

Report of the

Multistate Targeted Market Conduct Examination

for the

**New Hampshire Insurance Department (Managing Lead State), California
Department of Insurance, Florida Office of Insurance Regulation, Illinois
Department of Insurance, North Dakota Department of Insurance, and
Pennsylvania Insurance Department (Lead States) and Participating
States which include:**

Alabama, Alaska, Arizona, Arkansas, Connecticut, Delaware, the District of Columbia,
Georgia, Guam, Idaho, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland,
Massachusetts, Michigan, Mississippi, Missouri, Montana, Nevada, New Jersey, New
Mexico, North Carolina, Ohio, Oklahoma, Rhode Island, Utah, Vermont, Washington,
and West Virginia

of the

United Services Automobile Association Group
(NAIC Group Code # 0200) and its affiliated companies:

USAA Life Insurance Company
NAIC Company # 69663
San Antonio, Texas

USAA Direct Life Insurance Company
NAIC Company # 72613
Omaha, Nebraska

February 6, 2014

Contents

| <u>Topic</u> | <u>Page</u> |
|-------------------------------------|-------------|
| Salutation | 1 |
| Foreword | 2 |
| Background and Scope of Examination | 2 |
| Profile of the Company | 3 |
| Examination Methodology | 4 |
| Examination Results | 5 |
| Report Submission | 8 |

RACKEMANN SAWYER & BREWSTER

PROFESSIONAL CORPORATION
COUNSELLORS AT LAW

Established 1886

February 6, 2014

Mr. Roger A. Sevigny, Commissioner
New Hampshire Department of Insurance
21 South Fruit Street, Suite 14
Concord, New Hampshire 03301

Mr. Dave Jones, Commissioner
California Department of Insurance
300 Capitol Mall, Suite 1700
Sacramento, California 95814

Mr. Kevin M. McCarty, Commissioner
Office of Insurance Regulation
The Larson Building
200 East Gaines Street, Room 101A
Tallahassee, Florida 32399-0305

Mr. Andrew Boron, Director
Illinois Department of Insurance
320 W. Washington Street, 4th Floor
Springfield, Illinois 62767-001

Mr. Adam Hamm, Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, 5th Floor
Bismarck, North Dakota 58505-0320

Mr. Michael F. Consedine, Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Dear Commissioner Sevigny, Commissioner Jones, Commissioner McCarty,
Director Boron, Commissioner Hamm, and Commissioner Consedine:

Pursuant to the authority granted by N.H. RSA § 400-A:37, CAL. INS. CODE §§ 729 et seq., FLA. STAT. ANN. § 624.3161, 215 ILL. COMP. STAT §§ 5/132 and 5/402, N.D. CENT. CODE § 26.1-03-19.3, 40 PA. CONS. STAT. ANN. §§ 323.1 et seq., and in accordance with the *NAIC Market Regulation Handbook* (“Handbook”), a multistate targeted market conduct examination has been conducted of the claims handling practices concerning use of the Social Security Administration’s Death Master File (“DMF”) and its application of the DMF to its life insurance business as well as its annuities business, of:

United Services Automobile Association Group and its affiliated Companies
 (“USAA” or the “Company”)

This report of examination is herewith respectfully submitted.

Foreword

This report on the multistate targeted market conduct examination of USAA is provided pursuant to the Handbook and is made, with modification, by test and exception.

Background and Scope of Examination

On December 6, 2012, the New Hampshire Insurance Department issued a call letter to USAA advising that a multistate targeted market conduct examination (“Examination”) had been called to evaluate the Company’s claims handling practices, particularly its use of the DMF and its application of the DMF to its life insurance business as well as its annuities business. The call letter advised that the Examination would cover the time period beginning with the calendar year in which USAA first accessed the DMF (subsequently discovered to be an unknown year in the late 1990s) and continuing through the present.

The purpose of the examination was to determine whether USAA’s claims handling practices and procedures, particularly its use of the DMF and its application of the DMF to its life insurance business as well as its annuities business, conformed with the standards reflected in the National Association of Insurance Commissioners (“NAIC”) Unfair Trade Practices Act, NAIC Unfair Claims Settlement Practices Model Act (together, the “Model Acts”), N.H. RSA Chapter 417; CAL. INS. CODE §§ 790 *et seq.*; FLA. STAT. ANN. §§ 626.951 *et seq.*; 215 ILL. COMP. STAT. 5/154.6 and 5/421 *et seq.*; N.D. CENT. CODE Chapter 26.1-04; and 40 PA. CONS. STAT. ANN. §§1171.1 *et seq.*, and

other statutes of the various states concerning the proper administration of insurance claims and the prompt payment of benefits.

Profile of the Company

The Examination concerned two USAA member companies – USAA Life Insurance Company (“USAA Life”) and USAA Direct Life Insurance Company (“USAA Direct”). USAA Life Insurance Company of New York, which is only licensed to do business in New York, was not included in the Examination. At all relevant times, USAA Life (NAIC # 69663) has been a licensed stock insurance company domiciled in the State of Texas. USAA Direct (NAIC # 72613) was a licensed stock insurance company domiciled in the State of Nebraska. USAA Direct was a wholly owned subsidiary of USAA Life until December 31, 2013 when it merged with and into USAA Life. USAA Life is a wholly owned subsidiary of United Services Automobile Association (NAIC # 25941) a Texas reciprocal interinsurance exchange. USAA Life has, at all relevant times, been authorized to write life, accident, and health insurance in all fifty states (except New York) and the District of Columbia. USAA Direct has, at all relevant times, been authorized to write life, accident, and health insurance in all fifty states (except Connecticut, New Hampshire, and New York) and the District of Columbia.

On the basis of reported Schedule T data as of December 31, 2012, USAA was the 40th largest writer of life insurance and annuity business in the country with a 0.37% market share. For calendar year 2012, USAA reported \$903 million in life premiums and \$1.1 billion in annuity considerations.

Examination Methodology

The Examination was conducted on a description and verification basis whereby the Examiners submitted questions to USAA then sought to validate the Company's representations. The process began on December 26, 2012, when the Examiners sent to the Company their first set of interrogatories together with a number of document requests. On February 13, 2013, the Company produced responsive documents as well as sworn responses to the interrogatories. The Examiners reviewed the Company's description of its past and present DMF use, provided the Company with their written understanding of its representations as to present DMF practices, and requested that USAA provide confirmation, correction, and clarification as appropriate. The Examiners also requested further description of USAA's past practices for using the DMF.

Consistent with a mutually agreed timeline, the Company provided minor clarifications regarding present practices in a letter dated May 6, 2013, and a more complete representation regarding its past practices on July 11, 2013. The Examiners asked a number of follow-up questions and provided the Company with their revised understanding of its representations that was confirmed by USAA in September and October of 2013. Finally, the Examiners identified those letters and e-mails relied upon in forming their understanding of USAA's representations. The Examiners requested that the Company certify the statements in these documents under oath. USAA has provided the requested attestation.

To validate the Company's representations regarding its past and present procedures for using the DMF, the Examiners requested and reviewed contemporaneous

records including manuals, guidelines, databases, audit reports, and project descriptions. To verify the application of those procedures, the Examiners considered conducting a full-scale match of the Company's complete customer database against the DMF and requested information as to any similar efforts the Company may recently have made. The Company advised that it was presently in the process of comparing its member database against the DMF and matching any resulting "hits" against its records of products active at any time from 1999 through the present. Initial results were expected in the summer of 2013. The Examiners concluded that a separate DMF search would be duplicative of this process and requested that the Company produce results of its nationwide match as they became available. On July 11, 2013 and September 27, 2013, the company produced results of its ongoing DMF match process for customers residing in the six Lead States as exemplars of likely national results.

Examination Results

USAA began using the DMF in the late-1990s for purposes of validating its marketing mailing lists so as to avoid sending solicitations to deceased persons.¹ USAA began using the DMF for purposes other than marketing when, in October of 1999, it purchased a subscription for monthly DMF updates from the National Technical Information Service. Using this subscription, USAA began conducting regular matches between the DMF and its complete "member database" to identify any customers that had been reported as deceased. Lists of potentially deceased members were then circulated to

¹ After diligent search, the Company has been unable to determine the exact date on which it began to use the DMF for marketing purposes.

USAA's various departments for investigation.² If these departments determined that benefits might be owed as a result of the reported death, they sent a condolence package to the decedent's household to verify the reported death and start the claims process. In 2007, USAA transitioned to a weekly matching process.

At present, if the Company learns of a member's potential death through the DMF matching process and the decedent's family does not contact USAA within two weeks, USAA proactively investigates the possibility that benefits are due. If the Company's investigation suggests that the deceased members has an active relationship with the Company regarding a product for which death may trigger the payment of benefits, USAA sends out a notification letter seeking confirmation or correction of its records. Every death reported in the DMF with the potential to trigger the payment of benefits therefore results in efforts to contact the customer, alerting potential beneficiaries to the existence of relevant USAA products.

USAA has produced to the Examiners results of the first six States reviewed in the ongoing countrywide match between the DMF and its customer database. These results, reflecting a substantial portion of USAA's total business, are consistent with its representations concerning historical symmetrical use of the DMF. The Examiners have therefore concluded that it has been (and continues to be) the Company's policy to use

² USAA had informed the Examiners that immediate annuities and certain niche products were, at various points, omitted from regular DMF searches. The Company has conducted remedial DMF searches to identify and pay any benefits owed. Given the nature of the products involved, the de minimis consumer impact, and that the Company has retroactively paid any amounts due, these omissions do not raise concerns. (USAA's failure to run the DMF against its immediate annuity book of business caused it, not its customers, possible harm.)

the DMF symmetrically across product lines. The Examiners have no concerns to report regarding the Company's past or present use of the DMF respecting compliance with the Model Acts or the laws of New Hampshire or the other States.

USAA's Unclaimed Property Practices

The Examiners also inquired of USAA concerning its practices (from an unclaimed property perspective) concerning any proceeds remaining unpaid after making efforts to contact beneficiaries upon learning of a death from the DMF.

USAA produced a copy of its procedures which provide that "the escheatment date begins at the date of death of the insured for life contracts and date of death of the annuitant for annuity contracts". Further, USAA's procedures provide for reporting of the unpaid benefits (pursuant to the applicable unclaimed property law) if claim forms are not received back within sixty days of the Company sending the claim package.

These unclaimed property procedures are consistent with those specified in the Unclaimed Property Audit Agreements entered into by other leading life insurers with unclaimed property officials.

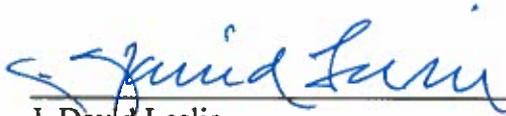
Acknowledgment

The Examiners express their appreciation to USAA for its cooperation and prompt response to questions throughout the course of the examination.

Report Submission

The report of examination is herewith respectfully submitted.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. David Leslie", written over a horizontal line.

J. David Leslie
Examiner-in-Charge