

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

Freedom Life Insurance Company of America

NAIC #62324

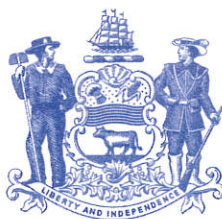
Examination Authority #62324-16-907

300 Burnett Street Suite 200
Fort Worth, TX 76102

As of

January 31, 2016

Trinidad Navarro
Commissioner



Delaware Department of Insurance

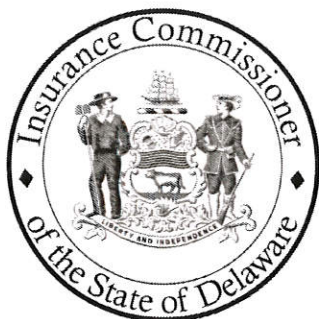
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of January 31, 2016 on

Freedom Life Insurance Company of America

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

Attest By: _____

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

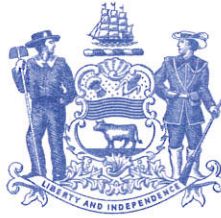


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

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

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Freedom Life Insurance Company of America
AS OF
January 31, 2016

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.

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

Trinidad Navarro
Insurance Commissioner

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Certificate of Examination Authority Number 92738-15-750 and pursuant to statutory provisions including 18 Del. C. §318- 322, a market conduct examination has been conducted of the affairs and practices of:

Freedom Life Insurance Company of America

The examination was performed as of January 31, 2016. Freedom Life Insurance Company of America ("FLICA" or the "Company") is a stock life insurance company domiciled in Texas, with home office operations located in Fort Worth, Texas. The Company was organized on March 30, 1956 as American Liberty Life Insurance Company in the state of Mississippi and commenced business on June 1, 1956. In 1985, the Company's name was changed to its present name. FLICA redomesticated to Texas in September 2000. The examination consisted of an off-site phase and was performed 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

Freedom Life Insurance Company of America ("FLICA" or the "Company") is a stock life insurance company domiciled in Texas, with home office operations located in Fort Worth, Texas. The Company is currently licensed in thirty five (35) states, with NAIC Company Code 62324.

This examination focused on the Company's health insurance business in the following areas of operation: Company Operations and Management, Complaint Handling, Marketing and Sales, Producer Licensing, and Underwriting and Rating. The examination was focused on health insurance products designed to supplement coverage that meets the Minimum Essential Benefits required by the federal Affordable Care Act (ACA). The supplemental coverages do not meet the requirements for qualified coverage under ACA and include offerings such as short-term medical (interim health insurance), specified disease or other limited benefit plans such as accident only coverage.

The following Code violations were noted:

18 Del. C. §1715.

- For failure to file notice of appointment within 15 days from the date the agency contract is executed or the first application is submitted.

18 Del. C. §2304

- For failure to clarify policy benefits, conditions or terms of an insurance policy.

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, 2014 through January 31, 2016 unless otherwise noted. The purpose of the examination was to determine the Company's compliance with Delaware insurance laws and regulations related to the health insurance market place.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. The Company identified the universe of files for each segment of the review. Based on the universe sizes identified, a random sample of files were selected and 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.

COMPANY HISTORY AND PROFILE

FLICA is a stock life insurance company domiciled in Texas, with home office operations located in Fort Worth, Texas. The Company was organized on March 30, 1956 as American Liberty Life Insurance Company in the state of Mississippi and commenced business on June 1, 1956. In 1985, the Company's name was changed to its present name. FLICA redomesticated to Texas in September 2000.

The Company is a wholly owned subsidiary of USHEALTH Group, Inc. ("USHEALTH"). FLICA's in force premiums consist mainly of various medical expense reimbursement and term life insurance products. FLICA holds licenses in the following states: Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia and Wyoming. USHEALTH Advisors, LLC, an affiliate of the Company, is one of the Company's principal distribution channels of the products of FLICA.

FLICA advertises life, specified disease/sickness, accident and disability insurance "solutions" for self-employed individuals, families, small business owners and their families. FLICA's products do not meet the core requirements for ACA Minimum Essential Benefits, but their sales representatives sell specified disease/sickness and accident coverage together in a combined product offering designed to create the sense of more comprehensive medical coverage. The combined coverage offering is subject to underwriting approval, limitations and multiple exclusions. It is noted that the

product literature does include these. There is a concern that some consumers misunderstand the product and believe they are purchasing more comprehensive coverage than the limited coverage actually provided. The consumer might not be aware that the coverage does not meet the Minimum Essential Benefits of ACA and would not protect them from penalty for failure to purchase adequate coverage under the ACA.

During the period under examination the Company had an Administrative Services, Governance Control and Marketing agreement with Med-Sense Guaranteed Association (MSGA) and Health Insurance Innovations (HII) to provide certain services related to the sales of insurance products. It is noted the Company has not provided new business through this arrangement since 2015. When asked about whether HII met the definition of a third-party administrator under the terms of this agreement, the Company stated that HII does not function as a third party administrator for any of the Company's business.

COMPANY OPERATIONS AND MANAGEMENT

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

The following company operational procedures and areas were reviewed:

- Certificate of Authority for Delaware
- Company History and Profile
- The Company's Organizational Charts
- The Company's Annual Statement for 2013 and 2014
- Internal Audits Conducted
- Fines, penalties and recommendations from other States
- Third Party Entities under contract to perform services on behalf of the Company
- Any Federal or State government current or pending legal action
- The Company's Compliance Plan
- Board of Director meeting agendas, supplemental materials and minutes for all meeting during the examination period.

The documentation was reviewed to ensure compliance with the State of Delaware Statutes and Regulations. During the course of this review, a concern was noted since the Company does not have a formal internal audit function. The Company was requested to provide a list of all internal audits conducted within the last three (3) years, including audits completed by an internal audit function within the company or conducted via a contracted vendor on behalf of the company. The Company indicated that in the course of its daily business, the Company performs many audits and quality control checks, however, no formal audit reports are prepared in connection with such routine evaluations other than as may be noted in individual claim file documents.

COMPLAINTS AND GRIEVANCE HANDLING

The Company provided a listing of all complaints/grievances/appeals filed with the Company during the examination period. The list was to include complaints/grievances/appeals received from the Delaware Department of Insurance or other regulatory or complaint oversight agency as well as those made directly to the Company on behalf of Delaware consumers. The Company provided a list of 8 complaints. All 8 complaint files were requested, received and reviewed. The files were reviewed for compliance with the Delaware Statutes and Regulations. There were no exceptions noted.

MARKETING AND SALES

MARKETING MATERIALS

The Company was provided a copy of all marketing and sales materials (advertisement and sales tools) distributed or available for distribution during the examination period. The materials consisted of Applications, Brochures, Post Cards, Door Hangers, Flyers, Social Media Banners, Sticky Note Ads, Display Signage, Take Ones, Trifolds, and Notices. The company indicated that FLICA does not maintain any websites but rather that its products may be referenced on various websites maintained by other members of its holding company System, including, <http://www.ushealthgmup.com/>, <http://ushealthdirect.com/>, <http://www.ushealthfamily.com/>. All 298 marketing materials, and the websites, were reviewed to ascertain compliance with Delaware Statutes and Regulations including, but not limited to, 18 Del. C. §2303, Unfair Methods of Competition and Unfair or Deceptive Acts or Practices Prohibited. There were no exceptions noted.

POLICY APPLICATIONS

The Company was requested to provide a list of all applications taken during the examination period, including corresponding schedule of benefit pages, policy form numbers, cancellation/termination notifications where applicable, and all telephone call recordings pertaining thereto. The Company provided a list of 295 applications written during the examination period of January 1, 2014 to January 31, 2016. A random sample of 116 application file documents were requested, received and reviewed. Of the 116 applications, 62 were for the Premier Choice Plan, 38 for the Secure Advantage Plan and 16 for the Secure Care Plan. The file documents and telephone call recordings were reviewed for compliance with the Delaware Statutes and Regulations.

Exceptions were noted in the following sections of the Delaware Insurance Code:

18 Del. C. §1715. Appointments.

(a) An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer

who is not acting as an agent of an insurer is not required to become appointed.

(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.

(c) Upon receipt of the notice of appointment, the Insurance Commissioner shall verify within a reasonable time not to exceed 30 days that the insurance producer is eligible for appointment. If the insurance producer is determined to be ineligible for appointment, the Insurance Commissioner shall notify the insurer within 5 days of its determination.

(d) An insurer shall pay an appointment fee, in the amount and method of payment set forth in Chapter 7 of this title, for each insurance producer appointed by the insurer.

One agent or producer was not appointed within 15 days from the date the agency contract was executed or the first insurance application was submitted, for two applications.

Recommendation: It is recommended that the Company ensure that a notice of appointment is filed within 15 days from the date the agency contract is executed or the first insurance application is submitted in compliance with 18 Del. C. §1715.

It should be noted that the Company indicated that the agent in question was duly licensed by Delaware at the time of the application, but was inadvertently not appointed by FLICA at the time. The Company indicated further that steps had since been taken to appoint the agent as required.

18 Del. C. §2304. Unfair methods of competition and unfair or deceptive acts or practices defined

The Company issued three different suites of products during the course of the examination period: SecureCare, PremierChoice and SecureAdvantage. The products were not sold directly by the Company, but rather the Company indicated the products were presented and sold by independently contracted, career-captive agents. During the course of the examination numerous instances were noted where agents of the company hold appointments with other insurance companies unaffiliated with FLICA. As such, these individuals do not meet the definition of "career-captive agent" as the term is widely understood in the insurance industry.

All sales presentations are made by the agent, and it is during the sales presentation between the agent and the consumer when various disclosures and limitations of the products are intended to be discussed with the prospect. As part of this process, the agents are expected to fully explain that the coverage does not qualify as "minimum essential coverage" under the ACA, meaning that the prospect will be subject to the ACA's shared

responsibility payment if they do not otherwise maintain “minimum essential coverage”, or qualify for an exemption. All such notices and disclosures are set forth in the Company’s product literature, which is intended to be used and explained by the agent as part of the sale process.

Once an application is submitted the underwriting process begins and as part of the underwriting process for such products, the Company conducted recorded verification calls to ensure the accuracy of the information contained on the application, and also to reiterate certain notices and disclosures that were made as part of the sale presentation. The examiners reviewed a sample of these recorded calls as part of the examination, and found that in several instances, it appeared to the examiner that there was confusion on the part of the applicant concerning the coverage, which, in the examiners’ estimation, should have either been clarified during the call, or had the applicant referred back to the agent for further explanation. As a result of these concerns, the examiners reviewed the written scripts that the verifying calls are intended to follow and determined that the script for the Secure Advantage product did not clearly advise the applicant that the plan does not qualify as minimum essential coverage under the federal Affordable Care Act.

Recommendation: The Company should implement procedures to require a clear and concise verification disclosure that all benefit plans, including “Secure Advantage”, are not considered “Minimum Essential Coverage” under the federal Affordable Care Act, and that the insured may be subject to a tax penalty.

PRODUCER LICENSING

The Company provided a list of 321 producers. The producers were compared to departmental records of producers to verify licensing, appointments and terminations. In addition, a comparison was made on the producers identified on applications reviewed in the policy application section of the exam. For this examination, producer licensing exceptions found in the other sections of the examination were addressed in their respective section above. There were no exceptions noted.

UNDERWRITING AND RATING

POLICY FORMS

The Company provided a list and copies of all forms approved for use in Delaware during the examination period. The Company provided a list of 81 Individual Forms and 7 Blanket Forms. The Company also provided 81 Individual Form copies and 272 Blanket Group Form copies. The Company indicated that the Blanket Group Forms were not required to be filed in Delaware. The 81 Individual Forms and forms reviewed in the various sections of the examination were reviewed to ensure compliance with 18 Del. C. §2712, Filing, approval of forms. There were no exceptions noted.

CONCLUSION

The recommendations 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 ensure that a notice of appointment is filed within 15 days from the date the agency contract is executed or the first insurance application is submitted in compliance with 18 Del. C. §1715. (Marketing and Sales)
2. It is recommended that the Company implement procedures to require a clear and concise verification disclosure that all benefit plans, including “Secure Advantage” are not considered "Minimum Essential Coverage" under the federal Affordable Care Act, and that the insured may be subject to a tax penalty. (Marketing and Sales)

The examination conducted by Shelly Schuman, Gwen Douglas and Frank Kyazze is respectfully submitted.



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