STATE OF ARIZONA FILED

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DEPARTMENT OF INSURANCE By

STATE OF ARIZONA

DEPARTMENT OF INSURANCE

In the Matter of:

PROVIDENT MUTUAL LIFE INSURANCE

COMPANY OF PHILADELPHIA and
PATRICK J. GROGAN,

Respondents.

ONSENT ORDER OF PROVIDENT
MUTUAL LIFE INSURANCE
COMPANY OF PHILADELPHIA

Respondents.

A Notice of Hearing and Amended Notice of Hearing was issued by the Arizona Department of Insurance ("Department") on August 26, 1993 and January 12, 1992 respectively, wherein the Department alleged that Provident Mutual Life Insurance Company of Philadelphia ("Provident Mutual") violated the Arizona Revised Statutes, Title 20. Provident Mutual received copies of the notices and has been advised of its right to a hearing in this matter and hereby waives such right.

As part of its compromise and settlement of a disputed claim, Provident Mutual hereby admits that the following Findings of Fact are true and consents to the entry of the following Conclusions of Law and Order.

FINDINGS OF FACT

1. Provident Mutual is a life and disability insurer holding a certificate of authority to transact insurance in the State of Arizona.

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Patrick Grogan ("Grogan") is presently licensed as a life and disability and variable annuity insurance agent in the State of Arizona. During the year 1984, Grogan was a duly licensed agent of Provident Mutual. He is presently licensed with another insurance company doing business in the State of

- On or about January 20, 1984, Grogan sent a letter to Dawn M. Harris ("Harris") offering her the opportunity to convert her current Provident Mutual whole life insurance policy to a new life insurance policy issued by Provident.
- Grogan's January 20, 1984, letter stated the new life insurance policy had the following features:
 - "Premium payments for the first three years, no premium payment in year four, very small outlays in years five, six and seven, and nothing thereafter;"
 - It could be "tax-qualified and provide. . . valuable income tax incentives;"
 - 3) By exercising the option to convert the present policy to the new policy, Ms. Harris would increase her life insurance protection to \$50,000.00 and significantly reduce her premium payments between the present time and age 65;
 - 4) In Harris' specific case, she could execute the conversion privilege and limit her future premium payments to just two more years, thereby saving over \$4,100.00 in premium payments between the present time and age 65.

In the letter, Harris was invited to call Mr. Grogan to discuss the conversion of her policy.

In response to the January letter, Harris telephoned Grogan and arranged to convert her existing policy to the new policy described in the letter. When Harris met with the agent, she signed the paperwork necessary to complete the conversion.

- 6. On or about March 23, 1984, Provident Mutual issued Harris' whole life policy, number 3209204, which Harris claims contained substantially different terms than those presented in the January letter from Grogan.
- 7. It is the desire of Provident Mutual to work with the Department and Ms. Harris to compromise and settle the dispute pertaining to the policy in accordance with the terms of this Consent Order. Therefore, as a means of settling and compromising the complaint against it, Provident Mutual will cover the premiums on policy number 3209204 for the years 1992 until the policy reaches its "vanish point" whereby the policy values (cash value of paid up additions and dividends) will be used to pay the premiums. The policy loan to pay the 1992 and 1993 premiums on policy number 3209204 shall be reversed. Additional terms of the compromise and settlement are contained in paragraphs 8 and 9 below.
- 8. Ms. Harris will incur no additional out-of-pocket expense. Furthermore, Provident Mutual will agree to guarantee that even if the "vanish point" is not reached at the time anticipated under its current dividend scale, or if in any given year, the policy values are insufficient to pay the premium, Provident Mutual will not require from Ms. Harris any additional out-of-pocket payments to continue coverage under the policy.

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9. Provident Mutual's guarantee of no further out-of-pocket expense is contingent upon Ms. Harris' acceptance of the Enhancement '86 feature and her agreement not to take out any policy loans or surrender any part of the policy including paid up additions for cash value in the future. If the aforementioned conditions are satisfied, Ms. Harris shall have a "paid up policy" in which she will have a death benefit of \$25,000 in the event of her death and a cash value at age 59 of approximately \$10,850, as reflected in the projection set forth in Exhibit 1 to this Consent Order.

CONCLUSIONS OF LAW

- 10. The Department of Insurance has jurisdiction over this matter.
- authority from Provident Mutual to make, issue and circulate estimates, illustrations, and sales material and information and statements to solicit the sales of Provident Mutual life insurance policies; provided however, that Grogan did not have any authority (apparent or otherwise) to offer a policy that was not consistent with the policy forms approved by the Insurance Department of the State of Arizona.
- 12. The January letter contained an estimate, illustration and sales material and information that misrepresented the terms, benefits and advantages of a whole life policy to be issued through a conversation option at Harris' request within the meaning of A.R.S. § 20-443(1).

13. The Arizona Department of Insurance claims that Grogan, by virtue of his apparent authority from Provident Mutual, caused to be made, issued and circulated an estimate, illustration, sales material and information and statements in the form of the January solicitation letter which made misrepresentations to a policyholder for the purpose of inducing the policyholder to convert her whole life policy, in violation of A.R.S. §§ 20-443. Provident Mutual disputes that claim, but has agreed to compromise and settle the dispute in accordance with the terms of this Consent Order.

ORDER

NOW, THEREFORE, IT IS ORDERED:

- A. Pursuant to its offer of compromise and settlement, Provident Mutual shall do the following:
 - 1) Provident Mutual shall immediately comply with the provisions of paragraphs 7, 8 and 9 of the Findings of Fact contained herein.
 - 2) Provident Mutual shall reverse the 1992 and 1993 premium loan on policy number 3209204.
 - 3) Provident Mutual shall enter into a separate agreement ("Agreement") with Ms. Harris with the terms set forth in paragraphs 7, 8 and 9 of the Findings of Fact.
- B. The Agreement shall not place any condition upon Ms. Harris to release Provident Mutual from any further liability if she pursues an action against Provident Mutual in any court. The Agreement shall be approved by the Department of Insurance prior to the execution of this Order and Consent to Order.

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C. The Agreement shall be executed by Provident Mutual and Ms. Harris no later than thirty (30) days from the execution of this Order. If the Agreement is not executed within thirty (30) days, this Order shall be vacated and a new hearing date set.

DATED this 13th day of December , 1994.

Ches Herster

CHRIS HERSTAM, Director Arizona Department of Insurance

CONSENT TO ORDER

- 1. The undersigned acknowledges that he/she has read the foregoing Findings of Fact, Conclusions of Law and Order and is aware of the right to an administrative hearing in this matter and has waived same.
- 2. The undersigned admits the jurisdiction of the Department and admits the foregoing Findings of Fact and consents to the entry of the foregoing Conclusions of Law and Order.
- 3. The undersigned states that no promise was made to induce execution of this Consent Order and declares that he/she has entered into this Consent Order voluntarily.
- 4. The undersigned acknowledges that acceptance of this Consent Order is for the purpose of settling this action and does not preclude the Department of Insurance or any other agency or officer of this state or subdivision thereof from instituting other proceedings as may be appropriate now or in

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October 27, 1993 Date

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the future. Provident Mutual, by entering into this Consent Order, does not waive any defenses it would have against any such proceedings.

- The undersigned acknowledges that acceptance of this Consent Order is for the purpose of settling the action brought by the Department of Insurance against Provident Mutual and does not preclude Ms. Harris from instituting any action against Provident Mutual in any other court of law. Provident Mutual does not, by entering in this Consent Order, waive any claims or defenses it would have in any action instituted by Harris.
- The undersigned waives all rights to challenge such Findings of Fact, Conclusions of Law and Order on appeal or otherwise and agrees to be bound by the foregoing Order provided, however, that this Order shall not be given res judicata or collateral estoppel effect by any person in any proceeding.

INSURANCE COMPANY PHILADELPHIA

COPY of the foregoing 1 mailed this 13th day of December , 2 1994 to: 3 Felecia A. Rotellini Assistant Attorney General 4 1275 West Washington Phoenix, Arizona 85007 5 Attorneys for Department of Insurance 6 7 Charles Cohen, Executive Assistant Director Maureen Catalioto, Supervisor Department of Insurance 8 2910 N. 44th Street Phoenix, AZ 85018 9 Jeremy E. Butler, Esq. 10 Lewis & Roca 40 North Central Avenue 11 Phoenix, AZ 85004-4429 Attorney for Provident Mutual 12 Life Insurance Company 13 Patrick J. Grogan 5126 W. Sweetwater Avenue 14 Glendale, AZ 85304 15 Dawn M. Harris 3702 W. Puget Avenue 16 Phoenix, AZ 85021 17 18 2736c/CPA92-243 19 20 21

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PROVIDENT MUTUAL

INFORCE ILLUSTRATION THE WHOLE LIFE PLAN FOR DAWN HARRIS

POLICY NO. 3,209,204

DATE OF ISSUE: 03/16/84

\$25,000 PROTECTOR LIFE -REDUCED PREMIUM FIRST 2 YEARS FEMALE ISSUE AGE 26

POLICY YEAR	ANNUAL NET PREMIUM	ANNUAL OUTLAY	END OF YEAR DIVIDEND	CV ADDS END YR	GUAR CV END YR	NET EQUITY END YR*	DEATH BENEFIT END YR*
8 9 10	N/A 344 344	N/A 344 182	83 132 156	748 904 768	1750 2050 2375	2498 2954 3299	27854 28341 27900
11 12 13 14 15	188 172 154 134 76	0 0 0 0	172 190 210 228 249	599 442 297 169 95	2675 2975 3275 3600 3925	3446 3607 3782 3996 4270	27246 26670 26175 25758 25540
16 17 18 19 20	55 32 10 0	0 0 0 0	272 294 316 347 375	42 10 12 55 128	4250 4600 4950 5300 5650	4564 4904 5266 5659 6082	25395 25323 25338 25452 25638
21 22 23 24 25	0 0 0 0	- 0 0 0 0		231 371 552 781 1055	6025 6400 6775 7150 7550	6560 7075 7631 8235 8909	25889 26216 26621 27113 27679
26 27 28 29 30	0 0 0 0	0 0 0 0	642	1755	7950 8350 8750 9175 9575	9632 10409 11245 12171 13141	28320 29041 29844 30734 31714
31 32 33	0 0 0	.0 0 0	932	3908 4636 5454	10000 10425 10850	14212 15365 16608	32788 33962 35240

ANNUAL PREMIUM INCLUDES: NON-SMOKER WP \$25,000 GPO

THIS ILLUSTRATION REFLECTS ACCEPTANCE OF THE ENHANCEMENT '86 OFFER.

EXI

THIS ILLUSTRATION IS BASED ON AN ARGUAL PREMIUM PAYMENT. THE VALUES SHOWN MAY VARY IF PAYMENT IS OTHER THAN YEARLY.

THIS ILLUSTRATION IS FOR SERVICE PURPOSES ONLY. IF WP, ADB, OR GPO WERE ADDED TO THIS POLICY AFTER THE ISSUE DATE, OR IF THEY ARE RATED SUBSTANDARD, THE PREMIUM MIGHT BE SLIGHTLY HIGHER.

THESE FIGURES SHOULD NOT BE USED FOR PREMIUM PAYMENT PURPOSES. THE HOME OFFICE WILL SUPPLY EXACT FIGURES UPON REQUEST AS EACH PAYMENT IS DUE.

ILLUSTRATED DIVIDENDS REFLECT CURRENT INVESTMENT EARNINGS ON FUNDS ATTRIBUTABLE TO INCREASES IN RESERVES SINCE 1984 AND ARE BASED ON THE CURRENT DIVIDEND SCALE. THEY ARE NOT GUARANTEES OR ESTIMATES OF FUTURE DIVIDEND RESULTS, WHICH WILL DEPEND ON EXPERIENCE. SPECIAL EMPHASIS SHOULD BE GIVEN TO THE FACT THAT THE DIVIDENDS ARE VERY SENSITIVE TO CHANGING INTEREST RATES AND WILL INCREASE OR DECREASE ACCORDINGLY.

* REFLECTS USE OF YEAR END DIVIDEND AS ELECTED.

WHENEVER THE "ANNUAL OUTLAY" IS LESS THAN THE NET PREMIUM, PART OR ALL OF THE PREMIUM IS PAID THROUGH THE WITHDRAWAL OF DIVIDEND ACCUMULATIONS OR SURRENDER OF PAID-UP-ADDITONS, WHICHEVER IS APPLICABLE. IT WILL BE THE RESPONSIBILTY OF THE INSURED TO REQUEST THE WITHDRAWAL OR SURRENDER EACH YEAR TO MEET THE REQUIRED PREMIUM.

ANY CHANGES IN DIVIDENDS WILL EFFECT THE NUMBER OF PREMIUMS PAYABLE AS SHOWN IN THE "ANNUAL OUTLAY" COLUMN.

ASSUMES ACCEPTANCE OF ENHANCEMENT

03/27/92