

**NORTH CAROLINA
DEPARTMENT OF INSURANCE
MARKET REGULATION DIVISION**

MARKET CONDUCT EXAMINATION

Coordinator's Handbook

Prepared for

**Coordinator Name
Title
Company Name
Street Name
City State, Zip**

Month Day, Year

Month Day, Year

Coordinator Name

Title

Company Name

Address

City, State Zip

Re: Market Conduct Examination - North Carolina Operations Only
Company Name

Dear (Coordinator Name):

Our examination call letter has notified you that a target examination of (Company Name) will commence on (Month Day, Year). It is the goal of the Market Regulation Division to perform examinations as quickly and efficiently as possible. The Handbook is designed to provide procedural guidelines for the Company. The Handbook includes general information regarding the examination process and includes a checklist of items required of the Company and is not all-inclusive.

Based on our market analysis review, the Department will review policyholder treatment, non-forfeiture benefits, claims practices and underwriting activity for your Individual Life and Annuity business.

I will contact you to schedule the Pre-Examination Conference. The purpose of this conference is to discuss the information outlined in the Handbook as well as establish lines of communication. All issues and concerns are encouraged for discussion at this time.

We ask that the Company include in the meeting those members of management and/or other personnel who have daily contact with North Carolina operations in claims. **Personnel from the Management Information Systems Department, responsible for creating the electronic policy and claim data file submissions, must also be in attendance.**

The timely receipt of complete and accurate policy and claim data is an integral part of the examination process. The failure of the Company to provide such data as outlined and requested in the Coordinator's Handbook could result in an apparent violation of North Carolina General Statute 58-2-185, 58-2-131 and Title 11 of the North Carolina Administrative Code (NCAC) Chapter 19 Section 0106.

Coordinator Name
Month Day, Year
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We encourage you to distribute copies of the Handbook to appropriate Company personnel involved in the examination. If you have any questions concerning the above, please contact me at 919-807-6895 or via email.

Sincerely yours,

A handwritten signature in cursive script that reads "Vicki S. Royal".

Vicki. S. Royal, CPM, MCM, ACS, AIAA, AIRC
Examiner-in-Charge
Market Regulation Division
[E-Mail: vicki.royal@ncdoi.gov](mailto:vicki.royal@ncdoi.gov)

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EXAMINATION AUTHORITY

Pursuant to North Carolina General Statutes (NCGS) 58-2-131, 58-2-185, and 58-2-200, the North Carolina Commissioner of Insurance requests that the Company make specified items available to the Department's authorized representatives. The requested items will reference transactions occurring during the examination period. The examination period is (Month Day, Year through Month Day, Year), unless agreed to otherwise by the Department and the Company at the Pre-Examination conference.

EXAMINATION CHRONOLOGY

1. NOTICE OF EXAMINATION

Issue of notice of examination letter to Company President.

2. COORDINATOR CONTACT AND REQUIREMENTS

- a. Delivery of Coordinator's Handbook
- b. Scheduling of the Pre-Examination Conference
- c. Completion of Interrogatories

3. PRE-EXAMINATION CONFERENCE

The Pre-Examination Conference is held to discuss examination requirements and establish lines of communication. This conference is scheduled prior to commencement of Phase I of the examination.

4. PHASE I

The work performed prior to the commencement date of phase II will take place in the Market Regulation Division's office in Raleigh, North Carolina.

5. PHASE II

Phase II will continue on-site at the Company's office or at the Market Regulation Division's office in Raleigh, North Carolina as deemed necessary by the Department. The examination team conducts an open examination and encourages discussion of any developing issues.

6. WRAP-UP CONFERENCE

A Wrap-Up Conference is initiated by the examination team at the completion of the examination. The Company is encouraged to include all affected management in this conference. The examiners will summarize their findings and discuss pertinent issues that will appear in the examination report.

7. REPORT DRAFTING

Upon completion of the examination, the team will prepare the examination report. This process is normally completed in two weeks.

8. INTERNAL REPORT REVIEW

The report is reviewed and approved at various levels within the Department including the Deputy Commissioner of the Market Regulation Division and the Senior Deputy Commissioner of the Company Services Group. The review process is normally completed in 60 days and the report is sent to the Company by certified or electronic mail.

9. COMPANY REVIEW AND ACCEPTANCE

NCGS 58-2-132 allows a 30-day period during which the Company can review the report. The report will become a public document if the Market Regulation Division does not receive a written response from the Company by the end of this 30-day period.

10. FORMAL ACCEPTANCE OF REPORT

If, upon review of the report, the Company agrees with its contents, then the Market Regulation Division requests the following individual items:

- a. A formal letter of acceptance.
- b. A statement of corrective actions on developed issues.
- c. An affidavit signed by each of your Board of Directors acknowledging the contents of the report.
- d. One bound copy of the report per company.

11. WRITTEN SUBMISSIONS OR REBUTTALS

NCGS 58-2-132 provides that at the end of 30 days, the Commissioner shall fully consider and review the report, together with any written submissions or rebuttals and enter an order either,

- a. Adopting the examination report as filed, or with modifications or corrections.
- b. Rejecting the examination report with directions to the examiners to obtain additional data.
- c. Calling for an investigatory hearing with no less than 20 days' notice to the insurer.

12. INFORMAL CONFERENCE ON REPORT

If all issues relating to the report are not mutually agreed upon, the Department may request an informal conference with the Company. This conference will be held in the Division's office in Raleigh, North Carolina.

13. REGULATORY ACTION

Final regulatory disposition will be determined by the Commissioner of Insurance for the State of North Carolina.

MARKET CONDUCT EXAMINATION INTERROGATORIES

Please provide the requested material below within seven (7) calendar days after the pre-examination conference.

POLICYHOLDER SERVICE AND COMPLAINTS

1. Define the items or correspondence which are considered “complaints” by your Company. Provide a copy of your Company’s guidelines containing such definition.
2. Describe how complaints and allegations of problems are recorded and handled.
3. What complaint reports and summaries are prepared? Who reviews them? Provide an example of each.
4. Provide a copy of your grievance policy and procedures.
5. Provide a flowchart of the member complaint and grievance resolution process.
6. Provide a copy of policyowner/insured rights and responsibilities.

UNDERWRITING

1. Describe how new business is processed. Include a copy of the operating procedures and guidelines.
2. Describe how applicants are advised of rejection.
3. Provide a copy of the replacement register in use for replaced annuity products.
4. Provide a Specimen Contract used for replacements.
5. Describe changes in underwriting procedures occurring during the examination period.
 - a. Explain reason for change in procedures.

NONFORFEITURE BENEFITS

1. Describe the procedures for notifying policyowners of the implementation of the extended term and reduced paid-up nonforfeiture options.
2. Describe the methodology for calculating benefits for Extended Term and Reduced Paid-Up Insurance (manual or system calculated).
3. Provide a sample nonforfeiture grace period letter.

CLAIMS

1. Provide a written description or overview of the Claims Department's responsibilities, staffing, and reporting structures including organizational chart.
2. Provide claims administration workflow charts illustrating how claims are handled from inception through final disposition.
3. Provide written description of computer systems with regards to claims processing.
4. Provide a sample Explanation of Benefits form.
5. Provide a sample claims acknowledgement letter for claims not processed within 30 days.
6. Sample claim forms for each product applicable in this examination and standard claims letters.
7. Describe the procedures to search for multiple policies on an insured, if a claim has been filed.
8. Describe how interest payments on life claims and health claims subject to prompt pay requirements are initiated and calculated.
9. Describe changes in claims procedures occurring during the examination period.
 - a. Explain reason for change in procedures.

GENERAL PROCEDURES

The examination is conducted in two sections: Phase I and Phase II.

Phase I of the examination primarily focuses on the review of the Company's administrative functions and operations as well as gives the examination team a chance to familiarize themselves with certain aspects of the Company. Specifically, this segment of the examination will concentrate on the following areas:

- ✓ Interrogatories
- ✓ Data Files

Items identified for Phase I section of the examination should be forwarded to the Department by the date determined by the Examiner-In-Charge during the Pre-Examination Conference.

The Phase II section of the examination primarily focuses on the Company's procedures and practices. At this point, various electronic data files submitted by the Company have been reduced to random selections by the Department. This segment of the examination will focus on the following areas:

- ✓ Consumer Complaints
- ✓ Underwriting
- ✓ Nonforfeiture Benefits
- ✓ Claims Practices

Items identified for review during the Phase II section of the examination must be made available by the commencement date of the examination.

In order to maximize clarity and coherence of the examination process, we request that you present any questions or concerns about this Handbook or the examination procedures at the Pre-Examination Conference.

ERROR THRESHOLDS

It is the Department's practice to cite companies not adhering to the provisions of a statute or rule when the results of a sample show errors/non-compliance at or above the following levels: 0 percent for the use of forms and rules that were neither filed with nor approved by the Department; 3 percent for claims and 5 percent for all other areas reviewed. When errors are detected in a sample, but the error rate is below the applicable threshold for a citation, the Department issues a reminder to the Company.

PHASE I

The following information should be delivered in writing to the Market Regulation Division no later than seven calendar days after the Pre-Examination Conference.

Please identify each item using the identification number and title of each section. (If not applicable, please provide a statement affirming such.)

I. POLICYHOLDER TREATMENT

A. Consumer Complaints

1. A copy of the Company's complaint handling procedures.
2. A copy of the North Carolina Consumer Complaint Record (register). This register should include complaints closed from the North Carolina Department of Insurance and those complaints received directly on behalf of North Carolina consumers during the examination period.

B. Privacy of Financial and Health Information

1. A copy of the privacy notice provided to applicants and policyholders.
2. Describe procedures to prevent disclosure of non-public personal health information or personal information unless authorized by the applicant, insured, or policyholder.
3. Describe when primary disclosures are provided to applicants and policyholders.

II UNDERWRITING

A random selection of the Company's underwriting files will be made from the electronic data files provided by the Company. The files will be examined for underwriting criteria, consistency, and compliance with North Carolina statutes and rules. Lists should be in a format as referenced in APPENDIX A and include transactions during the examination period.

- A. A separate electronic data list of all (excluding external replacements and conversions) North Carolina policies, including but not limited to: (Include "not-taken policies")
 - a. Annuity Non-variable (Deferred and Immediate)
- B. A separate electronic data list of all North Carolina applications that was "declined." (Exclude files that were closed incomplete).
 - a. Annuity Non-variable

C. A separate electronic data list of all North Carolina External Replacements from other insurers only for each line of business. (Internal Replacements are not applicable and will be considered invalid.)

1. Annuities Non-variable (External Replacements from other insurers only.)

- a. Please provide a specimen policy.
- b. Please provide a copy of the replacement register.

D. Provide a copy of, or make available for review:

1. All applications.
2. All application-related documents signed by the consumer.
3. All unsigned application-related documents provided to the consumer.
4. The contract that was delivered to the consumer.
5. The document(s) showing the Company is compliant with the applicable provisions of NCGS 58-60-150 through 180.
6. The document required by 11 NCAC 12.0420(4).

E. Provide a bibliography of all underwriting manuals and documents used during the examination period.

III. NONFORFEITURE BENEFITS

A random selection of the Company's records of nonforfeiture activities will be made from the electronic data files provided by the Company. The files will be examined for accuracy, consistency, and compliance with North Carolina statutes and rules. Lists should be in a format as referenced in APPENDIX A and include transactions during the examination period.

A. A separate electronic data list for each of the following items on all North Carolina policies that were initiated during the examination period.

1. Cash Surrenders (Full and Partial)

IV. CLAIMS PRACTICES

A random selection of the Company's claims will be made from the electronic data files provided by the Company. The claims will be examined for benefit payment accuracy, consistency, and compliance with North Carolina statutes and rules. Lists should be in a format as referenced in Appendix A and include transactions during the examination period.

A. A separate electronic data of all paid claims on North Carolina issued policies. Lines of business to include but not limited to:

1. Individual Life

B. A separate electronic data list of all denied claims on North Carolina issued policies.
Lines of business to include but not limited to:

1. Individual Life

Phase II

The following items are to be made available to the examiners by the commencement date of the examination.

I. POLICYHOLDER TREATMENT

A. Consumer Complaints

1. All selected consumer complaint files available for review.

II. UNDERWRITING

- A. All selected underwriting files available for review.

III. NONFORFEITURE BENEFITS

- A. All selected nonforfeiture files available for review.

IV. CLAIMS PRACTICES

- A. All selected claim files available for review.
- B. Access to all claim manuals in use during the examination period.

APPENDIX A – INSTRUCTIONS FOR PREPARING ELECTRONIC FILES

The attached file layouts are to be used for building the electronic files/records to be sent to the North Carolina Department of Insurance (Department). **Please only submit data subject to this examination.**

Files may be submitted via CD or e-mail (if the size of the attachment is less than 1 MB). If employing e-mail, use a WINZIP® compatible data compression tool on any attachments greater than 100KB). Do not submit 'backed-up' files.

The data must be formatted as ASCII Fixed Length (plain text).

All files/records must correspond to the appropriate layout definition exactly as prescribed herein.

All records must contain data only. Do not include any column titles/field names, blank records, header or trailer records, total or subtotal records, etc.

With the exception of a leading dash in the first position of the field to represent a negative amount, numeric fields must not contain any punctuation (decimal points, commas, dollar signs, etc.).

Numeric fields must be right justified; alphanumeric fields must be left justified.

Each line of business must be submitted as its own individual file for the UNDERWRITING, NONFORFEITURE BENEFITS and CLAIMS examination items.

If there are any fields that you are unable to populate, please advise the Department, in writing, as soon as possible. These fields need to be accounted for in the file through the use of blank fill. Do NOT use Tab characters.

The Company will be supplied with a list of the records selected as a representative sample of the total population submitted for each specific examination item. The selected records will be reviewed, in detail, by the Department's examiners; therefore, the associated company files must be made available to the examiners for their use in verifying data submitted electronically.

Please forward the files when ALL are completed. Please wait until all files are complete to start sending.

Files not received in good order by the Department prior to the commencement of the examination will be deemed in violation.

Address all CDs to the attention of the Examiner in Charge of your examination at the following address:

North Carolina Department of Insurance - Market Regulation Division
1201 Mail Service Center
Raleigh, North Carolina 27699- 1201

FILE NAMES:Examination Item:File Name:**Underwriting** — Individual lines of business:

Annuity-Non-variable Issued Standard	ianvisst.txt
Annuity-Non-variable Declined	ianvdec.txt
Annuity-Non-variable Replacements	ianvrepl.txt

Non-forfeiture Benefits —

Lines of Business:

Cash Surrenders	ncashsur.txt
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Claims —

Individual Lines of Business:

Life Paid	ilifepd.txt
Life Denied	ilifeden.txt

A) UNDERWRITING

1) Individual

Field Name	Start	Length	Type	Dec	Description
Count	1	10	N	0	Record Number for this list (begin with 1)
Policy Number	11	30	A		Individual's Policy Number
Insured Name	41	50	A		Insured's Name
Category	91	15	A		Category – Valid value is: Individual
LOB	106	50	A		Line of Business – Valid values are: Annuity-Non-Variable
Type Action	156	25	A		Type of Action – Valid values are: Issued, Declined
Face Amount	181	10	N	0	Policy Face Amount
Producer's Name	191	50	A		Writing Producer's Name
Producer's NPN	241	9	A		Writing Producer's National Producer Number
Producer's Appoint Date	250	8	N	0	Writing Producer's Appointment Date (YYYYMMDD)
Application Date	258	8	N	0	Date Application signed (YYYYMMDD)
App Received Date	266	8	N	0	Date the Application was Received by Company (YYYYMMDD)
AUD Notice Date	274	8	N	0	Adverse Underwriting Decision Notice Date (YYYYMMDD)
Mailed Date	282	8	N	0	Date Policy OR Declination, as applicable, Mailed (YYYYMMDD)
Company Name	290	50	A		Name of Insurer
Company Code	340	5	A		Insurer's NAIC Company Code

Total Record Length =344

2.) Replacements

Field Name	Start	Length	Type	Dec	Description
Count	1	10	N	0	Record Number for this list (begin with 1)
Policy Number	11	30	A		Individual's Policy Number
Insured Name	41	50	A		Insured's Name
LOB	91	50	A		Line of Business – Valid values are: Annuity-Non-Variable
Face Amount	141	10	N	0	Policy Face Amount
Replaced Company	151	50	A		Name of Company Replaced
App Received Date	201	8	N	0	Date the Application was Received by Company (YYYYMMDD)
Notify Date	209	8	N	0	Date the Replaced Company was Notified (YYYYMMDD)
Exhibit A (Notice Regarding Replacement) Signed	217	3	A		Was Exhibit A (Notice Regarding Replacement) signed? Valid values – Yes or No
Exhibit A (Notice Regarding Replacement) Date	220	8	N	0	Date Exhibit A (Notice Regarding Replacement) signed (YYYYMMDD)
Application Date	228	8	N	0	Date Application signed (YYYYMMDD)
Producer's Name	236	50	A		Writing Producer's Name
Producer's NPN	286	9	A		Writing Producer's National Producer Number
Producer's Appoint Date	295	8	N	0	Writing Producer's Appointment Date (YYYYMMDD)
Company Name	303	50	A		Name of Insurer
Company Code	353	5	A		Insurer's NAIC Company Code

Total Record Length = 357

C) NON-FORFEITURES

Field Name	Start	Length	Type	Dec	Description
Count	1	10	N	0	Record Number for this list (begin with 1)
Policy Number	11	30	A		Individual's Policy Number
Insured Name	41	50	A		Insured's Name
LOB	91	50	A		Lines of Business – Valid values are: Cash Surrenders
Effective Date	141	8	N	0	Policy Effective Date (YYYYMMDD)
Lapse Date	149	8	N	0	Policy Lapse Date (YYYYMMDD)
Cash Value	157	12	N	2	Policy Cash Value Amount
Loan Amount	169	12	N	2	Policy Loan Amount
APL Amount	181	12	N	2	Auto Premium Loan Amount
Requested Date	193	8	N	0	Date Company received Insured's Request for Action (YYYYMMDD)
Mailed Date	201	8	N	0	Date Check, Policy or Endorsement is Mailed (YYYYMMDD)
Check Amount	209	12	N	2	Amount of Check issued by Company
Face Amount	221	10	N	0	Face Amount of Policy
Company Name	231	50	A		Name of Insurer
Company Code	281	5	A		Insurer's NAIC Company Code

Total Record Length = 285

D) CLAIMS

Field Name	Start	Length	Type	Dec	Description
Count	1	10	N	0	Record Number for this list (begin with 1)
Claim Number	11	30	A		Claim Number
Insured Name	41	50	A		Insured's Name
Category	91	15	A		Category – Valid values are: Individual
LOB	106	50	A		Line of Business – Valid values are: Life
Type Action	156	10	A		Type of Action – Valid values are: Paid or Denied
Claim Received Date	166	8	N	0	Date Claim Received (YYYYMMDD)
Claim Adjudication Date	174	8	N	0	Date Claim Adjudicated (YYYYMMDD)
First Notification Date	182	8	N	0	First Notification After Claim Receipt (YYYYMMDD)
Status Report Date	190	8	N	0	Status Report Date (YYYYMMDD)
Diagnosis Code	198	10	A		Diagnosis Code
Disabled From Date	208	8	N	0	Date Disability Began (YYYYMMDD)
Disabled To Date	216	8	N	0	Date Disability Ended (YYYYMMDD)
Monthly Disability Benefit	224	10	N	2	Monthly Disability Benefit
Weekly Disability Benefit	234	10	N	2	Weekly Disability Benefit
Amount Paid or Denied	244	12	N	2	Amount Paid or Denied
Reason Denied or Reduced	256	100	A		Reason Claim was Denied or Amount Paid Reduced
Company Name	356	50	A		Name of Insurer
Company Code	406	5	A		Insurer's NAIC Company Code

Total Record Length = 410

FORMAT OF EXAMINATION REPORT

I. POLICYHOLDER TREATMENT

- A. Consumer Complaints
- B. Privacy of Financial and Health Information

II. UNDERWRITING

- A. Individual Annuity Non-variable

III. NONFORFEITURE BENEFITS

- A. Cash Surrenders

IV. CLAIMS PRACTICES

- A. Individual Life

V. CONCLUSION

FACILITIES REQUIREMENTS

1. **When an on-site examination is deemed necessary**, adequate private work space and facilities for approximately three Market Regulation analysts with a telephone and a computer modem telephone line will be needed. The examination room should have appropriate electrical outlets for the examiners' portable computers. Access to the Internet, a photocopier, and telefax equipment should also be provided. It will be the Company's responsibility to assure security for the examiners' on-site computer equipment during the examination period.
2. Provide written confirmation on the following logistical considerations:
 - The Company's core business hours.
 - Locations of relevant Company operations and programs.
 - Directions and parking information for examination sites.
 - Arrangements for temporary access to the Company's offices if security cards, etc., are utilized.
3. Access to computers or other equipment used by the Company for records retention and maintenance.
4. Provide a file cabinet that is equipped with a lock for the examiner's use.
5. Provide the following supplies:
 - Two reams of paper (printer paper)
 - Stapler/staples and staple removers
 - Scotch tape
 - Scissors
 - One set of In and Out baskets
 - Post-it notes (small)
 - One dozen Manila folders
 - Six #2 pencils & pens (please include red, black, and blue pens)
 - Expandable File Folders
 - Calculator (minimum 14-digit capacity)
 - Rubber bands (various sizes)
 - Highlighters (various colors)
 - Rulers
 - Paperclips (small and large)
 - Access to a Laser printer

SCHEDULE AND STAFF PROJECTION

NORTH CAROLINA
MARKET CONDUCT EXAMINATION

OF

COMPANY NAME

This examination has been scheduled for the following dates:

Commencement Date: Month Day, Year
Estimated Completion Date: Month Day, Year

The following analysts have been assigned to this examination:

		Phone Number	E-Mail Address
Vicki Royal	Analyst III, Examiner-In-Charge	919-807-6895	vicki.royal@ncdoi.gov
Shane Masserd	Analyst II	919-807-6896	shane.masserd@ncdoi.gov
Marion Flemmings	Analyst II	919-807-6876	marion.flemmings@ncdoi.gov
Darla Wright	Analyst II	919-807-6874	darla.wright@ncdoi.gov

The Examination Team can be reached by telefax at (919) 807-6635.

Any comments about the examination process that cannot be addressed by the Examiner-In-Charge should be addressed to:

**Bill George, CPCU, AIS, MCM
Assistant Chief Examiner
Market Regulation Division
1201 Mail Service Center
Raleigh, North Carolina 27699-1201
(919) 807- 6877**