

**EXHIBIT 3**

**PUBLIC REPORT OF EXAMINATION OF THE CLAIMS**

**PRACTICES OF THE**

**GLOBE LIFE AND ACCIDENT INSURANCE COMPANY**

**NAIC # 91472 CDI # 2439-8**

**AMERICAN INCOME LIFE INSURANCE COMPANY**

**NAIC # 60577 CDI # 1908-3**

**LIBERTY NATIONAL LIFE INSURANCE COMPANY**

**NAIC # 65331 CDI # 1679-0**

**UNITED AMERICAN INSURANCE COMPANY**

**NAIC # 92916 CDI # 2505-6**

**UNITED INVESTORS LIFE INSURANCE COMPANY**

**NAIC # 94099 CDI # 2493-5**

**AS OF MARCH 31, 2002**

**STATE OF CALIFORNIA**



**DEPARTMENT OF INSURANCE**

**FIELD CLAIMS BUREAU**

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**CALIFORNIA DEPARTMENT OF INSURANCE**

Consumer Services and Market Conduct Branch  
Field Claims Bureau, 11th Floor  
Ronald Reagan State Office Building  
300 South Spring Street  
Los Angeles, CA 90013



January 2, 2003

The Honorable Harry W. Low  
Insurance Commissioner  
State of California  
45 Fremont Street  
San Francisco, California 94105

Honorable Commissioner:

Pursuant to instructions, and under the authority granted under Part 2, Chapter 1, Article 4, Sections 730, 733, 736, and Article 6.5, Section 790.04 of the California Insurance Code; and Title 10, Chapter 5, Subchapter 7.5, Section 2695.3(a) of the California Code of Regulations, an examination was made of the claims practices and procedures in California of:

**GLOBE LIFE AND ACCIDENT INSURANCE COMPANY**

NAIC # 91472

**AMERICAN INCOME LIFE INSURANCE COMPANY**

NAIC # 60577 CDI # 1908-3

**LIBERTY NATIONAL LIFE INSURANCE COMPANY**

NAIC # 65331 CDI # 1679-0

**UNITED AMERICA INSURANCE COMPANY**

NAIC # 92916 CDI # 2505-6

**UNITED INVESTORS LIFE INSURANCE COMPANY**

NAIC # 94099 CDI # 2493-5

Hereinafter referred to as GL, AI, LN, UA, UI or the Companies

This report is made available for public inspection and is published on the California Department of Insurance web site ([www.insurance.ca.gov](http://www.insurance.ca.gov)) pursuant to California Insurance Code section 12938.

## SCOPE OF THE EXAMINATION

The examination covered the claims handling practices of the aforementioned Companies during the period April 1, 2001 through March 31, 2002. The examination was made to discover, in general, if these and other operating procedures of the Companies conform with the contractual obligations in the policy forms, to provisions of the California Insurance Code (CIC), the California Code of Regulations (CCR), the California Vehicle Code (CVC) and case law. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al.

To accomplish the foregoing, the examination included:

1. A review of the guidelines, procedures, training plans and forms adopted by the Companies for use in California including any documentation maintained by the Companies in support of positions or interpretations of fair claims settlement practices.
2. A review of the application of such guidelines, procedures, and forms, by means of an examination of claims files and related records.
3. A review of consumer complaints received by the California Department of Insurance (CDI) in the most recent year prior to the start of the examination.

The examination was conducted at the headquarters of Globe Life and Accident Insurance Company in Oklahoma City, Oklahoma and American Income Life Insurance Company in Waco, Texas.

The report is written in a "report by exception" format. The report does not present a comprehensive overview of the subject insurer's practices. The report contains only a summary of pertinent information about the lines of business examined and details of the non-compliant or problematic activities or results that were discovered during the course of the examination along with the insurer's proposals for correcting the deficiencies. When a violation is discovered that results in an underpayment to the claimant, the insurer corrects the underpayment and the additional amount paid is identified as a recovery in this report. All unacceptable or non-compliant activities may not have been discovered, however, and failure to identify, comment on or criticize activities does not constitute acceptance of such activities.

Any alleged violations identified in this report and any criticisms of practices have not undergone a formal administrative or judicial process.

## CLAIM SAMPLE REVIEWED AND OVERVIEW OF FINDINGS

The examiners reviewed files drawn from the category of Closed Claims for the period April 1, 2001 through March 31, 2002, commonly referred to as the "review period". The examiners reviewed 100 GL claims files, 154 AI claim files, 82 LN claim files, 119 UA claim files and 30 UI claim files. The examiners cited 111 claims handling violations of the Fair Claims Settlement Practices Regulations and/or California Insurance Code Section 790.03 within the scope of this report. Further details with respect to the files reviewed and alleged violations are provided in the following tables and summaries.

<b>Globe Life and Accident Insurance Company (GL)</b>			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Individual Life	1,006	63	0
Individual Health	170	37	30
<b>TOTALS</b>	1,176	100	30

<b>American Income Life Insurance Company (AI)</b>			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Group and Individual Life	722	63	2
Group Accidental Death and Dismemberment	96	24	2
Individual Disability	2,453	67	44
<b>TOTALS</b>	3,271	154	48

Liberty National Life Insurance Company (LN)			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Individual Life	367	69	0
Individual Health	13	13	5
<b>TOTALS</b>	380	82	5

United American Life Insurance Company (UA)			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Individual Life	488	55	0
Individual Health	997	64	28
<b>TOTALS</b>	1,485	119	28

United Investors Life Insurance Company (UI) Individual Life			
CATEGORY	CLAIMS FOR REVIEW PERIOD	REVIEWED	CITATIONS
Individual Life	55	30	0
<b>TOTALS</b>	55	30	0

**TABLE OF TOTAL CITATIONS**

Citation	Description	GL	AI	LN	UA	UI
CCR § 2695.11(b)	The Company failed to provide a clear explanation of the computation benefits.	29	43	0	27	0
CCR 2695.7(b)(1)	The Company failed to provide written basis for the denial of the claim	1	1	5	0	0
CCR § 2695.7(b)(3)	The Company failed to include the claimant's right to a CDI review in the denial notice.	0	3	0	0	0
CCR § 2695.3(b)(3)	The Company failed to maintain hard claim files that are accessible, legible, and capable of duplication to hard copy for five years.	0	1	0	0	0
CCR § 2695.7(c)(1)	The Company failed to provide written notice of the need for additional time every thirty calendar days.	0	0	0	1	0
<b>Total Citations</b>		30	48	5	28	0

## SUMMARY OF CRITICISMS, INSURER COMPLIANCE ACTIONS AND TOTAL RECOVERIES

The following is a brief summary of the criticisms that were developed during the course of this examination related to the violations alleged in this report. This report contains only alleged violations of Section 790.03 and Title 10, California Code of Regulations, Section 2695 et al. In response to each criticism, the Company is required to identify remedial or corrective action that has been or will be taken to correct the deficiency. Regardless of the remedial actions taken or proposed by the Company, it is the Company's obligation to ensure that compliance is achieved. There were no recoveries discovered within the scope of this report.

1. **The Companies failed to provide an explanation of benefits.** In 99 instances, the Companies failed to provide to the insured an explanation of benefits including a clear explanation of the computation of benefits. The Companies' Explanation Of Benefits (EOB) form did not contain information as regards the charges incurred and the applicable co-insurance factors. The Department alleges these acts are in violation of CCR § 2695.11(b).

**Summary of Companies' Response:** These errors were brought to the attention of the Companies and they are in the process of updating their systems in order to produce EOB's that fully address the requirements of CCR § 2695.11(b). In the interim, the Companies have developed an BOB form that includes a clear explanation of the computation of benefits as required by CCR § 2695.11(b). A copy of this form has been provided to the examiners. Lastly, claims personnel have been apprised of the errors noted during the on-site examination and management directives have been issued accordingly.

2. **The Companies failed to provide written basis for the denial of the claim.** In seven instances, the Companies failed to provide the written basis for denial of the claim. These errors involve failure to issue partial denials of benefits when not all charges submitted were covered. This deficiency was found in two of the files cited. Also, the examiners noted five files in which the notice issued to insureds was incomplete as the basis for the denial failed to identify the applicable policy provisions and/or limitations. The Department alleges these acts are in violation of CCR § 2695.7(b)(1).

**Summary of Companies' Response:** The Companies have instituted changes in their written notices in order to include the specific bases for denials and a copy of the revised language was provided to the examiners. Additionally, files will be monitored to ensure issuance of partial denials, where appropriate. Claims personnel have been apprised of the errors noted during the on-site examination and management directives have been issued accordingly.

3. **The Companies failed to advise the claimant that he or she may have the claim denial reviewed by the California Department of Insurance.** In three instances, the Company failed to include a statement in their claim denial that, if the claimant believes the claim has been wrongfully denied or rejected, he or she may have the matter reviewed by the California Department of Insurance. The Department alleges these acts are in violation of CCR § 2695.7(b)(3).

**Summary of Companies Response:** The Companies have acknowledged the errors and claims personnel have been advised accordingly through the issuance of management directives.

4. **The Companies failed to comply with the Fair Claims Practices Regulations** In one instance each, the Companies failed to comply with the following Fair Claims Practices Regulations: CCR § 2695.3(b)(3) and CCR § 2695.7(c)(1).

**Summary of Companies Response:** The Companies have acknowledged the above instances of non-compliance. Claims personnel have been apprised of the errors noted during the on-site examination and management directives have been issued accordingly.