

**DELAWARE DEPARTMENT OF INSURANCE
MARKET CONDUCT EXAMINATION REPORT**

ON

**HOUSEHOLD LIFE
INSURANCE COMPANY of DELAWARE**

AS OF

NOVEMBER 15, 2007

I, Karen Weldin Stewart, CIR-ML, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of November 15, 2007 of the

HOUSEHOLD LIFE INSURANCE COMPANY of DELAWARE

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

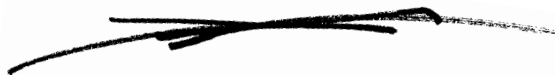


ATTEST BY: _____

DATE: April 6, 2010



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 6TH DAY OF APRIL 2010.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
HOUSEHOLD LIFE INSURANCE COMPANY of DELAWARE
AS OF
NOVEMBER 15, 2007

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

Consideration has duly been 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 6TH DAY
OF APRIL 2010.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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SALUTATION

May 2, 2009

Honorable Karen Weldin Stewart, CIR-ML
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 07-718, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

Household Life Insurance Company of Delaware

The examination was performed as of November 15, 2007. Household Life Insurance Company of Delaware, hereinafter referred to as the "Company" or as "HSBC," is incorporated under the laws of the State of Delaware. The examination consisted of two phases, an on-site phase and an off-site phase. The on-site phase of the examination was conducted at the following Company location:

200 Somerset Corporate Blvd Suite 100, Bridgewater, NJ 08807

The off-site examination phase 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

Household Life Insurance Company of Delaware (“HSBC” or “Company”) offers credit life insurance coverage to loan approved banking retail customers. Coverage is only offered after a loan product has been approved from the Company’s retail banking operations. This is offered as part of the loan closing process.

During the examination process it was noted that several of the procedures lacked sufficient controls. The Company was often unable to provide source documentation supporting their responses to exam questionnaires. Further, it was noted that failing to maintain procedures contributed to claim payments outside of statutory time frames, utilization of non-appointed producers and documentation issues within underwriting policy files.

Subsequent Event: The Company has reported to the Delaware Department of Insurance that effective March 2009, the marketing and sales of credit life insurance coverage to retail credit customers is no longer a core business activity of HLIC and the existing portfolio of credit insurance originated through the retail credit branch network is currently in runoff. As this change occurred after the completion of the examination, the recommendations that applied to that line of business remain in this examination report, as they were applicable at the time of the examination, however the Department of Insurance acknowledges that compliance with said recommendations is not necessary unless the Company alters their business plan and writes this business again in the future.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type on insurer. For all insurers these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company’s countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a Market Conduct examination through a review of the written procedures and operating processes of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its operational echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the

Household Life Insurance Company of Delaware

resulting findings of the measurement and monitoring activities. The examiners also determine if this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed, thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by exception rather than a report by test. This means that only those areas where recommendations for improvement were noted are detailed in this report.

HISTORY AND PROFILE

Household Life Insurance Company of Delaware ("HSBC" or "Company") was incorporated on October 24, 2000, under the laws of the State of Delaware. A Certificate of Authority, issued by the Insurance Commissioner on November 20, 2000, authorizes the Company to transact the business of life insurance

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination of the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Conduct Examiners' Handbook* (2004 edition).

The types of review used in this examination fall into three general categories: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Conduct Examiners' Handbook*. Samples of complaint files, underwriting files and claim files were reviewed to determine that the processes described by the Company are actually used by the Company.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews one hundred percent (100%) of the records of a particular type.

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In this examination only two standards were directly tested. Standards and procedures were tested through a combination of “generic” review and direct observation of the processes used.

Each Standard contains a brief description of the purpose or reason for the Standard. The Procedure review does not include this feature. The examiners’ “Observations” are noted following each Standard or Procedure tested. While each Standard is summarized and “Observations” are noted here, only those Procedures where exceptions were noted will be highlighted.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report, with the exception of the following two standards dealing with appropriate licensure and cooperation with the examination process.

Standard A 08

<p style="text-align: center;"><i>NAIC’s Market Conduct Examiners’ Handbook - Chapter VIII, §A, Standard 8</i> The Company is licensed for the lines of business that are being written. 18 Del. C. §318(a), §505(b)</p>

The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s Certificate of Authority.

Results: Pass

Observations: The Company is licensed for the lines of business being written based upon a review of premium schedules and the Company’s Delaware Certificate of Authority.

Recommendations: None

Standard A 09

<p style="text-align: center;"><i>NAIC’s Market Conduct Examiners’ Handbook - Chapter VIII. §A, Standard 9</i> The Company cooperates on a timely basis with the examiners performing the examination. 18 Del. C. §318(a), §320(c), §520(b) 3</p>
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The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely manner thereby minimizing cost.

Results: PASS

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Observations: The Company was notified of the progress of the examination and outstanding responses to requests during a weekly teleconference call and meetings with the Company coordinator and Compliance management team. During the examination, the Company responded to the examination team requests for additional information and findings and recommendations on an average of eleven (11) days. The Company requested additional time to respond in only two (2) out of eighty-nine (89) requests. During the weekly meeting with Company representatives on 5/28/06, the Company's Head of Compliance issued a written request to the examination team that all outstanding items be recorded as "not responded to", if no additional information is provided by 5/30/08. The examination team agreed with the Company and reported the items as requested.

Recommendations: The Company's efforts to comply are acknowledged, however a few items were ultimately not provided. Therefore, it is recommended that the Company continue to strive to comply with 18 Del. C. § 320(c) and provide all examination requests on a timely basis.

B. COMPLAINTS

The evaluation of the Standards in this business area is based on the Company's response to various information requests (IRs) and complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "...any written communication primarily expressing a grievance."

Observations: The Company did have twenty-five complaints issued during the period of examination. The NAIC's listing of complaints for the same period did not reflect any complaints.

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes usually take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this section of the report. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce an inconsistent application of the intended process. The same

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is generally true of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

The following areas were reviewed but no concerns or recommendations were noted.

No Recommendations or Concerns:

Procedure 02 – Assertions of Privilege

Procedure 05 – Anti-Fraud

Procedure 07 – Managing General Agent (MGA) Oversight and Control

Procedure 08 – Vendor Oversight and Control

Procedure 09 – Customer and Consumer Privacy Protection

Procedure 10 – Insurance Information Management

Procedure 14 – Agent Produced Advertising

Procedure 21 – Producer Defalcation

Procedure 22 - Felony Prevention

Procedure 24 – Premium Billing

Procedure 28 – Requesting Claim History

Procedure 30 – Premium Determination

Procedure 44 – Internal Claim Audit

Procedures Reviewed with Recommendations:

Procedure 01 – Audit

Observation: The Company does not have a formal written Internal Audit Procedure. The Company's parent HSBC performs an annual global audit through the parent company's Group Insurance Audit Team. The Group Insurance Audit Team conducts an audit of all United State's HSBC insurance entities together and produces a collaborative report with their findings. The reports issued during the scope of the exam covered the following global areas: agency business, distribution, underwriting, claims, finance, compliance, and Sarbanes-Oxley matters. Company specific audits not were conducted during the scope of the examination and previous "global" audits did not include this Company.

The "global" audits being performed and not specifically targeting each entity individually cannot effectively identify and correct inefficiencies at the individual entity level. If the Company had their own internal audit plans and procedures it would allow them the opportunity to detect specific issues within their operations to ensure compliance with their procedures and state laws. For example, a Company directed internal audit might have been able to mitigate examination findings related to statutory violations from failing to promptly pay and settle claims, issuing premiums outside of the filed rates, agents that are not properly licensed/appointed, and other findings detailed throughout the examination report.

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Recommendation: It is recommended that the Company develop a formal Company specific internal audit procedure that covers all market conduct areas, including management controls with scheduled reviews.

Procedure 11 Complaint Handling

Observation: The Company maintains Complaint Handling procedures focused on determining the correct department required to respond to the complaint and performing quarterly complaint reviews. All complaints received by the Company are recorded into their electronic claim tracking system called ECTS. Review of ECTS identified that both claim and policy numbers are not recorded as part of the compliant input process. The Company has agreed, as part of the examination, to start recording both policy and claim numbers.

The Company's Business Quality and Control department enter complaint data into ECTS. However, the Company was asked to provide information related to who is charged with and how often are ECTS data checks performed. The Company failed to respond to the inquiry. Outside of the above mention quarterly reports, the Company is able to run ad-hoc open complaint reports, but does not perform scheduled open complaint reports and when asked why, the Company then also failed to respond to this inquiry.

Recommendation: It is recommended that the Company develop a procedure to review the accuracy of information stored within ECTS, per 18 Del. C. §2304(17).

Procedure 20 - Producer Selection, Appointment and Termination

Observation: The Company's Producer Selection and Appointment process requires that new loan officers are to be appointed with Department. As the examination team reviewed the underwriting files the agent of record was checked against a licensing/appointment record. For many of the files reviewed the Company was unable to identify the agents of record. For agents that were identifiable based upon applications, disclosures, or the needs analysis worksheets many were not listed as being an appointed by the Company with Delaware Department of Insurance. The Company's producer practices are in violation of 18 Del. C. §1703 and 18 Del. C. §1715.

Recommendation: It is recommended that the Company comply with both 18 Del. C. §1703 and 18 Del. C. §1715 and promptly license and appoint all producers. It is also recommended that the Company comply with the appointment procedures presented to the examination team.

Subsequent Event: As previously noted, the Company has reported to the Delaware Department of Insurance that effective March 2009, the marketing and sales of credit life insurance coverage to retail credit customers is no longer a core business activity of HLIC and the existing portfolio of credit insurance originated through the retail credit branch network is currently in runoff. Therefore the recommendation, as it relates to loan officers, no longer applies.

Procedure 27 - Reinstatements

Observation: The Company does not maintain stand alone Reinstatement processes. Reinstatements are mentioned as part of loan payment/due date change request. It was noted during the review of policy certificate language that "coverage may be reinstated without evidence of insurability," however, the Company's processes make no mention of any fact based decision making related to insurability and processing of potential reinstatements after all past due premiums are made current.

Recommendation: It is recommended that the Company create reinstatement processes that identify when and how a policy 'may be' reinstated. It is also recommended that the Company measure the reinstatement processes on a scheduled basis to ensure compliance with identified standards.

Procedure 31 - Policyholder Disclosures

Observation: The Company indicated that a Policyholder Disclosure procedure was not applicable. At a loan closing, multiple insurance products are offered and one application can be utilized for multiple companies and products. Therefore the importance of detailing which coverages are being issued by which insurer needs to be properly disclosed.

It was noted in the majority of the files reviewed that the disclosure forms provided to the insured were either incomplete or missing. It was also noted that the Company did not initiate any oversight of the policy files for completeness and accuracy during the scope of the examination.

Recommendation: It is recommended that the Company develop a procedure to maintain signed disclosure forms. It is also recommended that policy files should also be audited for completeness/accuracy on a consistent basis.

Subsequent Event: As previously noted the Company has reported to the Delaware Department of Insurance that effective March 2009, the marketing and sales of credit life insurance coverage to retail credit customers is no longer a core business activity of HLIC and the existing portfolio of credit insurance originated through the retail credit branch network is currently in runoff. Therefore compliance with this recommendation, as it applies to that line of business, is not necessary.

Procedure 32 - Underwriting and Selection

Observation: The Company maintains Underwriting and Selection procedures designed to provide underwriters with the necessary tools to accept or decline policy applications. The life product offerings are credit insurance of real estate and non real estate loans. The Company offers guaranteed issued policies for loan amounts under \$25,000. Loan approvals over \$25,000 require full underwriting using established guidelines. However, during the review of sampled policy files, and the inconsistent nature of the information provided as a complete policy file, it was noted that underwriting procedures lack a process to determine if all selection criteria are utilized correctly and/or consistently.

Household Life Insurance Company of Delaware

Recommendation: It is recommended that the Company develop a process to ensure underwriting selection criteria are utilized accurately per established Underwriting guidelines.

Subsequent Event: As previously noted, the Company has reported to the Delaware Department of Insurance that effective March 2009, the marketing and sales of credit life insurance coverage to retail credit customers is no longer a core business activity of HLIC and the existing portfolio of credit insurance originated through the retail credit branch network is currently in runoff. Therefore compliance with this recommendation, as it applies to that line of business, is not necessary

Procedure 34 - Terminations

Observations: The Company's response to Terminations contained only a procedural reference guide to process a termination once a termination decision had been made. No information was provided related to the Company's decision to terminate a policy per the policy language. Additionally, it should also be noted that it does not appear that the Company performs any follow up activity to ensure cancellation codes are properly utilized either manually or electronically. Finally, all cancellation training is undocumented and informal.

Recommendation: It is recommended that the Company develop a comprehensive cancellation/termination procedure for all lines of business which addresses consumer requested cancellations and Company directed policy terminations. It is also recommended that the Company develop a testing procedure to ensure cancellations and terminations are handled according to state law and to the newly developed comprehensive procedures. Further it is recommended that the Company formally document all cancellation/termination trainings.

Procedure 40 - Staff Training

Observation: The Company does not have a formal written Staff Training Procedure. However, according to the Company department managers are to work with Human Resources (HR) to determine what the Staff's needs are for training. The Company also stated that surveys and interviews are to be used to determine what type of training should be provided, however examples of surveys and interview records could not be provided. There are also processes in place that allow for the identification of mandatory and optional training opportunities. Upon request the Company was unable to make this distinction from the training sessions offered under the examination scope.

Recommendation: It is recommended that the Company develop a formal written staff training procedure. It is also recommended that the new Staff Training Procedure include the current surveys and interviews utilized to determine the annual training schedule, a record of what sessions or hours are mandatory on an annual basis, a formal means of communicating/announcing the training sessions, and the development a measurement process to see if the information conveyed is being applied.

Procedure 43 - Claim Handling

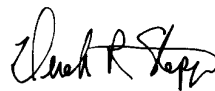
Observation: The Company maintains a Claim Handling procedure. According to the information provided a claim should include a completed claim form and death certificate in order for processing. The Company also stated within their procedure that a claim is to be investigated within five (5) days and paid within 30 days of the proof of loss or as required by each state. In addition, the procedure states that all phone calls, specifically claims related, are to be recorded and maintained for training purposes. Along with reviewing the Company's written procedure, a paid claims sample was tested to confirm the Company's written procedure and compliance with Delaware laws.

The paid claim sample revealed three problem areas which affect Company procedures and Delaware statutes. First, the Company has a written process to record all calls into the Company which are to be used for training purposes and those recordings are archived. However, when the Company was asked to provide a small sample for review, the Company was not able to retrieve any of the taped calls. Secondly, the file review of the paid claims sample found a file that was not investigated in ten (10) working days as allowed in 18 Del. C. § 902-1.2.1.3 or within the five (5) days required by the Company's procedure. Finally, the paid claims sample showed that five (5) out of the twenty-seven (27) or 19% of the files sampled were not settled/paid within the thirty (30) days mandated in 18 Del. C. § 902 - 1.2.1.5.

Recommendation: It is recommended that the Company comply with 18 Del. C. § 902-1.2.1.3 - Starting an investigation within 10 working days. Finally, it is recommended that the Company take the needed steps to comply with 18 Del. C. § 902 - 1.2.1.5. - Paying claims within 30 days from the date the proof of loss is received.

CONCLUSION

The examination was conducted by Derek Stepp, Michael Pate, Parker WB Stevens, and Sean Connolly and is respectfully submitted.



Derek Stepp, CIE
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware