

DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT

Security Benefit Life Insurance Company
NAIC #68675

One Security Benefit Place
Topeka, KS, USA 66636-0001

As of

September 30, 2020

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of September 30, 2020 on

Security Benefit Life Insurance Company

is a true and correct copy of the document filed with this Department.

Attest By:

A handwritten signature in blue ink, appearing to read "Trinidad Navarro", written over a horizontal line.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 21 day of July, 2021.

A handwritten signature in blue ink, appearing to read "Trinidad Navarro", written over a horizontal line.
Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Security Benefit Life Insurance Company
AS OF
September 30, 2020

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 21 day of July, 2021.


Trinidad Navarro
Insurance Commissioner

**Delaware Market Conduct Examination Report
Security Benefit Life Insurance Company**

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Examination Authority Number 68675-20-554 and pursuant to statutory provisions including 18 *Del. C.* §§ 318-322, a market conduct examination has been conducted of the affairs and practices of:

Security Benefit Life Insurance Company
NAIC #68675

The examination was performed as of September 30, 2020.

The examination was conducted at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

The examination was announced as a follow-up to a previously issued targeted market conduct examination to review the Company's practices in the annuity marketplace in Delaware. The examination focused on the Company's annuity business in the following areas of operation: Company Operations and Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

All the exceptions noted were in the areas of Producer Licensing, Underwriting and Rating, and Claims.

The following exceptions were noted:

- **1 Exception 18 Del. C. § 1716(a)(b). Notification to Insurance Commissioner of termination.**
 - (a) Termination for cause. -- An insurer or authorized representative of the insurer that terminates the appointment, employment, contract or other insurance business relationship with a producer shall notify the Insurance Commissioner within 30 days following the effective date of the termination, using a format prescribed by the Insurance Commissioner, if the reason for termination is 1 of the reasons set forth in § 1712 of this title or the insurer has knowledge the producer was found by a court, government body or self-regulatory organization authorized by law to have engaged in any of the activities in § 1712 of this title. Upon the written request of the Insurance Commissioner, the insurer shall provide additional information, documents, records or other data pertaining to the termination or activity of the producer.*
 - (b) Termination without cause. -- An insurer or authorized representative of the insurer that terminates the appointment, employment or contract with a producer for any reason not set forth in § 1712 of this title shall notify the Insurance Commissioner within 30 days following the effective date of the termination, using a format prescribed by the Insurance Commissioner. Upon written request of the Insurance Commissioner, the insurer shall provide additional information, documents, records or other data pertaining to the termination.*

The Company failed to notify the Commissioner of the producer termination within 30 days following the effective date of the termination.

- **27 Exceptions 18 Del. C. § 1716(d). Notification to Insurance Commissioner of termination.**
 - (d) Copy of notification to be provided to producer. --*
 - (1) Within 15 days after making the notification required by subsections (a), (b) and (c) of this section, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in § 1712 of this title, the insurer shall provide a copy of the notification to the producer at that producer's last known address by certified*

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mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

(2) Within 30 days after the producer has received the original or additional notification, the producer may file written comments concerning the substance of the notification with the Insurance Commissioner. The producer shall, by the same means, simultaneously send a copy of the comments to the reporting insurer, and the comments shall become a part of the Insurance Commissioner's file and accompany every copy of a report distributed or disclosed for any reason about the producer as permitted under subsection (f) of this section.

The Company failed to mail a copy of the termination notification to the producers.

- **24 Exceptions 18 Del. C. § 2712(a). Filing, approval of forms.**

(a) No basic insurance policy or annuity contract, form, or application form where written application is required and is to be made a part of the policy or contract or printed rider or endorsement form or form of renewal certificate shall be delivered or issued for delivery in this State, unless the form has been filed with the Commissioner.

The Company accepted two application forms, used in 24 files, which were not filed. This is a repeat exception previously noted in the prior examination.

- **1 Exception 18 Del. C. § 1703. License required.**

A person shall not sell, solicit or negotiate insurance in this State for any class or classes of insurance unless the person is licensed for that line of authority in accordance with this chapter.

The Company accepted an application from a producer not licensed when he signed the application. This is a repeat exception previously noted in the prior examination.

- **1 Exception 18 Del. Admin. C. § 1204-5.2.1 Duties of Agents and Brokers**

Where replacement is involved, the agent or broker shall:

5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

The Company failed to provide evidence that a notice regarding replacement was presented to the applicant.

- **1 Exception 18 Del. Admin. C. § 1204-7.1.2.2 Duties of Insurers That Use Agents or Brokers**

*Each insurer that uses an agent or broker in a life insurance or annuity sale shall:
7.1.2 Where a replacement is involved:*

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7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity contract is issued, whichever is sooner.

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement. This is a repeat exception previously noted in the prior examination.

- **1 Exception 18 Del. Admin. C. § 1204-7.1.2.2 Duties of Insurers That Use Agents or Brokers**

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity contract is issued, whichever is sooner.

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within 7 working days of receiving the application. This is a repeat exception previously noted in the prior examination.

- **3 Exceptions 18 Del. Admin. C. § 902-1.2.1.2 Prohibited Unfair Claim Settlement Practices**

Failing to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies.

The Company failed to acknowledge the claims within 15 working days upon receipt by the Company.

- **4 Exceptions 18 Del. Admin. C. § 902-1.2.1.5 Prohibited Unfair Claim Settlement Practices**

Failing to affirm or deny coverage or a claim or advise the person presenting the claim, in writing, or other proper legal manner, of the reason for the inability to do so, within 30 days after proof of loss statements have been received by the insurer.

The Company failed to process the claims within 30 days after proof of loss statements were received.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318-322 and covered the experience period of January 1, 2018 through September 30, 2020, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware complaints handling, claims handling, agent appointment and termination, annuity suitability, replacement and surrender laws and regulations related to the sales and marketing of individual annuity contracts.

The examination was a follow-up targeted market conduct examination of the Company's annuity business in the following areas of operation: Company Operations and Management, Complaints Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating, and Claims.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on the errors found in individual files, the examiners also focus on general business practices of the Company. The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted.

However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries provided on the exceptions found.

COMPANY HISTORY AND PROFILE

Security Benefit Life Insurance Company was founded in 1892 as the National Council of Knights and Ladies of Security. On October 1, 1919, the Company merged with the National American Association, a fraternal society in Kansas City, at which time the corporate name changed to Security Benefit Association (“SBA”). On January 1, 1950, SBA became a mutual legal reserve life insurance company and the corporate name changed to Security Benefit Life Insurance Company (“SBL”), a mutual insurance company. SBL then converted to a Kansas stock insurance company in connection with a mutual holding company conversion on July 6, 1998. It subsequently demutualized effective on July 30, 2010.

Security Benefit Life Insurance Company (“SBL”) and its affiliate, First Security Benefit Life Insurance and Annuity Company of New York (“FSBL”), provide fixed and variable annuities in all 50 states. Annuities are issued by SBL in all states except New York, and in New York by FSBL. SBL is not licensed in and does not transact business in New York.

According to the Department of Insurance Certificate of Authority, SBL is authorized to transact the business of life, including annuities, variable life, variable annuities and health insurance. According to the Company, SBL sells fixed, fixed indexed and variable annuities through a variety of distribution channels.

As of its 2018 annual statement for the State of Delaware, Security Benefit Life Insurance Company reported annuity considerations in the amount of \$10,417,250. As of its 2019 annual statement for the State of Delaware, Security Benefit Life Insurance Company reported annuity considerations in the amount of \$11,515,492.

COMPANY OPERATIONS AND MANAGEMENT

The Company provided the requested information documenting its management and operational procedures in areas for which they conduct business in the State of Delaware including:

- A copy of the Company’s Certificate of Authority.
- The Company Overview.
- A Management Structure for Annuities.
- A list of 23 audits conducted during 2018, 2019 and 2020.
- Copies of the Company’s Anti-Fraud Plan and Anti-Money Laundering, Senior Financial Abuse, and Fraud Prevention Training Manual.
- A Master Service Agreement between Security Benefit Life Insurance Company, se2 and Security Distributors, Inc.
- A copy of the Company’s Records Management Program.
- A list of 19 fines levied by various States from 2016 through September 30, 2020.
- A list of two examinations: a 2017 Delaware Market Conduct Examination and a 2019 Kansas Financial Examination.

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- The Company's Annual Statements for 2018 and 2019.

The documentation was reviewed for compliance with the State of Delaware Laws and Regulations. No exceptions were noted.

COMPLAINTS HANDLING

A. Consumer Complaints

The Company was requested to provide a listing of all consumer complaints filed with the Company during the examination period. The Company was also requested to provide copies of the consumer complaint logs for 2016, 2017, 2018 and 2019. The Company identified zero consumer complaints received during the examination period. The Company provided one complaint log for 2016, with one complaint. The complaint log was reviewed for compliance with the State of Delaware Laws and Regulations, including but not limited to, 18 Del. C. § 2304 (17) Failure to maintain complaint handling procedures. This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. No exceptions were noted.

MARKETING AND SALES

A. Advertising and Sales Materials

The Company provided a list of 1,262 pieces of advertising and sales materials used during the examination period. The materials consisted of ads, announcements, articles, brochures, email correspondence, fact sheets, flyers, guides, kits, post cards, posters, power point presentations, sales ideas, stuffers, training manuals and videos. Of the 1,262 pieces, 309 were determined to be consumer facing. Of the 309 consumer facing pieces, a random sample of 113 pieces was requested and received. The 113 pieces, and the Company's website: <https://www.securitybenefit.com/>, were reviewed to for compliance with the State of Delaware Laws and Regulations, including but not limited to, 18 Del. C. § 2303, Unfair Methods of Competition and 18 Del. C. § 2304, Unfair or Deceptive Acts or Practices. No exceptions were noted.

PRODUCER LICENSING

A. Producer Licensing and Appointments

The Company provided a list of 351 active producers. A random sample of 79 producers was compared to departmental records of producers to verify their licensing and

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appointment status. In addition, a comparison was made on the producers identified on the applications reviewed in the “contract issued” sections of the examination. For this examination purposes, producer licensing exceptions found in the other sections of the examination are addressed in their respective sections of the report. No exceptions were noted for this section.

B. Producer Terminations

The Company provided a list of 131 terminated producers. A random sample of 79 terminated producers was selected. The list was compared to departmental records of terminated producers for compliance with the State of Delaware Laws and Regulations. The following exceptions were noted:

1 Exception - 18 Del. C. § 1716(a)(b). Notification to Insurance Commissioner of termination.

The Company failed to mail the producer termination notification to the Commissioner within 30 days following the effective date of the termination.

Recommendation: It is recommended that the Company review its procedures to ensure the producer termination notification is mailed to the Commissioner as required by 18 Del. C. § 1716(a)(b).

27 Exceptions - 18 Del. C. § 1716(d). Notification to Insurance Commissioner of termination.

The Company failed to mail the producer termination notification to the producers.

Recommendation: It is recommended that the Company review its procedures to ensure the producer termination notification is mailed to the terminated producer as required by 18 Del. C. § 1716(d).

POLICYHOLDER SERVICE

A. Individual Fixed Annuity Contracts Surrendered

The Company provided a universe of 226 individual fixed annuity contracts surrendered during the examination period. A random sample of 79 contract files was requested, received, and reviewed. The files were reviewed for compliance with the State of Delaware Laws and Regulations. No exceptions were noted.

B. Individual Variable Annuity Contracts Surrendered

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The Company provided a universe of 113 individual variable annuity contracts surrendered during the examination. A random sample of 79 contract files was requested, received and reviewed. The files were reviewed for compliance with the State of Delaware Laws and Regulations. No exceptions were noted.

UNDERWRITING AND RATING

A. Forms

The Company provided a universe of 58 forms available for use during the examination period. All 58 forms were requested, received and reviewed. The forms provided and forms reviewed in various underwriting sections of the examination were reviewed for compliance with 18 *Del. C.* § 2712, Filing, approval of forms. For this examination purposes, form exceptions found in the other sections of the examination are addressed in their respective sections of the report. No exceptions were noted for this section.

B. Individual Fixed Annuity Contracts Issued as New

The Company provided a universe of 323 fixed annuity contracts issued during the examination period. A random sample of 79 contracts was requested, received and reviewed. The contract files were reviewed for compliance with the State of Delaware Laws and Regulations. The following exceptions were noted:

9 Exceptions - 18 *Del. C.* § 2712(a). Filing, approval of forms.

The Company accepted two application forms, used in nine files, which were not filed. One form was used in eight files.

There were three similar exceptions noted in the previous examination as of December 31, 2016.

Recommendation: It is recommended that the Company review its procedures to ensure the forms used are filed before use as required by 18 *Del. C.* § 2712(a).

1 Exception - 18 *Del. C.* § 1703. License required.

The Company accepted an application from a producer not licensed when he signed the application.

There was one similar exception noted in the previous examination as of December 31, 2016.

Recommendation: It is recommended that the Company review its procedures to ensure all producers soliciting and selling the Company's products are licensed as required by 18 *Del. C.* § 1703.

C. Individual Fixed Annuity Contracts Issued as Replacements

The Company provided a universe of 101 individual fixed annuity contracts issued as replacements during the examination period. A random sample of 79 fixed annuity contract files was requested, received and reviewed. The files were reviewed for compliance with the State of Delaware Laws and Regulations. The following exceptions were noted:

15 Exceptions - 18 Del. C. § 2712(a). Filing, approval of forms.

The Company accepted two application forms, used in 15 files, which were not filed. One form was used in 13 files.

Recommendation: It is recommended that the Company review its procedures to ensure the forms used are filed before use as required by 18 Del. C. § 2712(a).

1 Exception - 18 Del. Admin. C. § 1204-5.2.1 Duties of Agents and Brokers

The Company failed to provide the proof that the notice regarding replacement was presented to the applicant.

Recommendation: It is recommended that the Company review its procedures to ensure the notice regarding replacement is presented to the applicant not later than at the time of taking the application as required by 18 Del. Admin. C. § 1204-5.2.1.

1 Exception - 18 Del. Admin. C. § 1204-7.1.2.2 Duties of Insurers That Use Agents or Brokers

The Company failed to provide evidence that the written communication advising of the replacement to the existing insurer was mailed.

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement.

There were four similar exception noted in the previous examination as of December 31, 2016.

Recommendation: It is recommended that the Company review its procedures to ensure the written communication advising of the replacement to the existing insurer is mailed as required by 18 Del. Admin. C. § 1204-7.1.2.2.

D. Individual Variable Annuity Contracts Issued as New

The Company was requested to a list of all variable annuity contracts issued during the examination period. The Company indicated that there were no variable annuity contracts issued during the examination period. No exceptions were noted.

Individual Variable Annuity Contracts Issued as Replacements

The Company provided a universe of one individual variable annuity contract issued as a replacement during the examination. The one variable annuity contract file was requested, received and reviewed. The file was reviewed for compliance with the State of Delaware Laws and Regulations. The following exception was noted:

1 Exception - 18 Del. Admin. C. § 1204-7.1.2.2 Duties of Insurers That Use Agents or Brokers

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within 7 working days of receiving the application.

There were six similar exceptions noted in the previous examination as of December 31, 2016.

Recommendation: It is recommended that the Company review its procedures to ensure the written communication advising of the replacement to the existing insurer is mailed within seven working days of receiving the application as required by 18 Del. Admin. C. § 1204-7.1.2.2.

CLAIMS

A. Annuity Claims Paid

The Company provided a universe of 101 claims received and paid during the examination period. A random sample of 25 paid claim files was requested, received and reviewed. The files were reviewed for compliance with the State of Delaware Laws and Regulations. The following exceptions were noted:

3 Exceptions - 18 Del. Admin. C. § 902-1.2.1.2 Prohibited Unfair Claim Settlement Practices

The Company failed to acknowledge the claims within 15 working days upon receipt by the Company.

Recommendation: It is recommended that the Company review its procedures to ensure all claims are acknowledged within 15 working days as required by 18 Del. Admin. C. § 902-1.2.1.2.

4 Exceptions - 18 Del. Admin. C. § 902-1.2.1.5 Prohibited Unfair Claim Settlement Practices

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The Company failed to process the claims within 30 days after receiving the proof of loss statements.

Recommendation: It is recommended that the Company review its procedures to ensure all claims are processed timely as required by 18 *Del. Admin. C.* § 902-1.2.1.5.

B. Annuity Denied Claims

The Company was requested to provide a list of all annuity contract claims denied during the examination period. The Company indicated that there were no annuity contract claims denied during the examination period. No exceptions were noted.

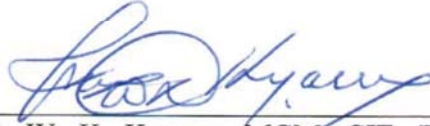
CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company review its procedures to ensure the producer termination notification is mailed to the Commissioner timely as required by 18 *Del. C.* § 1716(a)(b). (Producer Licensing-Producer Terminations).
2. It is recommended that the Company review its procedures to ensure the producer termination notification is mailed to the terminated producer as required by 18 *Del. C.* § 1716(d). (Producer Licensing-Producer Terminations)
3. It is recommended that the Company review its procedures to ensure the forms used are filed before use as required by 18 *Del. C.* § 2712(a). (Underwriting and Rating-Individual Fixed Annuity Contracts Issued as New and as Replacement)
4. It is recommended that the Company review its procedures to ensure the producers soliciting and selling the Company's products are licensed as required by 18 *Del. C.* § 1703. (Underwriting and Rating-Individual Fixed Annuity Contracts Issued as New)
5. It is recommended that the Company review its procedures to ensure the notice regarding replacement is presented to the applicant not later than at the time of taking the application as required by 18 *Del. Admin. C.* § 1204-5.2.1. (Underwriting and Rating-Individual Fixed Annuity Contracts Issued as Replacements)
6. It is recommended that the Company review its procedures to ensure the written communication advising of the replacement to the existing insurer is mailed as required by 18 *Del. Admin. C.* § 1204-7.1.2.2. (Underwriting and Rating-Individual Fixed Annuity Contracts Issued as Replacements)
7. It is recommended that the Company review its procedures to ensure the written communication advising of the replacement to the existing insurer is mailed within seven working days of receiving the application as required by 18 *Del. Admin. C.* § 1204-7.1.2.2. (Underwriting and Rating-Individual Variable Annuity Contracts Issued as Replacements)
8. It is recommended that the Company review its procedures to ensure all claims are acknowledged within 15 working days as required by 18 *Del. Admin. C.* § 902-1.2.1.2. (Claims)
9. It is recommended that the Company review its procedures to ensure all claims are processed timely as required by 18 *Del. Admin. C.* § 902-1.2.1.5. (Claims)

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The examination conducted by Joseph Krug, Christina Hughart, Stephen Misenheimer and Frank Kyazze is respectfully submitted.



Frank W. K. Kyazze, MCM, CIE, FLMI, ALHC
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance

I, Frank W.K. Kyazze, hereby verify and attest, under oath, that the above is a true and correct copy of the examination report and findings of the market conduct examination submitted to the Delaware Department of Insurance pursuant to examination authority #68675-20-554.



Frank W. K. Kyazze, MCM, CIE, FLMI, ALHC