

STATE OF NORTH DAKOTA

# **TARGETED MARKET CONDUCT EXAMINATION REPORT**

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MADISON NATIONAL LIFE INSURANCE COMPANY

MADISON, WISCONSIN

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As of October 1, 2017

By Representatives of the  
North Dakota Insurance Department

STATE OF NORTH DAKOTA

INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Targeted Market Conduct Examination Report of the

**Madison National Life Insurance Company**

**Madison, Wisconsin**

as of October 1, 2017, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 17<sup>th</sup> day of  
May, 2018.



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Jon Godfread  
Commissioner

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## **I. SUMMARY**

This was a targeted market conduct examination of Madison National Life Insurance Company, hereinafter referred to as “Madison National Life” or the “Company”. The focus of the examination was to determine if the Company paid the correct amounts for long-term disability (“LTD”) income benefits under its policy provisions, specifically if the pre-disability earnings for each claim was correctly calculated.

The examination did not produce any exceptions.

## **II. SCOPE OF THE EXAMINATION**

Authority for this examination is provided by North Dakota Century Code (N.D.C.C.) §§ 26.1-03-19.2 and 26.1-03-19.3. It was conducted in accordance with standards established by the National Association of Insurance Commissioners including the use of standard sampling methodology.

The examination was called by letter dated November 15, 2017 and completed on March 1, 2018. It encompassed the period from October 1, 2007 through October 1, 2017.

This examination was called following the resolution of a complaint submitted to the North Dakota Insurance Department (“Department”) that concerned a long-term disability claim that was initially denied but then paid at a rate that was inconsistent with the insured’s pre-disability earnings. As a result, the examination focus was to determine if the correct amounts of LTD benefits had been paid under policy provisions to the residents of North Dakota, especially relating to the calculation of pre-disability earnings. In addition, some general inquiries were made for an understanding of the Company business.

## **III. METHODOLOGY**

The review consisted of information provided by the Company and included responses to the coordinator’s handbook, responses to information requests made by the examiners, interviews of Company employees and the review of files. This report is made by test. Failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

Files were reviewed during the course of examining the complaints and claims. In the case of LTD paid claims, a random sample was taken from the universe of files provided. In the other reviews, the entire universe of files was reviewed.

The examiners requested information related to the operations and management of the Company. This information was requested for Company background and testing for consistency. The

requested information concerned internal audits, amount of premium, number of policies, annual statements and the history and overview of the Company.

Complaints and appeals were requested that included complaints made directly to the Company, complaints forwarded to the Company by the Department and consumer appeals. The list of Department complaints furnished by the Company was consistent with Department records. This information was examined to detect any trends.

The examiners also requested marketing and sales material for comparison to the Company's claim practices. The Company reports that it has a niche market and, as a result, has no marketing and sales material in North Dakota. In addition, the policy forms were requested for assistance during claim reviews.

Both short term and long term disability claims were requested for paid claims, denied claims and claims closed without payment. In addition, claim procedures and third party vendors that may handle claims were requested to determine correlation to any exceptions. The Company reported no short term disability policies and claims.

## **VI. RESULTS OF EXAMINATION**

### **A. Company Operations and Management**

Madison National Life Insurance Company was organized in 1961 as National Security Life Insurance Company. The name was subsequently changed to Madison National Life Insurance Company, Inc. in 1963. It is a wholly owned subsidiary of Independence Holding Company. Madison National Life is domiciled in Wisconsin and is licensed to sell insurance products in 49 states, the District of Columbia, the Virgin Islands and American Samoa. It is rated A- by A.M. Best Company, Inc.

Madison National Life is involved in several lines of life, health and disability business. The group disability business has traditionally focused on hospitals, school districts and municipalities with a smaller amount of business placed with other private employers. The Company distributes its products through independent agents under the supervision of managing general agents.

The Company reports a general decline in LTD premium in the state during the examination period. The amount of premium declined from \$734,965 in 2007 to \$294,504 in 2016 (last full year of reporting at the time of the examination). For comparison, the national LTD premium reported by the Company in 2016 was \$51,597,752.50.

The Company reports that a total of 13 LTD group policies were effective sometime during the examination period, insuring 5,136 lives. There was one (1) new policy issued during the examination period. Currently, there are seven (7) policies insuring 1,713 lives.

No exceptions were noted.

## **B. Complaint Handling (Complaints and Appeals)**

The Company reported the following data for complaint and appeal files:

- a) Other than Insurance Department complaints - 2 files
- b) Received from the Insurance Department - 5 files
- c) Appeals – 25 files

These files were examined for any trends in the handling of disability benefits. No trends or exceptions were noted.

## **C. Marketing and Sales**

The Company was requested to provide marketing and sales material used in the state. No material was provided. The Company explained that it does little marketing due to reliance on managing general agents who sell in a specialized market of employers primarily consisting of school districts, municipalities and hospitals.

The Company was also requested and provided a list of all policy forms to assist in the review of claim files.

No exceptions were noted.

## **D. Claims**

The Company was requested to provide both short term and long term group disability claims that were paid, denied and closed without payment. The Company stated that there were no short term group disability claims in the state. The data for long-term group disability was reported as follows:

- a) LTD paid claims – 143 files
- b) LTD denied claims – 17 files
- c) LTD closed without payment claims - 2 files

The benefits under the LTD products sold by the Company have significant variations with the policy provisions that are flexible for the needs of any particular employer. In addition to the benefits varying between groups, any particular group can have classes of employees with different benefits.

In a generic sense, the pre-disability earnings are established and then the benefit percentage is applied to obtain the gross indemnity amount. Offsets and other considerations are applied to obtain the payable benefit, usually on a monthly basis. Maximum and minimum benefit levels also apply.

As with other policy provisions, the definition of pre-disability earnings can vary. However, in a general sense, pre-disability earnings are the basic earnings of the employee.

The pre-disability earnings are requested in the initial stage of the claim from both the employer and from the third-party administrator premium billing department. If there are differences between the amounts reported by the employer and the premium billing department, the Company reports that an inquiry is made to determine the correct amount of earnings.

A random sample of the 76 LTD paid claims were generated for review of the accuracy of claim calculations and payments. Four additional claims over \$100,000 were also selected so that all claims involving \$100,000 in payments within the reported universe were reviewed for a total of 80 claims. No errors in the calculation of pre-disability earnings were revealed.

The review revealed three files with minor errors in calculations other than the pre-disability earnings. Two of the files were in the claimants' favor. The third file reported an underpayment in the amount of \$65.40. This file was opened in 1997 and continues with monthly disability payments. As a result of this examination, the Company has now paid the underpayment to the claimant with interest. These errors were not the focus of this examination and did not rise to a significant percentage of claims.

The examiners also reviewed the LTD denied and closed without payment claims for reasonableness in the closure of the claims.

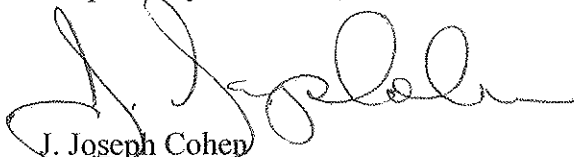
No exceptions were noted.

### **EXAMINATION DRAFT REPORT SUBMISSION**

The courtesy and cooperation of the officers and employees of the Company during the examination are acknowledged and appreciated.

Delbert Knight  
J. Joseph Cohen, Examiner-in-Charge

Respectfully submitted,

  
J. Joseph Cohen  
Examiner-in-Charge

AFFIDAVIT

STATE OF TEXAS )  
 ) ss.  
COUNTY OF BEXAR )

J. Joseph Cohen, of lawful age, being first duly sworn upon oath, states as follows:

That I have been charged with preparing a Market Conduct Examination Report of Madison National Life Insurance Company for the period October 1, 2007, through October 1, 2017.

That I have conducted an examination of the market conduct affairs and practices of Madison National Life Insurance Company and have prepared and read the foregoing Report.

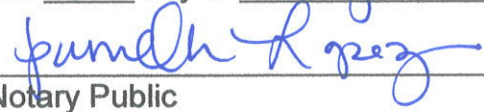
That the foregoing six pages constitute the report to the Commissioner of the North Dakota Insurance Department; and

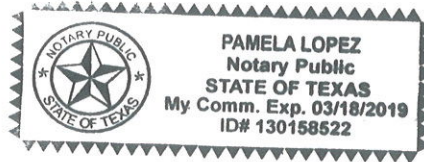
That I am familiar with the matters set forth in foregoing Report and I certify the Report is true and complete to the best of my knowledge.

  
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J. Joseph Cohen  
Examiner-In-Charge  
INS Regulatory Insurance Services, Inc.  
for the state of North Dakota, North  
Dakota Insurance Department

Subscribed and sworn to before me  
this 11<sup>th</sup> day of May, 2018.

  
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Notary Public



My Commission Expires: 2.18.19