

MARKET CONDUCT
EXAMINATION REPORT OF
WESTERN FRATERNAL LIFE ASSOCIATION
CEDAR RAPIDS, IOWA
AS OF DECEMBER 31, 2013

Cedar Rapids, Iowa
April 2, 2015

HONORABLE NICK C. GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, a market conduct examination has been made of the records, business and Marketing practices of

WESTERN FRATERNAL LIFE ASSOCIATION

CEDAR RAPIDS, IOWA

AS OF DECEMBER 31, 2013

at its Home office, 1900 First Avenue Northeast, Cedar Rapids, Iowa.

INTRODUCTION

The report, containing applicable comments, explanations and findings is presented herein. Additional practices, procedures and files subject to review during the examination have been omitted from the report if no improprieties were found.

SCOPE OF EXAMINATION

Western Fraternal Life Association, hereinafter, the "Association", was previously examined as of December 31, 2008. This market conduct examination covered the intervening period from January 1, 2009 to the close of business on December 31, 2013. It was conducted and performed solely for the Iowa Insurance Division by its examiners. A general review and survey was made of the Association's marketing operations and treatment of policyholders during the stated period. Other supporting evidences have been examined and evaluated to the extent deemed necessary.

HISTORY

The Association was incorporated in 1897 as the Supreme Lodge of the Western Bohemian Fraternal Association. The Association commenced business on July 4, 1897. In 1938, the name of the Association was changed to Western Bohemian Fraternal Association. The present name of the Association was adopted in 1971 by an amendment to the Articles of Incorporation.

As of October 1, 1991, the corporate existence of the Association was extended to a period of fifty years from the date of filing the Articles, by adoption of Articles of Re-Incorporation.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the following jurisdictions at December 31, 2013:

California	Michigan	Oklahoma
Colorado	Minnesota	Oregon
Illinois	Montana	South Dakota
Iowa	Nebraska	Texas
Kansas	North Dakota	Washington
Louisiana	Ohio	Wisconsin

The Association does also have residual business in Idaho and Pennsylvania but is no longer licensed to sell in those states.

GROWTH OF COMPANY

The following historical financial data, taken from annual statements for the years indicated, reflects the growth of the Company: (000's)

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income</u>
2009	\$228,894	\$20,319	\$17,972	\$12,479	\$12,056
2010	240,635	21,676	17,836	11,734	12,499
2011	250,945	22,430	19,502	14,319	12,685
2012	264,902	22,390	21,652	14,217	12,387
2013	273,894	22,349	19,540	16,365	12,243

COMPLAINT HANDLING

The Association's complaint register does not follow the format as required by Iowa statutes and regulations. The Association also had not been recording any complaints outside of those received from insurance divisions. The complaint handling procedures were found to be inadequate for assurance of proper handling and timely response to complaints. It was recommended that the Association update its procedures to meet the requirements of Iowa regulations and to record all complaints received. Based on review during the current examination period, it appears the Association is handling the disposition of complaints in an appropriate manner.

MARKETING AND SALES

The Association's advertising file was reviewed for compliance with applicable regulations. There were no exceptions to note. It was recommended the Association maintain a register to keep track of all approved advertisements according to Iowa regulations. The Association has begun the process of creating a log of advertisements starting January 2014 going forward.

SUITABILITY DETERMINATION PROCESS REVIEW

Supervisory System of Annuity Recommendations

Underwriting guidelines and reinsurance agreements prevent any over-insurance. All applications are reviewed by a senior underwriter within the company prior to issuance. Annuities will not be issued without properly completing the Annuity Suitability form. This form was put into place in 2012 to follow N.A.I.C. guidelines;

prior to 2012, only individuals over the age of 65 were required to complete a suitability form and these individuals were given the option to opt out of providing information.

Multiple Sales

Underwriting guidelines do not specifically limit multiple sales, but is considered during the underwriting review process. The Association does not market multiple sales, but does offer cross selling opportunities or the option to increase coverage. A sample of 14 individuals were selected for review of multiple sales. In aggregate, the policy amounts in force were found to be reasonable.

Replacements

The Association maintains a manual log of all internal and external replacements applied for, which is classified by agent and by external company. The Association does not pay commissions on any replacements of an existing policy.

Due to the small volume of replacements, a sample of 25 external replacement applications was reviewed. For all replacements reviewed, the Association handled the process in accordance with the Iowa statutes and regulations.

PRODUCER LICENSING

Independent licensed and appointed agents solicit applications for insurance with the Association. The listed agent within the sampled in force policies were verified for existing licensure with no concerns noted.

UNDERWRITING AND RATING

Underwriting Practices

A sample of 100 life and 35 annuity in force policies were tested. The review of these policies did not produce any concerns.

Denied Applications

A sample of 20 denied applications were reviewed. All reviewed samples contained valid reasons for denial.

CLAIMS

Time Payment Study

A sample of 100 life and 25 annuity claims were selected for review to determine the claim practices of the Association. Time was measured from the date sufficient information was received to the date a check was issued in payment of the claim. Two annuity claims were paid into supplemental contracts within the Association and were not part of the time-payment study. Any claim paid after 30 days were paid interest. The results are as follows:

Life

<u>Days to Pay</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 - 7	76	76%
8 - 14	18	18%
15 - 21	4	4%
22 - 30	0	0%
31+	2	2%

Annuity

<u>Days to Pay</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 - 7	12	52%
8 - 14	5	22%
15 - 21	2	9%
22 - 30	3	13%
31+	1	4%

Denied claims

A review was conducted on all denied claims during the exam period. All denials appear to be based on valid reasons.

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company and the Third Party Administrator during the examination is hereby acknowledged.

In addition to the undersigned, Lindsay Bates, AFE, examiner for the Iowa Insurance Division participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Amanda Buseman

Amanda K. Buseman, CFE
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