believe that the Draft Report should be transparent regarding the approach and processes that the Examiners followed in assessing the Companies' implementation efforts. This is especially true for the Standards with a Pass/Fail tolerance because these items are more susceptible to subjective reasonability tests. In short, the Companies should have had a fair chance from the outset to meet the expectations of the Signatory Regulators, and the Draft Report should reflect that. However, we also understand that reasonable people could have different interpretations, even for seemingly simple and straightforward Standards. But in fairness, we believe that if the Companies' interpretation was reasonable, it should be given deference in the context of this negotiated Agreement.

The Companies disagree with the Examiners' assessment that we did not meet 5 items of the Standards. The Companies provided extensive documentation to describe and support our actions to implement new or to improve existing processes for each of these 5 items. We understand that our actions may not be viewed as perfect under some interpretations, and that the actions we took could be subject to future improvements. However, we do believe that we applied reasonable interpretations to all of our actions and met the substance and the spirit of each item for every Standard.

Our comments regarding specific Standards are as follows:

Standard 1A3: We believe that we should be assessed for this Standard based on the process that we put in place. We agree that one agent (123-6) from the sample of 64 was appointed on March 2, 2010 by the Companies without proof that she completed our test. We documented that we had a process for this Standard, but we also explained to the Examiners that this appointment occurred due to a technical error in our testing system and not because we intentionally subverted that process. On the same day that this error occurred, this agent also took and passed a different test to support her appointment with one of our other Companies —i.e., our process worked as intended. This particular agent never submitted any applications for any of our Companies and resigned within a few months of her appointment. There was no consumer harm. When we discovered the technical error prior to the start of the examination, we conducted a self-audit to assure that there were no other occurrences of this nature that had gone undetected.

Standards 2A4 and 2E2: We are disappointed that these Standards have been reported as non-compliant since both of the two complaints cited arose outside of the stated examination review period and prior to June 30, 2009 when the Companies reported these Standards as met. The inclusion of these two complaints in the sample tested contradicts the "Examination Approach" language on page 16 of the Draft Report and is inconsistent with the time period for the additional testing of complaints conducted for these Standards that was done in conjunction with Standard 7A1 and for which no examination issues were identified (page 35). Even disregarding the inconsistency in the Examination Approach, the Draft Report does not accurately describe the actions by the Companies in which there was no consumer harm.

Standard 2B3: We believe that this Standard should be interpreted to review the presentation quality and communication skills of the Field Leaders in their normal work environment. Other Standards assessed the content of the standardized training program. The Companies defined this "review" process in our Sales Compliance Field Audits Policy and Procedures Section 2.3 Audit Evaluation (excerpt below) as:

The Auditor shall attend one (1) day of the Insphere/HealthMarkets training program and review the classroom presentation for several elements including, but not limited to, the following: . . .

The Auditor will review the presentation made by the Agency Manager and make an assessment of either 'satisfactory' or 'needs improvement'. Any presentation deemed 'needs improvement' will be reported to the Insphere National Product Training department for remediation.

For several other Standards (notably Standard 1B2), the Companies provided Policies and Procedures and the Examiners concluded the Companies were compliant with those Standards because we had a process and we followed it. For Standard 2B3, the Examiners applied their own interpretation that resulted in determining whether an experienced auditor sat through an experienced Field Leader's entire 3-5 day new recruit training presentation and checked off all Training Element boxes on an audit list — i.e., a rote assessment rather than a quality assessment.

Per our Policy and Procedures, we completed the required presentation reviews for 100% of the eligible Field Leaders within the Examiners' sample.

Standard 2C6: The Companies provided the Examiners with many examples of quarterly and other analyses of complaints that we routinely performed to identify data trends and implement process improvements or changes to agent training during the review period. In addition, during the review period and since, the Companies' complaint statistics have declined dramatically. These facts are not presented in the Draft Report. The Examiners acknowledged that the Companies had a process in place throughout the exam period to identify individual agent complaint trends (aka "micro") and that the Companies disciplined agents based on such trends. However, the Examiners fault the Companies for not conducting "macro level" trending although this is not required by the Standard and as if "micro" complaints and "macro" trends were unrelated to each other.

We simply disagree. We respectfully request that this Standard be reconsidered.

Since May 2008 when we entered into the Agreement, the Companies have spent thousands of people-hours diligently developing or improving, implementing, and monitoring sound business processes to meet each and every one of the requirements of the 93 Standards for Performance Measurement. We appreciate the feedback that we have received from the Monitoring Regulators and the Examiners since then. We are disappointed that the Monitoring Regulators do not share our view that we have satisfied all of the Standards in fact and spirit.

Nonetheless, we waive our rights to a hearing under R.C.W. 48.37.060 (12)(c) and appreciate this last opportunity to present our response to the Multi-State Examination prior to publication of the final report by the Washington Commissioner. We look forward to a quick resolution of this matter and the opportunity for our Companies to be held to the same statutory and regulatory standards as others in the marketplace.

Respectfully Submitted,



Susan E. Dew, SVP & Chief Compliance Officer on behalf of

The Management Team of

The MEGA Life and Health Insurance Company
Mid-West National Life Insurance Company of Tennessee
The Chesapeake Life Insurance Company