

South Dakota Division of Insurance
Market Conduct Examination Report of
Midland National Life Insurance Company
(NAIC Company Code 66044)

Midland National Life Insurance Company
One Sammons Plaza
Sioux Falls, SD 57193

TABLE OF CONTENTS

FOREWARD	4
EXECUTIVE SUMMARY	5
Scope of Examination.....	5
Methodology.....	6
Company History and Profile.....	6
Operations and Management	7
Complaint Handling.....	7
Marketing and Sales.....	8
Producer Licensing.....	8
Policyholder Service	9
Underwriting and Rating.....	10
Claim Handling.....	10
COMPLAINT FINDINGS.....	11
POLICYHOLDER SERVICE FINDINGS.....	12
UNDERWRITING AND RATING FINDINGS	13
SUMMARY OF FINDINGS	15
EXAMINATION SUBMISSION	16

November 6, 2017

Honorable Larry Deiter, Director
South Dakota Division of Insurance
Department of Labor and Regulation
124 South Euclid Avenue, 2nd Floor
Pierre, South Dakota 57501

Dear Director Deiter:

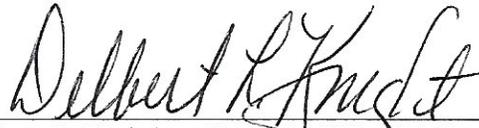
In compliance with the instructions contained in the February 29, 2016 Order for Examination, a market conduct examination has been made of the business affairs and operations of:

Midland National Life Insurance Company

Midland National Life Insurance Company, hereinafter referred to as the “Company” or “Midland National”, is incorporated under the laws of the State of Iowa and has its home office at One Sammons Plaza, Sioux Falls, SD 57193.

The examination was primarily conducted off-site at the offices of the South Dakota Division of Insurance, hereinafter referred to as the “Division” or “SD DOI,” and other suitable locations. The limited on-site examination phase was performed at the Company’s home office.

The report of examination thereon is respectfully submitted.



Delbert L. Knight, AMCM, CIE, BLM
Market Conduct Examiner-In-Charge
INS Regulatory Insurance Services, Inc.

FOREWORD

This examination reflects the Company's insurance activities related to the business of life insurance in the State of South Dakota. This market conduct examination report is, in general, a report by exception. Some of the information reviewed by the examiners may not be referenced in this written report regarding practices, procedures, or files that did not result in any errors or irregularities. Failure to comment on specific products, procedures or files does not constitute approval thereof by the South Dakota Division of Insurance.

The following is a list of abbreviations used in this Report:

Abbreviation	Refers to
"ARSD"	South Dakota Administrative Rules
"Company"	Midland National Life Insurance Company
"Division"	South Dakota Division of Insurance
"Midland National"	Midland National Life Insurance Company
"NAIC"	National Association of Insurance Commissioners
"RSA"	Regulatory Settlement Agreement
"SDCL"	South Dakota Codified Law
"TPA"	Third Party Administrator

EXECUTIVE SUMMARY

This market conduct examination focused on the business practices of Midland National Life Insurance Company for all lines of life insurance. This was a risk-based examination of all life insurance written by the Company in South Dakota during the examination period, which was January 1, 2014 through December 31, 2015.

A summary of findings is located on page 15 of this Report.

As noted below, various noncompliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to South Dakota insurance laws and regulations. When applicable, corrective action for other jurisdictions should be addressed.

Scope of Examination

The South Dakota Division of Insurance has authority to perform this examination pursuant to, but not limited to, SDCL Ch. 58-3. This examination of the Company began March 2, 2016. It covered the period of January 1, 2014 through December 31, 2015, unless otherwise noted.

This examination reviewed the following categories of operations:

- Company operations and management
- Complaint handling
- Marketing and sales
- Producer licensing
- Policyholder service
- Underwriting and rating
- Claims

The examination was performed in accordance with market regulation standards established by the Division and examination procedures established by the National Association of Insurance Commissioners (NAIC).

The purpose of the examination is to determine compliance by the Company with South Dakota's insurance laws and regulations. The examination was a risk based examination of the Company's life insurance business practices, with detailed reviews performed in five areas: compliance risk assessment, complaints, marketing and sales, underwriting and rating, and claims handling. The compliance risk assessment was performed to identify potential areas of compliance risk and to understand the Company's governance of systems and processes related to compliance with South Dakota Insurance Laws and Regulations.

Methodology

The examination was performed in accordance with market regulation standards established by the Division and examination procedures suggested by the NAIC. The examiners reported the errors found in individual files, while also focusing on general business practices of the Company.

The Company was asked to identify the universe of files for each segment of the review. Based on the universe sizes identified, random samples were made to select the files reviewed for examination.

South Dakota market conduct examination reports generally note only those items that have been identified as an 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 the imposition of penalties.

Throughout the course of the examination, Company officials were provided memoranda and information requests which referenced specific claim or complaint numbers and citations to each applicable law. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various exceptions identified during the examination and to review written summaries provided on the noted exceptions.

Company History and Profile

The Company was incorporated as The Dakota Mutual Life Insurance Company under the laws of the State of South Dakota on August 30, 1906, and commenced business on September 4, 1906. It reorganized to a stock company in 1909, changing its name to Midland National Life Insurance Company in 1925. In 1999, the Company expanded its operations to include two main locations – the executive office, based in Sioux Falls, South Dakota, and the principal office, based in Des Moines, Iowa.

Effective July 1, 1999, Midland National Life Insurance Company changed the state of its corporate domicile from South Dakota to Iowa. On January 3, 2002, the Company's immediate parent's name of Sammons Financial Holdings, Inc. was changed to Sammons Financial Group, Inc. which is a group of financial companies that share resources and services.

As of December 30, 2005, SFG Reinsurance Company was established as a special purpose financial captive insurance company domiciled in South Carolina. It is a wholly owned subsidiary of Midland National that reinsured certain plans of insurance from Midland National. In 2012, this block of policies was ceded back to Midland National, and, at Midland National's request, SFG Re was dissolved by the State of South Carolina effective October 18, 2012.

Effective December 22, 2010, Midland National Life Reinsurance Company (MNLRE) was formed as an Iowa domiciled limited purpose subsidiary of Midland National. MNLRE reinsures certain reserves related to universal life products issued by Midland National and affiliates.

On December 30, 2011, Solberg Reinsurance Company, Inc. (SolRe) was formed as an Iowa domiciled limited purpose subsidiary of Midland National. SolRe reinsures certain reserves related to life products issued by Midland National and affiliates. In addition, a subsidiary company, Midland National Services Company was created to hold various fees payable to an outside party for its participation in the SolRe relationship. Midland National's life insurance products and services comprise term life, whole life, universal life, and indexed universal life. Midland National also offers individual and group annuities.

Direct Written Premium

Year	National Total	South Dakota
2013	1,371,714,089	17,528,800
2014	1,162,352,503	17,059,505
2015	1,395,824,291	20,146,197

Operations and Management

The examiners reviewed external audit reports, internal audit reports, copies of regulatory findings and assessments, copies of contracts with TPAs and general agents, access to computer controls and disaster recovery procedures, a summary of corporate governance and company operating guidelines, organizational charts by functional area, records retention guidelines, privacy guidelines and filed NAIC Annual Statements. The examiners evaluated the information provided and also interviewed Company representatives that had responsibility for the controls under review.

In order to verify the Company's operations safeguarded the financial viability, data integrity, oversight of outsourced services, fraud detection/deterrence, maintained business records, safeguarded policyholder privacy and had the capacity to promptly settle claims, the examiners requested the Company's books, records and for access to key management parties. The examiners also relied on review of data reported to the NAIC, the South Dakota Division of Insurance and findings from other states.

The examiners noted no findings in review of operations and management.

Complaint Handling

To perform the review, the examiners requested the Company's complaint register, policies and procedures related to complaint handling and for communicating such procedures to policyholders, policies and procedures relating to the disposition of complaints, mandated response requirements, a list of the complaints received by the Company during the examination period, the complaint file for all complaints, the policies and procedures which would include the Company's definition of a complaint, and copies of complaint summaries and reports prepared by the Company.

The Company provided a list of 28 complaints. The 28 complaints were categorized as follows:

- Three complaints related to annuities, and therefore, outside the scope of the exam
- Thirteen of the complaints were generated by policyholders who were not residents of South Dakota, but submitted through the South Dakota Division of Insurance
- Twelve complaints were submitted by South Dakota residents:
 - Eight through the South Dakota Division of Insurance
 - Four were received directly by the Company

The examiners reviewed complaints the Company received directly from consumers and complaints the Division submitted to the Company. The purpose of this review is to determine whether the Company accurately and timely handles and resolves complaints.

One finding was noted in the review of complaints.

Marketing and Sales

In order to verify the Company operations safeguarded the public interest related to solicitation of business, the examiners requested the Company's books, records and for access to key management parties involved in the producer system. The examiners sought to understand the entire marketing and sales process via review of Company documentation and interview of key personnel. The examiners also relied on regulatory actions from other states.

To perform the risk based assessment review, the Company was requested to provide an overall explanation of its marketing and sales process and how it trains agents to use both the Company materials and agent approved materials in their product offerings. In addition, the examiners requested copies of producer and Company generated advertising materials, producer training documentation, agent and Company advertising guidelines, sales illustrations, replacement guidelines, accelerated benefit disclosure provisions, suitability guidelines and disclosure practices for indexed life products. The examiners evaluated the information provided and also interviewed Company representatives that had responsibility for the controls under review. Generally, the Company was found to have policies and procedures which covered all requirements above.

No findings were noted in the review of marketing.

Producer Licensing

The examiners reviewed the Company's compliance with South Dakota's producer licensing and appointment laws. The examiners compared the Company's list of licensed producers to the Division's licensing records.

Additionally, the examiners verified producers listed in applications that were reviewed in the underwriting section of the examination were properly licensed and appointed.

In order to verify the Company's operations safeguarded the public interest related to solicitation of business, the examiners asked for the Company's books, records and for access to key management parties involved in the producer system. The examiners sought to understand the entire agency process via review of Company documentation and interview of key personnel. The examiners also relied on regulatory actions from other states.

To perform the risk based assessment review, the examiners obtained and reviewed an overall explanation of its agency system and how it trains agents on their product offerings. The examiners reviewed copies of regulatory findings and assessments, contracts with general and writing agents, producer account settlement processes, and procedures to verify that all agents are appropriately licensed. Finally, the examiners also conducted a review of commission and incentives provided by the Company. The examiners evaluated the information provided and also interviewed Company representatives responsible for compliance with producer licensing requirements.

No findings were noted in the review of producer licensing.

Policyholder Service

The Company was requested to provide documentation verifying compliance with South Dakota Codified Laws and rules in all areas noted below that were utilized by the Company during the examination period:

- Compliant premium billing and collections methods
- Policy issuance and insured-requested cancellations
- Response to communications from policyholders and beneficiaries
- Reinstatement practices
- Accurate application and communication of non-forfeiture options
- Issuance of annual policyholder summaries
- Disclosures of accelerated death benefits
- Calculation and issuance of refunds of unearned premium
- Billing practices

The examiners conducted on-site and remote interviews with key personnel to ascertain a perspective of the Company's business practices and procedures. The examiners requested the Company submit policies and procedures, sample documents, and any other material that would verify its compliance with the requests contained in the Market Regulation Handbook and additional requests initiated by the examiners.

There was one finding in the review of policyholder service.

Underwriting and Rating

The examiners reviewed the Company's underwriting and rating practices. To perform the review, the examiners requested the Company provide policies and procedures, guidelines, and related documentation. Interviews were performed to obtain additional understanding of the underwriting and rating processes. This included how the Company trains underwriters and monitors the performance of their tasks relating to the use of underwriting guidelines, rating schedules and external underwriting software. The examiners were provided access to the external underwriting software to ascertain whether the examiners could come to the same conclusions, based on facts and circumstances, as the Company in files where it was possibly a questionable situation. The examiners tested 50 issued policy files for compliance with applicable NAIC Market Regulation Handbook Standards related to underwriting and rating, including, but not limited to commissions/inducements, risk selection, discriminatory underwriting practices, timeliness of provision of required disclosures to policyholders, replacements, suitability, and use of endorsements and riders.

The review of the initial sample of issued policies indicated a need for an additional sample to further review Company practices related to replacements and suitability.

One finding was identified in the review of underwriting and rating.

Claim Handling

The examiners reviewed the claim handling practices of the Company in order to determine efficiency of handling, accuracy of payment, adherence to contract provisions, and compliance with South Dakota statutes and administrative rules. In order to verify the Company adhered to compliant claim processing policies and procedures consistent with South Dakota's insurance statutes and rules, the Company was requested to provide documentation verifying compliance with all areas relating to claim-related business practices, utilized by the Company during the examination period.

The examiners conducted on-site and remote interviews with key personnel to ascertain an accurate perspective of the impact of its claims policies and procedures on South Dakota claimants and beneficiaries. To perform the review, the examiners requested the Company submit the complete claim file in conjunction with the review of ten paid claims and 33 pended claims. The examiners tested the sample files against ten standards contained in Chapter 16 of the Market Regulation Handbook, and three standards contained in Chapter 19 of the Market Regulation Handbook.

No findings were noted in this review.

COMPLAINT FINDINGS

Finding 1: Failure to use an adequate definition of a complaint.

The examination was conducted using the NAIC Market Regulation Handbook as the basis for compliance testing. NAIC Market Regulation Handbook, Complaint Handling Standard 2, anticipates that the regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

The definition of “complaint” from the NAIC Market Regulation Handbook is “a written communication that expresses dissatisfaction with a specific person or entity subject to regulation under the state’s insurance laws. An oral communication, which is subsequently converted to a written form, would meet the definition of a complaint for this purpose.”

The definition of “complaint” in the Company’s Complaint Handling Procedures defined a “formal complaint” as “Any written communication that expresses dissatisfaction with the companies, producer, or product where the individual or group expressing the dissatisfaction would reasonably expect a written response.”

The Company’s definition of “complaint” did not match the definition in the NAIC Handbook and may have allowed communications to be classified as an “inquiry” instead of a complaint. In their review, the examiners did not identify any unlogged complaints.

Subsequent Event

During the course of the examination, the Company provided the examiners with an updated definition of a complaint which was implemented by the Company for South Dakota complaints.

Recommendation

It is recommended that the Company’s definition in its Complaint Handling Procedures match that of the NAIC Handbook.

POLICYHOLDER SERVICE FINDINGS

Finding 2: Company policies do not provide for certain processes for locating beneficiaries.

The examiners requested the Company provide their guidelines and procedures relating to escheatment of unpaid premiums and claims which the Company provided. As a part of this review, the examiners noted the Company's policies did not define processes focusing on other databases, trying to email beneficiaries and/or asking other beneficiaries for assistance in locating missing beneficiaries. The examiners saw no evidence of the Company querying known beneficiaries as to the whereabouts of missing beneficiaries and/or general internet searches for same.

The Company is subject to the Regulatory Settlement Agreement which the Company executed on November 1, 2013. The settlement agreement specifically defines a "Thorough Search" specifying when a Thorough Search must be conducted, requiring implementation of policies and procedures related to a Thorough Search, and specifying when a Thorough Search must be conducted for a group life policy. The RSA requires the Company's "best efforts" regarding a Thorough Search.

Subsequent Event

After receiving examiner feedback, the Company has implemented general internet searches. The Company has represented it allows claims handlers to contact beneficiaries to search for missing beneficiaries.

Recommendation

Pending examination by a Lead State under the RSA, the Company should adopt and implement policies and procedures defining processes to search for beneficiaries using an additional internet search and, where appropriate, contact beneficiaries when attempting to locate missing beneficiaries.

UNDERWRITING AND RATING FINDINGS

Finding 3: Failure to comply with suitability requirements

Interviews of Company management indicated that the Underwriting Department is responsible for reviewing suitability and following up with the agent if there are concerns with suitability of the transaction. The examiners found no evidence of such reviews or follow-up throughout the review of issued policies and other underwriting materials.

In review of the samples of issued policies, the examiners found instances where the Company was unable to provide required suitability analyses. From the sample of issued policies, eleven were identified as replacement policies for which the requirements of ARSD 20:06:10:02.01 regarding maintaining suitability analyses applied. The Company was unable to provide suitability analyses for two of the issued policies.

Population	Sample Size	Number of Replacement Policies	Number of Exceptions	Total Error Rate
645	50	11	2	18%

In review of the eleven replacement policies, the examiners identified four policies in which the analysis does not support each transaction as suitable. These are shown in the chart below.

Population	Sample Size	Number of Replacement Policies	Number of Exceptions	Total Error Rate
645	50	11	4	36%

ARSD 20:06:10:02.01 provides, in part:

General requirements. The following are general requirements for health and life insurance advertisements and solicitations:

(1) Each insurer must maintain at its home office or principal office a complete file containing one copy of each form authorized by the insurer for use pursuant to this chapter. Each authorized form must be kept in the file for five years following the date of its last authorized use;

(2) In recommending the purchase of a policy to a consumer, an agent must determine at the time of sale that the placement of the policy is not inappropriate for the consumer. The agent shall determine the appropriateness of a recommended

purchase of insurance by examination of the totality of the particular consumer's circumstances, including the following:

(a) The consumer's financial condition, i.e., if a person is on a fixed income, premium costs;

(b) The consumer's need for insurance at the time of sale, i.e., existing policies, insured's finances;

(c) The values, benefits, and costs of the consumer's existing insurance program, if any, when compared to the values, benefits, and cost of the recommended policy or policies.

The Company did not comply with suitability requirements.

Recommendations

The Company should adopt and implement policies and procedures to assure that:

- Required suitability analyses are completed and maintained,
- Ongoing quality assurance testing is performed related to suitability, and
- Company records should indicate the name of the underwriter reviewing the application and their concurrence with the suitability of each replacement transaction.

SUMMARY OF FINDINGS

SECTION	FINDINGS	Page No.
Complaint Handling	Finding 1: Failure to use an adequate definition of a complaint.	11
Policyholder Service	Finding 2: Company policies do not provide for certain processes for locating beneficiaries.	12
Underwriting and Rating	Finding 3: Failure to comply with suitability requirements	13

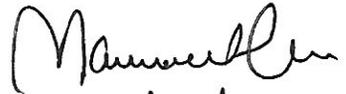
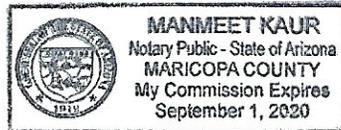
EXAMINATION SUBMISSION

The report is respectfully submitted to the South Dakota Division of Insurance. The courtesy and cooperation of the officers and employees of the Company during the course of the examination are gratefully acknowledged.

The examination was conducted by Kirk Yeager, Delbert Knight, and Lewis Bivona.



Delbert L. Knight, AMCM, CIE, FLMI
Market Conduct Examiner-In-Charge
INS Regulatory Insurance Services, Inc.



11/08/2017