



MARKET CONDUCT REPORT ON EXAMINATION

OF THE

KNIGHTS OF COLUMBUS

AS OF DECEMBER 31, 2019

EXAMINER:

CHONG KIM

DATE OF REPORT:

AUGUST 6, 2021

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

December 1, 2022

Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32197, dated March 2, 2021, and annexed hereto, an examination has been made into the condition and affairs of Knights of Columbus, hereinafter referred to as “the Society”. The Society’s home office is located at One Columbus Plaza, New Haven, CT 06510. The examination was conducted remotely because of the COVID-19 pandemic.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material violations and recommendation contained in this report are summarized below.

- The Society violated Section 51.6(b)(2) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require with each replacement proof of receipt by the applicant of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts. (See item 4A of this report.)
- The Society violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to obtain an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to Regulation 60, including the primary reason or reasons for recommending the proposed life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the participant's objectives. (See item 4A of this report.)
- The Society violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60) by failing to ascertain that the Disclosure Statement is accurate and met the requirements of the Regulation. (See item 4A of this report.)
- The Society violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60) by failing to include the replaced companies that failed to provide information concerning the existing coverage to the Society when the Society submitted annual electronic reports to the Department. (See item 4A of this report.)
- The Society violated Section 51.6(b)(8) of 11 NYCRR 51 (Insurance Regulation 60) by failing to maintain copies of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts and by failing to maintain the signed and completed Disclosure Statement. (See item 4A of this report.)
- The Society violated Section 3211(b)(2) of the New York Insurance Law by failing to state on its premium notices that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit. (See item 4C of this report.)

- The examiner recommends that the Society revise the notice of premium due so that the disclosure required by Section 3211(b)(2) of the New York Insurance Law is printed verbatim in a conspicuous manner on the notices of premium due that are sent at least 15, but not more than 45 days prior to the date when due. (See item 4C of this report.)

2. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2015, to December 31, 2019. As necessary, the examiner reviewed matters occurring subsequent to December 31, 2019, but prior to the date of this report.

The examination comprised a review of market conduct activities and utilized the National Association of Insurance Commissioners' *Market Regulations Handbook* or such other examination procedures, as deemed appropriate, in such review.

This report on examination is confined to comments on matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF SOCIETY

A. History

The Society was chartered in the State of Connecticut on March 29, 1882 and was admitted in New York to conduct business as a fraternal benefit society in June 1885.

B. Territory and Plan of Operation

The Society is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Society is licensed to transact business in 50 states, the District of Columbia, Guam, Puerto Rico, the US Virgin Islands and Canada. As of December 31, 2019, 45.3% of life premiums, accident and health premiums, annuity considerations, and deposit type funds were received from Canada (11.6%), Texas (6.0%), California (5.3%), Florida (4.2%), Illinois, (3.2%), Michigan (3.2%), New York (3.1%), Massachusetts (3.0%), Missouri (3.0%) and Virginia (3.0%). Policies are written on a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2019:

<u>Life Insurance Premiums</u>		<u>Deposit Type Funds</u>	
Canada	13.6%	Canada	13.6%
Texas	7.4	Florida	6.7
California	6.0	California	6.1
New York	4.6	Texas	5.8
New Jersey	3.9	Michigan	4.7
Florida	3.8	Virginia	<u>4.7</u>
Illinois	3.7	Subtotal	41.6%
Missouri	<u>3.7</u>	All others	<u>58.4</u>
Subtotal	46.7%	Total	<u>100.0%</u>
All others	<u>53.3</u>		
Total	<u>100.0%</u>		

The Society's agency operations are conducted on a general agency basis with no direct expense paid to a general agent or a field agent. The general agents and field agents are independent contractors, not employees of the Society. As of December 31, 2019, the Society has three general agents and 60 field agents.

4. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Society's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes, regulations and the operating rules of the Society.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Society's advertising files and the sales activities of the agency force including trade practices, solicitation, and the replacement of insurance policies.

1) Advertisements

Section 219.4(p) of 11 NYCRR 219 (Insurance Regulation 34-A) states, in part:

“In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States. . . .”

The review of a sample of 30 life and annuity advertisements showed that in all instances the advertisements failed to identify the name of the city, town, or village in which the Society has its home office in the United States.

The Society violated Section 219.4(p) of 11 NYCRR 219 (Insurance Regulation 34-A) by failing to identify the name of the city, town, or village in which the Society has its home office in the United States.

The examiner recommends that the Society amend all the advertisements of its life and annuity products created for dissemination in New York to include the name of the city, town, or village in which the Society has its home office in United States.

In June 2021, the Society amended all of its advertisements by including the address of its home office in United States.

2) Replacements

Section 51.6(b) of 11 NYCRR 51 (Insurance Regulation 60) states, in part:

“Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance or annuity contract shall: . . .

- (2) require with or as part of each application a copy of the sales material including any proposal, used in the sale of the life insurance policy or annuity contract, and proof of receipt by the applicant of the ‘IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contract’;
- (3) prior to the delivery of the life insurance policy or annuity contract, require an accurate and complete ‘Disclosure Statement’ signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to this Part, including the primary reason or reasons for recommending the new life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the applicant’s objectives;
- (4) examines the sales material, including any proposal, used in the sale of the life insurance policy or annuity contract, and the ‘Disclosure Statement’, and ascertain that they are accurate and meet the requirements of the Insurance Law and regulations promulgated thereunder;
- (7) submit annual electronic reports by February 1 of each year to the superintendent, indicating which insurers, if any, have failed to provide the information as required in paragraph (c)(2) of this section;
- (8) maintain copies of: the sales material, including any proposal, used in the sale of the life insurance policy or annuity contract; proof or receipt by the applicant of the ‘IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts’; the signed and completed ‘Disclosure Statement’; and the notification of replacement to the insurer that issued the life insurance policy or annuity contract that is to be replaced, indexed by insurance agent or broker, in accordance with Part 243 of this Title (Regulation 152); . . .”

The examiner reviewed a sample of 48 replacements, consisting of 18 life insurance external replacements, four annuity external replacements and 26 life insurance internal replacements, processed during the examination period. The review revealed that 40 of 48 (83.3%) replacements contained a material error or omission violating 11 NYCRR 51 (Insurance Regulation 60), with some replacements including more than one error or omission. Following are the errors and omissions noted during the review:

- a.) In 24 of 26 internal replacements (92.3%), the Society failed to require proof of receipt by applicant of the “IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts” for each replacement.

The Society violated Section 51.6(b)(2) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require with each replacement proof of receipt by the applicant of the

IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.

- b.) In 28 of 48 replacements (58.3%), the Society's insurance agent did not accurately complete the Disclosure Statement or state the primary reason or reasons for recommending the proposed life insurance policy or annuity contract, including how the existing life insurance policy or annuity contract cannot meet the participant's objectives. Furthermore, the Society did not ascertain that the Disclosure Statement was accurate and met the requirement of the Regulation, instead the Society relied upon the agent's review of the Disclosure Statement.

The Society violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to obtain an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to Regulation 60, including the primary reason or reasons for recommending the proposed life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the participant's objectives.

The Society violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60) by failing to ascertain that the Disclosure Statement is accurate and met the requirements of the Regulation.

- c.) In 5 of 22 external replacements (22.7%), the agent indicated that it approximated the existing coverage information in the Disclosure Statement because the replaced companies failed to provide the information of the replaced coverages. However, when the Society submitted the annual electronic reports to the Department, the Society did not include these companies in the reports.

The Society violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60) by failing to include the replaced companies that failed to provide information concerning the

existing coverage to the Society when the Society submitted annual electronic reports to the Department.

- d.) In 24 of 26 internal replacements (92.3%), the Society did not maintain copies of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts and did not maintain the signed and completed Disclosure Statement.

The Society violated Section 51.6(b)(8) of 11 NYCRR 51 (Insurance Regulation 60) by failing to maintain copies of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts and by failing to maintain the signed and completed Disclosure Statement.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes, and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations, and traced the accounting data to the books of account.

Section 3211 of the New York Insurance Law states, in part:

“(a)(1) No policy of life insurance or non-cancellable disability insurance delivered or issued for delivery in this state, and no life insurance certificate delivered or issued for delivery in this state by a fraternal benefit society, shall terminate or lapse by reason of default in payment of any premium, installment, or interest on any policy loan in less than one year after such default, unless, for scheduled premium policies, a notice shall have been duly mailed at least fifteen and not more than forty-five days prior to the day when such payment becomes due. . . .

(b)The notice required by paragraph one of subsection (a) hereof shall: . . .

(2) state the amount of such payment, the date when due, the place where and the person to whom it is payable; and shall also state that unless such payment is made on or before the date when due or within the specified grace period

thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.”

The review of 27 lapsed whole life insurance policies showed that in all instances the notice of premium due sent to policyholders failed to include the language that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse, except as to the right to any cash surrender value or non-forfeiture benefit.

The Society violated Section 3211(b)(2) of the New York Insurance Law by failing to state on its premium notices that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.

The examiner recommends that the Society revise the notice of premium due so that the disclosure required by Section 3211(b)(2) of the New York Insurance Law is printed verbatim in a conspicuous manner on the notices of premium due that are sent at least 15, but not more than 45 days prior to the date when due.

The Society conducted a study to identify insured who have died within one year of the lapse of their policy. The Society’s research included a cross-check through the social security death master file. The Society identified three policies where death occurred within one year of policy lapse processing.

The examiner recommends that the Society pay the appropriate beneficiary or beneficiaries the total death benefit due under the policies in which death occurred within one year of the lapse date of the policy for the policies in which the Society used the non-compliant premium notices.

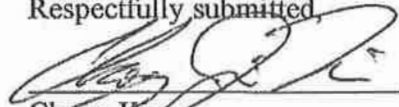
5. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Society violated Section 219.4(p) of 11 NYCRR 219 (Insurance Regulation 34-A) by failing to identify the name of the city, town, or village in which the Society has its home office in the United States.	7
B	The examiner recommends that the Society amend all the advertisements of its life and annuity products created for dissemination in New York to include the name of the city, town, or village in which the Society has its home office in United States.	7
C	The Society violated Section 51.6(b)(2) of 11 NYCRR 51 (Insurance Regulation 60) by failing to require with each replacement proof of receipt by the applicant of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.	8
D	The Society violated Section 51.6(b)(3) of 11 NYCRR 51 (Insurance Regulation 60) by failing to obtain an accurate and complete Disclosure Statement signed by the insurance agent or broker in the form prescribed in Appendices 10A or 10B to Regulation 60, including the primary reason or reasons for recommending the proposed life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the participant's objectives.	9
E	The Society violated Section 51.6(b)(4) of 11 NYCRR 51 (Insurance Regulation 60) by failing to ascertain that the Disclosure Statement is accurate and met the requirements of the Regulation.	9
F	The Society violated Section 51.6(b)(7) of 11 NYCRR 51 (Insurance Regulation 60) by failing to include the replaced companies that failed to provide information concerning the existing coverage to the Society when the Society submitted annual electronic reports to the Department.	9
G	The Society violated Section 51.6(b)(8) of 11 NYCRR 51 (Insurance Regulation 60) by failing to maintain copies of the IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts and by failing to maintain the signed and completed Disclosure Statement.	10

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
H	The Society violated Section 3211(b)(2) of the New York Insurance Law by failing to state on its premium notices that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.	11
I	The examiner recommends that the Society revise the notice of premium due so that the disclosure required by Section 3211(b)(2) of the New York Insurance Law is printed verbatim in a conspicuous manner on the notices of premium due that are sent at least 15, but not more than 45 days prior to the date when due.	11
J	The examiner recommends that the Society pay the appropriate beneficiary or beneficiaries the total death benefit due under the policies in which death occurred within one year of the lapse date of the policy for the policies in which the Society used the non-compliant premium notices.	11

Respectfully submitted,



Chong Kim
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Chong Kim, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.



Chong Kim

Subscribed and sworn to before me

this 1st day of December, 2022

Audrey Hall

AUDREYHALL
Notary Public, State of New York
No. 01HA6274900
Qualified in Kings County
Commission Expires January 28, 2025

Respectfully submitted,

_____/s/
Courtney Williams
Principal Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Courtney Williams, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/
Courtney Williams

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 32197

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **LINDA A. LACEWELL**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

CHONG KIM

as a proper person to examine the affairs of the

KNIGHTS OF COLUMBUS

and to make a report to me in writing of the condition of said

FRATERNAL BENEFIT SOCIETY

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York*

this 2nd day of March, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

