



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

November 15, 2013

*Sent via U.S. Mail Certified Return Receipt
and Electronic Mail MMorehead@hinshawlaw.com*

Michael D. Morehead
Hinshaw & Culbertson LLP
400 S. Ninth St., Suite 200
Springfield, IL 62701

Dear Mr. Morehead:

Re: Market Conduct Examination of Modern Woodmen

Dear Mr. Morehead:

The Department is in receipt of your letter dated October 18, 2013, proof of compliance and Check No. 022531 for \$2,500.00. The Department has reviewed the proof and found that it is satisfactory. The Department also acknowledges receipt of Modern Woodmen's withdrawal of its request for a hearing. Please note that the Department's Chicago address has changed to 122 S. Michigan Avenue, 19th Floor, Chicago, Illinois 60603. Please have Modern Woodmen update its records if it has not already done so.

The Department is closing its files on this exam. As mentioned in previous correspondence, this exam will be made public by posting on the Department's website as authorized by 215 ILCS 5/132.

Please contact me if you have any questions. I may be reached at 312-814-2420.

Sincerely,

A handwritten signature in blue ink that reads "Amanda Kimble".

Amanda J. Kimble
Staff Attorney
Illinois Department of Insurance
Amanda.Kimble@illinois.gov

MODERN WOODMEN OF AMERICA

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: July 20, 2009 through September 3, 2009

EXAMINATION OF: Modern Woodmen of America
NAIC #57541

LOCATION OF EXAMINATION: 1701 1st Avenue
Rock Island, Illinois 61201

PERIOD COVERED BY EXAMINATION: Claims
January 1, 2008 through December 31, 2008
Department of Insurance Complaints
January 1, 2006 through December 31,
2008.

EXAMINERS: John J. Staples
Max R. Weaver
Examiner-In-Charge

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I. SUMMARY

The Company was criticized under 50 Ill. Adm. Code 919.70(a)(2) for failure to include Notice of Availability of the Department of Insurance with letters to beneficiaries explaining the delay in processing of claims.

II. BACKGROUND

Modern Woodmen of America (“Company”) was organized January 5, 1883 under Illinois Laws and was incorporated May 5, 1884. On October 24, 1884 the Company was authorized under Illinois law to transact business as a fraternal beneficiary society.

The office of the Company was located in Fulton, Illinois until 1889, at which time the home office was moved to its present location, Rock Island, Illinois.

The Company was formed to encourage and foster acts of fraternity by, and promote fraternal relations among, its members, as well as to provide death, disability, and other benefits, rights and privileges to its members and their beneficiaries.

In 2001, the Company established a broker/dealer subsidiary, MWA Financial Services, Inc., and a general insurance agency subsidiary, MWA GIA. As a fraternal benefit for Society members, a bank charter was also obtained in 2001 for MWA Bank, which began doing business in 2003.

The Company is licensed to do business in the District of Columbia and 47 states.

III. METHODOLOGY

The Market Conduct Examination places emphasis on evaluating an insurer's systems and procedures used in dealing with insureds and claimants.

The following categories are the general areas examined:

1. Producer Licensing and Production Analysis
2. Non-Forfeiture Analysis
3. Claims Analysis
4. Policy Forms and Advertising Analysis
5. Complaints

The review of these categories is accomplished through examination of producer files, cash surrendered policies, extended term insurance and reduced paid-up insurance, policy forms, endorsements and riders, underwriting methods and advertising materials. Each of these categories is analyzed for compliance with Department of Insurance rules and regulations and applicable state law.

The report concerns itself with improper practices performed with such frequency as to indicate general business practices. Individual criticisms are identified and communicated to the insurer but are not cited in the report if not indicative of a general trend, except if there were underpayments and/or overpayments in claims surveys or undercharges and/or overcharges in underwriting surveys.

The following methods were used to obtain the required samples to assure a methodical selection.

Producer Licensing and Production Analysis

Populations for producer file analysis were determined by whether or not the producers were licensed by the State of Illinois. New business listings were retrieved from company records selecting newly solicited applications reflecting Illinois address for applicants.

Non-Forfeiture Analysis

The non-forfeiture analysis population was determined by policies having had the non-forfeiture clause enacted during the survey period.

Claims Analysis

Claim surveys were selected using the following criteria:

1. Paid Claims – payments for claims made during the survey period.
2. Denied Claims – denial of benefits for losses not covered by policy provisions during the survey period.
3. Individual or Franchise Claims – determine whether the contracts were issued to an individual or on a franchise basis.

All claims were analyzed for compliance with policy provisions, endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Title 50 of the Illinois Administrative Code.

Policy Forms and Advertising Analysis

The Company was requested to provide specimen copies of all policy forms and samples of all advertising material in use during the survey period.

Complaints

The Company was requested to provide all files relating to the complaints received via the Department of Insurance as well as those received directly from the insured or his/her representative. A copy of the complaint register was also requested.

The examination period for the Department of Insurance Complaints was January 1, 2006 through December 31, 2008.

SELECTION OF SAMPLE

SURVEY	POPULATION	# REVIEWED	% REVIEWED
Producer Licensing and Production Analysis			
Terminated Producers	41	41	100
Producer Production	1761/11,576	1761/11,576	100
Non-Forfeiture Analysis			
Life Cash Surrender	926	108	12
Annuity Cash Surrender	425	125	29
Extended Term Insurance and Reduced Paid-Up	188	50	27
Claims Analysis			
Paid Individual Life	330	96	29
Paid Annuity Death Settlements	192	95	49
Policy Forms and Advertising Analysis			
	21	21	100
Complaints			
Department of Insurance	6	6	100
Consumer	55	55	100

IV. FINDINGS

A. Producer Licensing and Production Analysis

1. Terminated Producers

A review of 41 producer termination files resulted in no criticisms.

2. Producer Production

A review of producer production from 1761 producers involving 11,576 transactions, or 100% of the files relating to producer production, resulted in no criticisms.

B. Non-Forfeiture Analysis

1. Life Cash Surrender

The review of 108 of the files, or 12% of the life cash surrender files, resulted in no criticisms.

The median for surrender was three (3) days.

2. Annuity Cash Surrender

The review of 125 files, or 29% of the annuity cash surrender files, resulted in no criticisms.

The median for surrender was (3) days.

3. Extended Term and Reduced Paid-up

A review of 50 files, or 27% of the extended term and reduced paid-up policy files, resulted in no criticisms.

C. Claims Analysis

1. Paid Individual Life

A review of 96 files or 29% of the paid life claim files, produced one (1) criticism.

Twenty-one files reviewed contained letters explaining the reasons for the delay of claim payment but the letters failed to include the Notice of

Availability of the Department of Insurance as required by 50 Ill. Adm. Code 919.70(a)(2).

The median for payment was five (5) days.

2. Paid Annuity Death Settlement

A review of 95, or 49% of the annuity death settlement claim files, resulted in no criticisms.

The median for payment was four (4) days.

D. Policy Forms and Advertising Analysis

The review of policy forms and advertising material resulted in no criticisms.

E. Complaints

1. Department of Insurance

The analysis of six (6), or 100% of the Department complaint files, resulted in no criticisms.

The median for response was eight (8) days.

2. Consumer

The analysis of 55, or 11% of the consumer complaint files, resulted in no criticisms.

The median for response was five (5) days.

V. INTERRELATED FINDINGS

During the review of paid life claims files examiners attempted to establish procedures the Company had instituted with regard to the payment of interest on any delayed death claims. Initially the Company told the examiners that the rate of interest paid would be 3.5%, except in those states that require a different rate, or it would be based on the laws of the state where the insured resided at the time of death.

The Company came back to the examiners stating that its current procedure is to compare the interest rates in the state of residence at the time of death of the insured and the beneficiary and then pay the higher rate.

Even though examiners were unable to definitively determine how the Company would handle the payment of interest on any delayed death claims, the Company reassured the examiners that any contracts originating from Illinois would be receiving at least the 9% interest proscribed by the Statutes at the time of the examination.

During the producer production review the examiners noted the following: some producers appear to be receiving commission payments on insurance policies referred to as controlled insurance business. Controlled insurance business is insurance procured or to be procured by or through the person (agent/producer) upon:

1. his own life, person, property or risks, or those of his spouse; or
2. the life, person, property, or risks of his employer or his own business.

Examiners noted several instances in which commissions were being paid to a purported producer who appeared to have no other clients or business other than himself or his immediate family.

VI. TECHNICAL APPENDICES

None

STATE OF ILLINOIS)
) ss
COUNTY OF COOK)

Max R. Weaver, being first duly sworn upon his oath, deposes and says:

That he was appointed by the Director of Insurance of the State of Illinois (the "Director") as Examiner-In-Charge to examine the insurance business and affairs of Modern Woodmen of America, NAIC #5754;

That, as Examiner-In-Charge, he was directed to make a full and true report to the Director of the examination with a full statement of the condition and operation of the business and affairs of the Company with any other information as shall in the opinion of the Examiner-In-Charge be requisite to furnish the Director with a statement of the condition and operation of the Company's business and affairs and the manner in which the Company conducts its business;

That neither he nor any other persons designated as examiners nor any members of their immediate families is an officer of, connected with, or financially interested in the Company nor any of the Company's affiliates other than as policyholders, and that neither he nor any other persons designated as examiners nor any members of their immediate families is financially interested in any other corporation or person affected by the examination;

That an examination was made of the affairs of the Company pursuant to the authority vested in the Examiner-In-Charge by the Director of Insurance of the State of Illinois;

That he was the Examiner-in-Charge of said examination and the attached report of examination is a full and true statement of the condition and operation of the insurance business and affairs of the Company for the period covered by the Report as determined by the examiners;

That the Report contains only facts ascertained from the books, papers, records, or documents, and other evidence obtained by investigation and examined or ascertained from the testimony of officers or agents or other persons examined under oath concerning the business, affairs, conduct, and performance of the company.


Max R. Weaver
Examiner-In-Charge

Subscribed and sworn to before me
this day of , 2013.


Notary Public



STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

Modern Woodmen of America
1710 1st Avenue
Rock Island, Illinois 61201

STIPULATION AND CONSENT ORDER

WHEREAS, the Director (the "Director") of the Illinois Department of Insurance (the "Department") is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Modern Woodmen of America (the "Company") is authorized under the insurance laws of this State and by the Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination ("Examination") of the Company was conducted by duly qualified examiners of the Department pursuant to Sections 131.21, 132, 401, 402 and 425 of the Illinois Insurance Code (215 ILCS 5/131.21, 5/132, 5/401, 5/402 and 5/425); and

WHEREAS, the Department examiners have filed an examination report as an official document of the Department as a result of the Examination (the "Report"); and

WHEREAS, the Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, the Company is aware of and understands its various rights in connection with the Examination and Report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407 and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, it waives any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the Report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS agreed by and between the Company and the Director as follows:

1. That the Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and/or Department Regulations; and
2. That the Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and/or Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain procedures whereby the Company includes a Notice of Availability of the Department of Insurance with letters to beneficiaries when explaining a delay in processing of claims as required by 50 Ill. Admin. Code 919.70(a)(2).
2. Submit to the Director proof of compliance with the Order within 30 days of the execution of this Order.
3. Pay to the Director a civil forfeiture in the amount of \$2,500.00 to be paid within 30 days of the execution of this Order.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code, including but not limited to levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of Modern Woodmen of America:

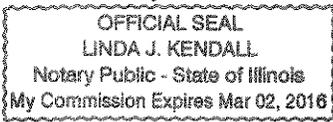
Denis P. Prior
Signature

Denis P. Prior
Name

National Secretary
Title

Subscribed and sworn to before me this
18th day of October, A.D. 2013.

Linda J. Kendall
Notary Public



DEPARTMENT OF INSURANCE of the
State of Illinois;

DATE 10-25-13

Andrew Boron
Andrew Boron
Director