



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
5701 GOLDEN HILLS DRIVE
GOLDEN VALLEY MN 55416-1297

dated MARCH 30, 2011, and served upon the company on OCTOBER 5, 2011, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 4TH day of JANUARY, 2012.

A handwritten signature in black ink, appearing to read 'Theodore K. Nickel', written over a horizontal line.

THEODORE K NICKEL
Commissioner of Insurance

**STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE**

MARKET CONDUCT EXAMINATION

OF

**ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
MINNEAPOLIS, MINNESOTA**

MARCH 14-30, 2011

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March 30, 2011

Honorable Theodore Nickel
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted March 14 to March 30, 2011 of:

ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
Minneapolis, Minnesota

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Allianz Life Insurance Company of North America (Allianz Life), formerly North American Life and Casualty (NALAC), acquired all the assets and liabilities of Fidelity Union Life Insurance Company of Dallas, Texas as of March 31, 1993. Fidelity Union was under common ownership with Allianz Life. On May 16, 1999, Allianz Life acquired LifeUSA Insurance Company. LifeUSA and Allianz Life merged on July 1, 2002. Allianz Life is also wholly owned by Allianz of America Corporation (AZOA) and as such is also a wholly owned subsidiary of Allianz Societas Europea (Allianz SE) of Munich, Germany.

Allianz Life is headed by Chief Executive Officer (CEO), Gary Bhojwani, and is domiciled in Minneapolis, Minnesota. The company has subsidiaries which include Allianz Life Insurance Company of New York, Allianz Financial Services, and as of September 29, 2009, the company

formed Allianz Life of Missouri (AZMO), a captive reinsurance entity, domiciled in Missouri. The company was licensed to do business in all 50 states, minus New York in 2008, 2009, and 2010.

Allianz Life currently offers a portfolio of individual fixed and variable annuities and life insurance products. The individual fixed annuities and life insurance products are sold through licensed independent agents that are first contracted with a Field Marketing Organization (FMO). The individual variable annuity products are sold through licensed registered representatives that are first contracted with a broker-dealer (BD).

Effective March 1, 2009, the company suspended sales of the living benefit riders on its primary variable annuity products. The company stated this was due to turbulence in the financial markets during the preceding months. The company re-launched a revised version of the riders in August of 2009.

In November 2009, the Company announced plans to stop selling stand-alone long-term care products as of November 13, 2009, although it continues to consider opportunities for the development of new long-term care combination products.

Allianz Life also maintains an existing block of group affinity/association life and health policies that it continues to receive premium for, which includes life, accident, medical, hospital indemnity, Medicare supplement, and long-term care products. These products are administered through Third Party Administrators (TPAs) whose authority includes claim payments, claim adjustments, and premium collection.

On November 8, 2010, the company notified OCI of an amendment on a closed block of some of these health insurance policies including Medicare supplemental, major medical, and hospital indemnity policies. The purpose of the amendment was to waive 2011 premiums on the applicable certificates while fully retaining all benefits of the forms. The total amount to be waived in all states is around \$1 million for 2011, which the company states will not materially impact the financial stability of the company.

The table below summarizes the total direct national premium written in 2010, 2009 and 2008 as compared to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

2010						
	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit Type Funds	Other Considerations	
Wisconsin	\$ 4,044,078	\$ 265,582,274	\$ 6,557,925	\$ -	\$ -	
National	\$ 265,238,409	\$ 9,856,592,520	\$ 209,949,735	\$ -	\$ -	
WI as a % of National	1.52%	2.69%	3.12%	0.00%	0.00%	
2009						
	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit Type Funds	Other Considerations	
Wisconsin	\$ 2,665,142	\$ 211,421,170	\$ 7,017,760	\$ -	\$ -	
National	\$ 259,893,898	\$ 8,284,111,543	\$ 220,460,279	\$ -	\$ -	
WI as a % of National	1.03%	2.55%	3.18%	0.00%	0.00%	
2008						
	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit Type Funds	Other Considerations	
Wisconsin	\$ 3,647,556	\$ 203,099,286	\$ 7,517,118	\$ -	\$ -	
National	\$ 279,792,034	\$ 8,031,131,772	\$ 224,411,235	\$ -	\$ -	
WI as a % of National	1.30%	2.53%	3.35%	0.00%	0.00%	

The majority of the premium written by the company in 2010, 2009 and 2008 was annuity business. In 2010, Allianz Life ranked as the 5th largest writer of annuities in the State of Wisconsin and held a 5.0 percent share of the market. In 2009, Allianz Life ranked as the 7th largest writer of annuities in the State of Wisconsin and held a 3.9 percent share of the market. For annuity business in 2008, the company ranked 8th in Wisconsin and held a 3.5 percent share of the market.

The table on the following page summarizes the company's Wisconsin premium written and benefits paid in for 2010, 2009 and 2008 broken down by line of business.

Wisconsin Life Insurance Business

2010	Ordinary	Credit Life	Group	Industrial
<u>Direct Premiums & Annuity Considerations</u>				
Life Insurance	4,004,769	0	39,309	0
Annuity Considerations	265,582,274	0	0	0
Deposit Type Funds	0	0	0	0
Other Considerations				
<u>Direct Claims & Benefits Paid</u>				
Death Benefits	1,766,222	0	5,534	0
Annuity Benefits	46,569,839	0	0	0
All Others	105,595,858	0	0	0
2009	Ordinary	Credit Life	Group	Industrial
<u>Direct Premiums & Annuity Considerations</u>				
Life Insurance	2,626,875	0	38,267	0
Annuity Considerations	211,421,170	0	0	0
Deposit Type Funds	0	0	0	0
Other Considerations	0	0	0	0
<u>Direct Claims & Benefits Paid</u>				
Death Benefits	1,561,429	0	17,341	0
Annuity Benefits	42,961,645	0	25,116	0
All Others	108,068,906	0	52,542	0
2008	Ordinary	Credit Life	Group	Industrial
<u>Direct Premiums & Annuity Considerations</u>				
Life Insurance	3,604,729	0	42,827	0
Annuity Considerations	203,099,286	0	0	0
Deposit Type Funds	0	0	0	0
Other Considerations	0	0	0	0
<u>Direct Claims & Benefits Paid</u>				
Death Benefits	1,461,004	0	4,759	0
Annuity Benefits	42,690,780	0	0	0
All Others	113,243,917	0	47,744	0

The amount of life insurance premiums written in 2010 increased \$1,377,894, or by 52.5 percent over 2009. In addition, the amount of annuity considerations also increased \$54,161,104 from 2009 to 2010 by 25.6 percent. The amount of life insurance premiums written in 2009 decreased \$977,854 by 27.1 percent over 2008. Also, the amount of annuity considerations increased \$8,321,884 from 2008 to 2009 by 4.1 percent.

Complaints

The Office of the Commissioner of Insurance (OCI) received 60 complaints against the company between January 1, 2008 through December 31, 2010. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.'

During 2008, the OCI received 31 complaints against the company. In 2009, the OCI received ten complaints against the company; a 67.7 percent decrease. Then in 2010, the OCI received 19 complaints against the company; a 90.0 percent increase compared to 2009.

The majority of the complaints received by the OCI were regarding individual annuity business. Of all of the complaints received by the OCI during the period of review, 72.1 percent of the complaint reasons involved marketing, sales and advertising of annuity policies by agents. Misrepresentation, agent handling and unsuitability were common complaint reasons. This pattern indicated that the exam should again focus on determining whether Allianz Life maintains procedures and a satisfactory and effective supervisory program to ensure that the company and its appointed agents comply with Wisconsin insurance laws and regulations, particularly those pertaining to the suitability of annuity sales to consumers.

The table on the following page summarizes the OCI complaints received, broken down by coverage type and reason type. It is important to note that OCI complaints may have up to three complaint reasons. In 2010, there was one complaint with two complaint reasons, which is the rationale for the inconsistent totals of the year.

Complaints Received

Reason Type		Total		Underwriting		Marketing & Sales		Claims		Plyhldr Service		Other		
		No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	
Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Individual Life	4	20.0%	0	0%	0	0%	0	0%	2	100.0%	2	66.7%	0	0%
Group Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Individual Annuity	10	50.0%	0	0%	9	90.0%	0	0%	0	0%	1	33.3%	0	0%
Group Annuity	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Credit Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
All Others	6	30.0%	5	100.0%	1	10.0%	0	0%	0	0%	0	0%	0	0%
Total	20	100.0%	5	25.0%	10	50.0%	2	10.0%	3	15.0%	0	0%	0	0%

Reason Type		Total		Underwriting		Marketing & Sales		Claims		Plyhldr Service		Other		
		No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	
Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Individual Life	2	20.0%	0	0%	1	12.5%	0	0%	0	0%	1	100.0%	0	0%
Group Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Individual Annuity	8	80.0%	0	0%	7	87.5%	1	100.0%	0	0%	0	0%	0	0%
Group Annuity	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Credit Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
All Others	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total	10	100.0%	0	0%	8	80.0%	1	10.0%	1	10.0%	1	10.0%	0	0%

Reason Type		Total		Underwriting		Marketing & Sales		Claims		Plyhldr Service		Other		
		No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	No.	% of Total	
Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Individual Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Group Life	1	3.2%	0	0%	0	0%	0	0%	0	0%	1	25.0%	0	0%
Individual Annuity	30	96.8%	0	0%	26	100.0%	1	100.0%	0	0%	3	75.0%	0	0%
Group Annuity	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Credit Life	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
All Others	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total	31	100.0%	0	0%	26	83.9%	1	3.2%	1	3.2%	4	12.9%	0	0%

II. PURPOSE AND SCOPE

A compliance and targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2008 through December 31, 2010. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination. The examination included, but was not limited to, a review of:

- Company Operations and Management;
- Marketing, Sales and Advertising;
- Consumer Complaints;
- New Business;
- Agent Licensing; and
- Policy Forms.

The examination also looked into what, if any, procedures the company had in place to prepare for the changes made to s. 628.347, Wis. Stat, pertaining to the suitability of annuity sales that went into effect May 1, 2011.

The report is prepared on an exception basis and comments on those areas of the company's operations where adverse findings were noted.

III. PRIOR EXAMINATION RECOMMENDATIONS

The previous market conduct examination of the company, as adopted April 28, 2008, contained 10 recommendations. Following are the recommendations and the examiners' findings regarding the company's compliance with each recommendation.

Marketing, Sales, and Advertising

1. It is recommended that the Company's advertisements, numbers FLA 195, FLA 270, FLA 531, FLA 119, and FLA 467, and all of the Company's other advertisements which show a specific rate of return on premiums or cash values shall also show, in close proximity thereto and with equal prominence, the guaranteed rate of interest paid on the cash value in order to comply with s. Ins 2.16 (24), Wis. Adm. Code.

Action: Compliance

2. It is recommended that the Company develop and implement a process to communicate to its agents, the Company's desire that agents participate in the company's suitability training, and track those agents who do not complete the training so that the company can again encourage completion. It is further recommended that the company maintains records of those agents who have and have not completed the company's suitability training, and make such records including the total number of agents who have and have not completed training, available to the Commissioner upon request, in order to comply with s. 628.347(3), Wis. Stat.

Action: Compliance

Consumer Complaints

3. It is recommended that the company develop and implement a more consistent and thorough internal review process of all complaints against appointed agents involving misrepresentation, misappropriation/forgery and unsuitability of sale, and that a systematic and documented process be established by the Corporate Compliance Department to oversee complaint handling to assess the competence and trustworthiness of the company's agents as required in s. Ins. 6.59(5), Wis. Adm. Code and in order to comply with s. 628.347(3), Wis. Stat.

Action: Compliance

4. It is recommended that the company amend its complaint handling procedures so that three or more complaints of any kind against an agent will be reviewed by the Corporate Compliance Department for appropriate disposition, in order to comply, in part, with s. 628.347(3), Wis. Stat.

Action: Compliance

New Business

5. It is recommended that the company amend the Product Suitability Form, NB 3051, to include a question disclosing the amount of the surrender charge, if any, the applicant will incur if an existing life or annuity policy is surrendered to fund the new annuity, to better comply with the requirements of s. 628.347(2) (b), Wis. Stat.

Action: Compliance

6. It is recommended that the company develop and implement a process to ensure that all questions on the Product Suitability Form, NB 3051 are answered and complete, and that they are reviewed for inconsistencies as required by its own company procedures and the requirements of s. 628.347, Wis. Stat.

Action: Non-Compliance

7. It is recommended that the company establish and implement a procedure to ensure it is in compliance with its own company procedures and s. Ins 2.07(5) (a) 4. a., Wis. Adm. Code which requires the company to obtain with the application a copy of the Important Notice when replacement is indicated on the application.

Action: Non-Compliance

8. It is recommended that the company establish and implement a procedure to ensure it is in compliance with its own company procedures and s. Ins. 2.07(5) (a) 4. b., Wis. Adm. Code which requires the company to mail a notice of possible replacement to the company being replaced within 5 days of receipt of the application.

Action: Non-Compliance

Agent Licensing

9. It is recommended that the company develop and implement a process to ensure that it has submitted an application for agent appointment to OCI for each agent who it intends to have represent the company, and before the company accepts any business from the agent as required by s. Ins 6.57(1) and (5), Wis. Adm. Code.

Action: Non-Compliance

10. It is recommended that the company develop and implement a process to provide all agents whose appointment to represent the company has been terminated, a written notice stating that the agent is no longer a representative of the company, and requesting that the agent return to the company all indicia of agency as required by s. Ins 6.57(2), Wis. Adm. Code.

Action: Non-Compliance

IV. CURRENT EXAMINATION FINDINGS

Company Operations and Management

Audits

AZOA Internal Audit performs audits of the Allianz-owned Field Marketing Organizations (Owned FMOs). During the period of review, there were nine audits of Owned FMOs conducted: one in 2008, five in 2009, and three in 2010. These audits are performed much like other audits of entities owned by Allianz and include financial, human resource and compliance components. In January 2007, AZOA combined the internal audit departments at Allianz Life Insurance Company of North America and Fireman's Fund Insurance Company into one team of auditors. This team completes both financial and operational audits for all of the AZOA entities including Allianz Life Insurance Company of North America. In the event that an audit requires special experience that is not available on the team, Internal Audit will contact an external subject matter expert. Issues and related action plans identified through the internal audit process are tracked and reviewed by senior management on a monthly basis and by the audit committee on a quarterly basis.

The only audits done by external entities on the company during the period of review were the financial audits conducted by KPMG, LLP.

The examiners reviewed information from nine audits conducted between January 1, 2008 and December 31, 2010 that included three of the nine audits of the company's owned FMOs. No significant findings were noted in the examiners' review of the internal audit reports.

Compliance

Michael Brennan, Chief Compliance Officer (CCO), who is also the principal officer in charge of compliance for Allianz Life Insurance Company of North America, reports directly to

the Chief Administrative Officer (CAO), Walter White. Mr. Brennan also has an indirect reporting relationship to the head of group compliance at Allianz SE, the parent company.

The compliance department is broken down into the following areas/disciplines: Complaints, Regulatory inquires, Agent oversight, Market conduct exams, Surveillance, Anti-fraud, Ad Review, Privacy, Business continuity management, Anti-money laundering, Record retention, Information security, Compliance integration, Allianz Life Financial Services Compliance for the investment advisor, and trust and separate accounts.

The company has no written compliance plan; however, each year Mr. Brennan and the directors meet to set goals for the compliance department. Each director then sets goals for their respective areas/disciplines with his/her employees. All goals include deliverables and metrics. In addition, goals may be added or changed during the year as the department's priorities shift or issues arise.

Compliance findings are reported in various ways, depending on the issue. The more "routine" findings may be identified by compliance employees, reviewed with their leader, and prioritized with the applicable business unit. Other issues that are determined to be higher risk are escalated to the specific business unit's director and, depending on the issue, may also go to the CCO. The director, depending on the issue and the CCO, work to resolve the issue and develop a longer term solution. The CCO meets on a regular basis with the CAO. The CCO will update him on any pertinent issues. In turn, the CAO alone or in conjunction with the CCO will report to the CEO and other senior leaders in the company. Reporting is done on an ad-hoc basis to the senior team. In addition, the compliance department produces periodic reports regarding complaints, agent oversight activities and surveillance.

Compliance reports were provided during the October 28, 2009, April 29, 2010, and July 20, 2010 Board of Directors meetings. Minutes addressing the Compliance Report during these meetings were reviewed by the examiners as well as samples of those reports conducted during the period of review. No areas of non-compliance were noted by the examiners.

Contracts

AZOA has one contract with International Business Machines Corporation (IBM) and one with Tata America International Corporation (TCS). The contracts are for data processing with IBM and for administrative services with TCS.

The services TCS performs are considered “non-core” services by Allianz. “Non-core” services as defined by Allianz are those that do not involve phone service with the customers, agents, and agencies and are standard “rules-based” services. “Rules-based” according to Allianz are those services that have rules of its particular tasks/functions built into the system or are detailed in Standard Operating Procedures (SOPs). These services are performed by TCS at its offices in Bangalore, India.

The “non-core” *new business* services TCS performs for Allianz Life, according to its contract with AZOA include: keying applications, reviewing applications for good order, creating contract printing which includes completion of secondary function for variable annuities, performing routine suitability review, processing premium application on new contracts, issuing the contracts on new business, reviewing and receipting all policy requirements, processing policy cancellations and performing follow-up for application amendments.

The transition of the processing of *fixed* annuity new business to TCS began in September 2009 for requirement review and January 2010 for initial review. Since January 2010 for requirement review and February 2011 for initial review, 100 percent of the Allianz Life fixed new business processing has been completed by TCS.

The transition of the processing of *variable* annuity business to TCS began in September 2008. Approximately 70 percent of this processing has been completed by TCS since June 2009.

The “non-core” *agent* services TCS performs, according to its contract include: new agent contracting and appointments, standard maintenance requests, background checks, verifying appointments, agent renewals, transfers and terminations, and maintenance

transactions for new and existing agents. Allianz states the services involve the keying of information, ensuring the data is complete and "in good order." Any information that is not "in good order" is re-routed back to Allianz in Minneapolis to obtain the missing data/requirements. The company also affirms that analysis and decision making about any of the functions of these services are performed by Allianz in Minneapolis.

TCS began keying variable agency information in September 2008. Approximately 80 percent of this work has been completed by TCS since November 2008.

Legislative / Regulatory Changes

Allianz uses a variety of sources to identify legislative and regulatory changes including subscription services such as: Clear Report, State Net and NILS INSource, Industry groups such as ACLI, state legislative bodies, and federal agencies.

The information obtained from these sources is reviewed for applicability and distributed, as appropriate, to affected functional areas. From January 1, 2008 through October 2010, the Company used a Lotus Notes database to circulate and track this information. Beginning October 2010, the Company began using a legislative service and tracking tool provided by an outside vendor, Wolters Kluwer.

The examiners reviewed the company's response to the Company Operations and Management interrogatory, Board of Director minutes regarding compliance, and contracts the company has for various services as well as the Standard Operating Procedures (SOPs) created and used by one of the contracted companies. The examiners also reviewed nine market conduct examination reports involving other states that were adopted or finalized during the period under review. No exceptions were noted.

Marketing, Sales, and Advertising

The Allianz Life Marketing Department is responsible for marketing and advertising at the company. The Distribution Marketing Department is responsible for developing distribution marketing, strategies that support Broker-Dealer, Field Marketing Organization (FMO) and Life distribution channels, helping to create sales momentum for distribution by developing and executing effective marketing initiatives, campaigns, marketing collateral and programs, and managing the marketing collateral creation process. The Creative Marketing Services department is responsible for trade advertising, copywriting and art directing for a wide range of materials including marketing collateral, production (print) buying, and interactive marketing. The Marketing Solutions Department is responsible for consumer research, consulting strategies such as advanced markets, and practice management.

There are three departments within sales; Life Insurance, Broker-Dealer and FMO Distribution Departments. The Life Insurance Distribution Department is responsible for marketing the Allianz collection of life insurance products, which include term insurance, universal life insurance and fixed index universal life insurance to fixed agents who in turn, sell these products to the end consumer. The Broker-Dealer Distribution Department is responsible for marketing Allianz variable annuities to registered representatives who in turn, sell these products to the end consumer. The FMO Distribution Department's responsibilities include marketing Allianz fixed and fixed index annuities to agents who in turn, sell these products to the end consumer.

Two sets of advertising files are maintained at Allianz; one in the compliance department and the other in the marketing department. For the compliance department file, the advertisement review files are maintained in numeric order based upon the number assigned to the advertising material in the company's advertising tracking database. They are classified by year for record retention purposes. Allianz's practice is to maintain on-site at least two full years of advertisement review files. After their time at the home office location, they are sent to an off-

site storage vendor and retained for at least six years after their last use. The documents maintained in the hardcopy file include, but are not always limited to, printouts of the following: the final approved piece of advertising, a document which discloses the manner and extent of use, and the database entry from the company's advertising tracking database. For the marketing department file, file documentation includes the following: final version (print or PDF, whichever is applicable), a tactical brief, all electronic approvals (if applicable); a document which discloses the manner and extent of use; initial job request or mock-up; emails included with the job; and e-mail notification of the final version. Materials are retained for at least six years after their last use.

Agents may create their own advertising for Allianz Life or its products as long as the materials have been approved by Allianz Life Ad Review prior to use. The process for agent or field-created advertising material review and/or approval is substantially similar to the review of materials created within the company. The major differences include how materials are received. Generally, the external submitter has a single point of contact at the company through Ad Review in the Compliance department. The material is logged into the advertising tracking database and a determination is then made on whether a subject matter expert (SME) review is needed. If so, the material is routed to the appropriate SME reviewer, and is reviewed by a member of the Ad Review team within Compliance. If revisions are required, they are communicated to the submitter of the advertisement. Upon receipt of an acceptable version of the advertisement, the Ad Reviewer provides an official approval to the submitter that includes an expiration date of the approval after which the material can no longer be used. Until the material receives the official approval, it cannot be used.

The company stated that participation in social media sites, such as Facebook, LinkedIn, YouTube, etc., for the purpose of discussing Allianz Life products or services is not permitted under any circumstances for Allianz agents. The company also has a policy in place

in its Advertising Compliance Manual which reaffirms that social media site usage is not allowed under any circumstances.

Allianz Life searches the Internet regularly for sites or pages with various key words (such as "Allianz" or variations on its product names). Each month Allianz Life Ad Review sends warning/education letters to agents or marketing organizations that have been found to be advertising Allianz products without prior approval.

The examiners reviewed the company's response to the Marketing, Sales & Advertising interrogatory, 50 advertisement samples, and the compliance department's paper advertising files while on-site. No exceptions were noted.

Consumer Complaints

The company defines a complaint as any written communication from or on behalf of a consumer which expresses a position of dissatisfaction regarding a product, agent action, and/or policy service; any instance where the complainant expresses a 'grievance'.

The department principally responsible for policyholder services in Wisconsin is the Inforce Operations department. The Inforce Operations department is responsible for all maintenance and distribution requests received on the in force block of business. On the maintenance side, this includes requests to update contracts and process or respond to general correspondence; i.e. ownership, beneficiary, and allocation changes and tax reporting. On the distribution side, this includes, but is not limited to, requests for the distribution of funds, full surrenders, transfer requests, loans, partial surrenders, annuitizations and required minimum distributions (RMDs).

Complaints received from regulatory agencies are the responsibility of the Compliance Department. Since November of 2008, all complaints regarding misrepresentations by an agent or the suitability of a sale also have been assigned to the Compliance Department. Non-sales and home office service related issues are assigned to Customer Relations.

Allegations involving fraud or abuse by the company's agents are assigned to the Special Investigations Unit (SIU). The members and director of the SIU report to the company's general counsel. The SIU investigated 105 Wisconsin (resident and non-resident) agents during the period of review.

The examiners reviewed all of the 105 SIU Wisconsin agent files. In the review, the examiners found that the allegations could be broken down into one or more of the eight categories in the chart below. Allegations in the 'Other' category included SIU agent investigations done at the request of the company's Compliance Department.

Reason for Investigation	Number of Files with the allegation
Altering / forging application and/or replacement form	45
Further investigation of agent due to OCI / FINRA complaint or action.	15
Different agent met with client than signed application	10
Recycling premium	9
Cross-border sales	8
Selling by mail	5
Agent failed to disclose replacement on application	3
Other	18

The allegations in 31 of the 45 files that had 'Altering / forging application and/or replacement form' as the reason for the investigation were substantiated. Typically, these involved situations where the company requested an agent to re-submit an application due to the application being dated after the replacement form. The agents would in most cases alter the date of the form and resubmit the same form, rather than having the applicant complete a

new application. In two of the 31 substantiated files, the company terminated the agent. In each of the remaining 29 files, the company instead sent a warning letter to the agent.

Another category of allegations involved situations where an agent other than the agent who signed the application actually met with the client. Half of the ten files regarding this topic came to the company's attention during "75-Plus" calls which the company makes to new annuity owners age 75 and older as part of its suitability reviews. The applicants stated that his/her agent was someone other than who signed the application. Of the ten files, two accusations were not substantiated; or the file documentation didn't demonstrate the selling agent was someone other than the writing agent. Of the eight substantiated cases, the agent was terminated in three of the cases, of which one was terminated for cause. In five of the remaining substantiated cases, a warning letter was sent to the agent.

Recycling premium or the unsuitable replacement of one policy for another was another area of investigation. The allegations in eight of the nine files were substantiated, resulting in seven of the agents being terminated, six of them for cause. The agent in the remaining substantiated file was sent a warning letter.

Overall, in 69 of the 105 files reviewed, the allegations were substantiated; i.e. the documentation in the file supported the allegation(s). Of the 69 files, there were 23 agents terminated; 11 of whom were terminated for cause. Of the 11 agents terminated for cause, the OCI was notified that the terminations were for cause in all 11 cases.

Two monthly complaint reports are created and provided to the Complaint Oversight Committee. The reports use two separate methods of tracking complaint statistics and allow the committee to monitor complaint volumes and trends. Members of the committee include representatives from Legal, Compliance, Distribution, Suitability and Operations. An annual complaint report is prepared for the Chief Compliance Officer and includes statistical information regarding complaints.

Agent Oversight conducts an annual review of those agents with the highest number of complaints in the previous year. Agent Oversight also conducts periodic reviews of those producers identified as having three or more 'justified' complaints in a rolling twelve month period. The company defines a 'justified' complaint as one which has facts and circumstances that support the allegations. There were 22 justified complaints and 22 offers of resolution during the period of review. The resolution in the case of a rescission of the contract is generally the return of a full amount of premium, less any withdrawals with three percent interest, and in some cases the return of the surrender charges from the prior carrier to make the complainant whole. Additionally, as agents are reviewed by Agent Oversight for any reason, the complaint history of those agents is reviewed and utilized as part of a broader, risk-based assessment of those agents.

Suitability complaints are analyzed based on their own unique circumstances, and as such, the reviews of this type of complaints are not all handled in a uniform way. In general, a complaint handler will begin by reviewing information in the contract file, usually including a review of the age of the contract owner when the application was signed; the tax status of the contract (non-qualified or qualified); the source and amount of the premium, including transfer forms if applicable; whether the contract is a replacement from another carrier and if so, whether there were surrender charges; current annuitization and cash surrender values, existing loans and whether withdrawals have been taken; and a thorough review of the Product Suitability form and Policy History Journal notations for possible red flags. If necessary the Suitability team is contacted for clarification or assistance. See the 'New Business' section for more information regarding the Product Suitability Form and the Policy History Journal.

In addition, the complaint handler will obtain a statement and documents from the writing agent. Depending upon the issue at hand, this can include: an explanation of why the agent recommended the particular product to the client; if the contract is a replacement, an explanation of how the replacement benefited the contract owner; any client data gathering

forms; notes from client meetings; if a seminar was used, copies of slides and handouts; and any sales process documents, such as brochures and illustrations of values. If necessary, the complaint handler will follow up with the agent by phone or in writing to get additional details.

The examiners reviewed all 95 of the company complaints received during the period of review, of which 51 were associated with an OCI complaint.

The majority of the company's complaints were on the subject of misrepresentation; some were regarding the agent, such as inadequate/improper service; and the remaining involved home office delays or inadequate service.

The examiners found that in 49 of the 60 complaints that Allianz received during the period of review via the OCI, the company responded only to the OCI rather than to both the OCI and the complainant as was requested when the complaint was sent to the company. Of these 49 complaints, three were individual or group life policies. It was found that the company revised its complaint handling procedures on November 1, 2008. The revised procedures state that for instances in which OCI complaints are received by the company, the company sends the complaint response to the OCI rather than the complainant. The OCI's 51-11 form letter that is sent to companies with a consumer complaint instructs companies to respond to the OCI within 20 business days of their receipt of an OCI complaint, and to contact the complainant within 10 business days of their receipt of the complaint.

1. **Recommendation:** It is recommended that the company revise its complaint handling procedures involving the handing of OCI complaints to be sure the complainant is contacted in an attempt to resolve the problem within 10 days of receiving the complaint, per OCI referral instructions, in order to comply with s. 601.42, Wis. Stat.

New Business

The department responsible for processing new annuity business for Wisconsin is the Annuity New Business department. New business fixed and variable annuity applications

are imaged into TeamWorks (workflow system) and OnBase (electronic document storage system).

After being imaged, new business variable annuity applications are reviewed by the new business team for good order and then the new business and transfer information from the applications is keyed. If there are any good order concerns, the contract will not be issued. The good order issues must be resolved within 15 days if funds are not received with the application or the funds and transfer paperwork will be sent back. If funds are received with the application, the good order issues must be resolved within five days. Transfer paperwork is sent to the new business team who matches the paperwork with the letter of acceptance and replacement forms. The paperwork is then sent via overnight mail or fax to the prior carrier. Outgoing transfer paperwork is imaged prior to being sent out. Once the requirements are received in good order along with funds, the contract is issued.

For new fixed annuity business, from OnBase, information is manually entered into two transfer systems. The Allianz Life Product Suitability Form (NB 3051) is required to be submitted with every application. The information flows through one of the systems which houses the suitability rules engine. If there is missing and/or conflicting information, the agent is to be contacted. All activity on a policy from the application to beyond policy issuance is to be tracked in the company's Policy History Journal. In the summer of 2008, the company began its process to send a confirmation letter called a Suitability Summary Letter to all policyholders which summarizes information gathered from the Product Suitability Form as a back-end way to verify information obtained from both the applicant and the agent. The company's procedures state that applications not meeting the minimum requirements are declined and a letter is sent to the agent disclosing why the application was declined. Contracts for which suitability issues are identified are flagged by the system and routed to the Suitability Review Team for further review. If a replacement is involved, a Transfer Team representative will contact the insurer being replaced to obtain any missing and/or conflicting information. All transfer paperwork is

sent to the Transfer Team and is then updated in the transfer systems. These transfer files are then scanned into OnBase and the original is sent to the insurer being replaced. If all the requirements are met, the contract is issued.

The examiners reviewed a sample of 50 new business files of individual fixed annuities. Three of the files, or 6 percent, had incomplete information on the Product Suitability Form (NB 3051). In each of these files, no information was noted in any of the Policy History Journals to indicate follow-up to the agent and/or applicant. One file's lack of sufficient suitability information was due to both errors by the agent and reviewer as well as being due to a computer system error. The agent used a product suitability form that was incorrect, which the reviewer did not notice. In addition, the company's system did not trigger the missing information as the system was not designed to be compatible with older versions of the form. Another file was missing suitability information as the reviewer made an error in his/her review of the application. A third file was missing complete suitability information which was later obtained from the agent, although not documented in the Policy History Journal as the company procedure's provide.

In addition, five new business files with incomplete suitability information involved applications written by registered representatives. The company's procedures do not require Product Suitability Forms to be submitted with applications submitted by registered representatives as the broker dealer is to review the suitability of the transactions.

2. **Recommendation:** It is again recommended that, except for those applications submitted by registered representatives whose broker dealers review the suitability of the transactions, the company develop, document, and implement a process and procedures to ensure that all questions on the Product Suitability Form, NB 3051 are answered and complete, and that they are reviewed for inconsistencies as required by its own company procedures and/or the requirements of s. 628.347, Wis. Stat.

Suitability

The company established an Agent Oversight Program and Team in January 2008 which involves ownership or participation from these three areas to meet its supervisory requirements: Agent Oversight Committee (Compliance, Distribution, Legal, SIU), Compliance, and Operations / Marketing / Finance. The program was started to consolidate data regarding known agent risks, develop a holistic risk profile for each agent, and to facilitate the company's ability to make an informed decision on the basis of the risk profile. There are currently 2.5 full-time employees dedicated to the process. Since inception, the Agent Oversight Department has investigated 18 Wisconsin resident agents and 24 non-resident Wisconsin agents.

To meet broker-dealer supervisory requirements, the company collects annual certifications from broker-dealers to which suitability review has been delegated. This certification represents to the company that it is performing required suitability review functions. In addition, the Compliance Department's Surveillance Team monitors broker-dealer performance of suitability review obligations by reviewing broker-dealer transaction data.

Each quarter, Compliance creates a report that identifies broker-dealers that meet any of the following three criteria with respect to sales of variable annuities: a minimum sale of ten variable annuities in the prior 12 months and average age for clients at issue of contract is less than 50 years; a minimum sale of ten variable annuities in prior 12 months and average age for clients at issue of contract is greater than or equal to 75 years; or a minimum sale of ten variable annuities in prior 12 months and the replacement ratio is in excess of 200 percent of the Allianz Life average replacement level. This ratio is calculated by dividing the total number of replacements by the total number of contracts sold in the prior 12 months.

If any of the broker-dealers meet these criteria, the process is then to identify any trends that exist involving these broker-dealers; for example, past reviews of the broker-dealer, high numbers of surrenders within three years of policy issuance, etc. For those broker-dealers that have identifying trends, the information obtained is reviewed with the Chief Compliance

Officer (CCO) for further escalated review if needed, and a report is generated that includes information including replacement percentage, contract issue ages, etc. A written request is then sent to a broker-dealer that appears on such trending reports which will require the firm to provide the company with a copy of their written suitability procedures and a copy of the form the firm uses to collect consumer information. All issues and escalated reviews are maintained in the company's electronic surveillance case management folder and are reviewed with the CCO.

The company has an 'Agent Guide to Suitability' which contains written procedures for its agents containing a "customer confidence" process that offers the agents a framework for their sales procedure. The Product Suitability Form is the center of this process. The guide contains steps that lead agents through the form. As of March 5, 2007, the company prohibits applicants from opting out of providing suitability information when applying for an annuity. Throughout the majority of the period of review, the company has been using an updated suitability form, NB 3051 (R-7/2008), which includes questions such as: whether or not the application involves a replacement; if so, what type of annuity product is being replaced, whether there is a surrender charge, and, if there is, the amount of the surrender charge. The company again revised its suitability form which will be implemented after the period of review (R-12/2010). The updated forms contain more questions which can be used to gauge suitability and applicants' financial status. Information on the Product Suitability Forms is evaluated through an automated system which contains 38 rules that trigger escalated review based on various criteria including but not limited to financial triggers such as liquid assets, income and net worth, surrender charges, and source of funds. These triggers then determine which applications will be reviewed by the suitability team. Additional triggers were created to coordinate with the updated suitability form, although they also did not go into effect until after the period of review.

The Allianz Life Suitability Process, including the rules engine, was implemented for all states in July 2005. A Suitability Review Team was established in early 2006. There are 15 people that make up the Suitability Review Team that are Securities licensed. These people conduct case reviews, make calls to agents on a case-by-case basis to gather additional information and take callbacks. In addition, each of these 15 people is assigned to specific Field Marketing Organizations (FMOs) so that they can become familiar with the FMO's business and its agents. The assigned person is then in a position to spot trends among agents if/when they exist. If a trend is noted, the information is sent to the company's Agent Oversight Committee.

All fixed annuity applications are filtered through this system containing the rules engine. There are three levels of escalated suitability review that can be done; Level 1, 2 and 3. Level 1 of the system is an escalated review by the members of the Suitability Review Team that occurs if the rules engine triggers any "flags", including missing information, with respect to an annuity application.

For applications that receive escalated review, notes can be found in each policy's 'Individual Life & Annuity Policy History Journal'. Any additional supporting documentation is scanned into OnBase.

Level 2 review consists of an escalated review by a Senior Representative. This type of review is triggered when the suitability representative needs further guidance before making a decision on a specific case.

The last level, the Level 3 review, consists of about a dozen product suitability reviews per day. The Chief and Deputy Suitability Officers lead these reviews. If the reviews proceed to this level, in a best-case scenario, the suitability review process typically takes about two to three days. In the Level 2 and 3 reviews meetings, the 15 suitability review team members are rotated through the meetings as an ongoing training opportunity.

The results of these new business suitability reviews are either: approve, decline, approve with additional documentation, or approve with modification. When an application is declined, the company calls the agent to explain the reason for decline. See the following chart for the number of each of these review outcomes in Wisconsin and nationwide in 2009 and 2010.

Wisconsin Business	2009		2010	
	Total Policies	% of Total	Total Policies	% of Total
All Policies Received	1,681	100%	2,083	100%
Escalated Review	785	46.70%	934	44.84%
Declined	26	1.55%	24	1.15%
Approved with documentation	19	1.13%	14	0.67%
Approved with modification	3	0.18%	13	0.62%
Approved	737	93.89%	883	94.54%

National Business	2009		2010	
	Total Policies	% of Total	Total Policies	% of Total
All Policies Received	85,807	100%	89,277	100%
Escalated Review	45,327	52.82%	42,138	47.20%
Declined	1,310	1.53%	1,371	1.54%
Approved with documentation	1,198	1.40%	869	0.97%
Approved with modification	227	0.26%	295	0.33%
Approved	42,592	93.97%	39,603	93.98%

As can be seen by the chart, in 2009 and 2010, approximately half of all new applications went to escalated review both in Wisconsin and nationally. Of these applications that went to escalated review, roughly 94 percent of the applications in both years were approved by the company as-is, whereas between one and two percent were declined.

The company also has a Partnership for Consumer Trust (PACT) program which is designed for both agents and brokers to use when selling fixed annuity products to consumers. This program involves seven individual components including: The Allianz Code of Best Practices; an eLearning Center, launched in January 2008 which financial professionals can access by logging onto the company's website; a "75-Plus" program to contact new annuity owners age 75 and older; the Allianz Companies' Professional Designation Policy; the LIMRA CAP survey for new contract owners; the appointment of the Chief Suitability Officer (CSO),

Patrick Nelson; and the Allianz Suitability Advantage Program. The PACT program was designed to serve as an information resource for agents to rely on to be sure clients understand the company's fixed annuity products they purchase.

In addition, the company has a Field Suitability Officer (FSO) program that was started in the spring of 2009 with the staffing of ten officers at ten FMOs. In 2010, the company expanded this program to 20 of its independent FMOs. These FSOs are responsible for coordination with registered representatives associated with broker-dealers, Field Marketing Organizations (FMOs), National Marketing Organizations (NMOs), or a Managing General Agent (MGA) in order to determine suitability and trigger issues in which agents may run into once an application is submitted. The purpose of these officers is to be sure the agent/broker-dealer is obtaining all information necessary in the field prior to the application being submitted to the company. Information regarding the company's various contracts can be found under the 'Producer Licensing' section.

The examiners asked the company what steps it had taken to ensure that new agents on or after May 1, 2011 complete a one-time annuity training course before engaging in the sale of annuities and existing agents as of May 1, 2011 complete such training by November 1, 2011.

The company's first communication to its agents regarding this training requirement was on March 4, 2011, which detailed the suitability requirements for the State of Wisconsin. The notice provided information on product-specific training requirements, the one time four-hour general annuity training requirement, the new suitability form, NB 3051 (12/2010), and the new statement of understanding requirements. Subsequent notices were to be sent to remind agents of the requirements and dates by which that training must be completed on March 18, April 1, and April 15, 2011.

In order to track which agents have taken the training, the company is obtaining verification of agent training completion. For fixed annuity applications, the company's producer

appointment system, TrueProducer, which will be discussed later, will be updated to include a one-time, pre-solicitation annuity training course requirement for agents holding a Wisconsin license. In addition, the fixed annuity administration system will automatically confirm the agent training requirements are completed prior to issuing business. If the agent's training requirement is not complete, the system will stop the business from issuing. For variable annuity applications, the variable service team will complete a manual look-up on the company's producer appointment system to check training completion status. If training is incomplete, the variable service representative will stop the business from issuing.

The company offers product-specific training on its fixed annuity products in a few different ways: online training modules; home office universities (i.e. classroom style training); and via an external sales team in workshops throughout the country. For the variable annuity products, the company offers training for its registered representatives via workshops, in one-on-one product training during face-to-face meetings; on the Allianz Life website and, most recently, online via RegEd.

The examiners reviewed the company's response to the new business interrogatory, two versions of the company's Product Suitability Form, NB 3051 (7/2008 and 12/2010), the company's Compliance Guide to Successful Business, and the company's procedure guidelines for processing an annuity application with regards to suitability for compliance with s. 628.347, Wis. Stat. No additional exceptions were noted.

Replacements

Allianz Life defines a replacement as any transaction in which new a life insurance policy or annuity is to be purchased from the company and/or another carrier and an existing life insurance policy or annuity will be lapsed, surrendered or reduced in value in order to purchase the new life insurance policy or annuity. External replacement occurs when the existing carrier

and replacing carrier are two different companies; internal replacement occurs when the existing and replacing carriers are the same company. The company stated that internal replacements are not allowed; however it was found that two internal variable replacements were allowed by the company. The company stated that approval of internal replacements of variable annuities require that the following criteria be met: 1. The contract being replaced must be out of the surrender charge period and 2. A reduced commission will be paid to the representative of the new contract.

Prior to November 1, 2009, only in situations where replacement was involved, was the Important Notice regarding replacement (replacement form) required to be submitted with an application, completed and dated on or prior to the date of application. Beginning November 1, 2009, a properly completed and signed Important Notice regarding replacement must be submitted with an application whenever the applicant is found to have an existing life insurance or annuity contract. If the form is not completed as required, the agent is required to go back to the client, review and complete the required replacement form, review the terms and conditions of the application, and then resubmit the completed and newly signed form. Both the applicant and the agent are required to sign and date the application and replacement form.

The company conducts replacement monitoring on those agents who sell 10 or more policies in a rolling 12-week period (quarter), who have a replacement ratio in excess of 150 percent of the Allianz Life average replacement level, or who have a trailing 12-month replacement ratio in excess of 150 percent of the Allianz Life average replacement level. A weekly meeting is held to discuss the agents that meet the aggregate number in the previous 12 weeks of sales. Once an agent drops off the list, he or she is added to a second list, which then gets periodic monitoring.

The company also has a weekly Replacement Monitoring Process which focuses on replacements that come from companies which constitute the primary source of replacements

coming into Allianz Life. At the time of the examination, 19 companies collectively represented over 50 percent of the replacements Allianz Life received.

The charts on the next page demonstrate the number of replacement new business by years and contract types, separated by Wisconsin and National business. The company noted that its internal reporting of nationwide data uses a uniform definition for what constitutes a replacement. For purposes of this report, the company stated that it included partial replacements and replacements of life insurance. The company also stated its internal reporting on replacements was more manual and therefore less reliable in 2008. As such, the company did not provide the 2008 replacement data numbers for national business.

Wisconsin Business			National Business		
	2008			2008	
	Fixed	Variable		Fixed	Variable
Total Policies	546	411	Total Policies	Not available	Not available
Percent of Total	38.27%	31.62%	Percent of Total	Not available	Not available
	2009			2009	
	Fixed	Variable		Fixed	Variable
Total Policies	549	298	Total Policies	25,067	6,014
Percent of Total	34.09%	20.20%	Percent of Total	33.44%	19.40%
	2010			2010	
	Fixed	Variable		Fixed	Variable
Total Policies	635	347	Total Policies	23,620	8,032
Percent of Total	31.39%	29.66%	Percent of Total	30.13%	25.69%

As can be seen in the replacement data charts, on average, 30.9 percent of new contracts issued in Wisconsin involve replacements, while 27.2 percent of nationwide new contracts issued involve replacements. There was a drop in the number of Wisconsin variable replacements between 2008 and 2009 of 36.1 percent, although in 2010 there was a significant increase of 46.8 percent. For fixed replacements in Wisconsin, there has been a steady decline over the period of review. To compare nationwide data to this, there was also a slight decrease in the amount of fixed replacements between 2009 and 2010 while there was again a significant jump in variable replacements of 32.4 percent.

The examiners discovered that the company believed in error that the requirements under s. Ins 2.07, Wis. Adm. Code did not apply to partial transfers/liquidations used to fund

new insurance products prior to the revisions to s. Ins 2.07, Wis. Adm. Code, effective November 1, 2009, because it did not believe that transfers/liquidations were considered "replacements." However, the definition of "replacement" in the rule prior to November 1, 2009 included transactions where the cash or loan value (or a portion thereof) is utilized or contemplated for use in the future in connection with the purchase of new insurance or annuities. Due to the company's belief at the time, the examiners found that in 63 of the 153 (41.2 percent) instances where partial transfers/liquidations of existing policies were used to fund a new fixed annuity during the period of review, a Notice of Possible Replacement as required by s. Ins 2.07 (5) (a) 4. b, Wis. Adm. Code, was not sent to the replaced insurer. In those instances in which the Notice of Possible Replacement was sent, the company stated it was due to a requirement of the replaced insurer from which policy the funds were being withdrawn. In addition, in seven of these 63, or 11.1 percent, of partial transfers/liquidations that were used to fund a fixed annuity during the period of review, an Important Notice as required by s. Ins 2.07 (5) (d), Wis. Adm. Code, was not completed and obtained with each application.

3. **Recommendation:** It is again recommended that in all instances in which funds (full or partial) from an existing insurance product are used to fund another insurance product(s), a Notice of Possible Replacement is sent to the replaced insurer as required by s. Ins 2.07 (6) (a) 2, Wis. Adm. Code.
4. **Recommendation:** It is again recommended that in all instances where an applicant has an existing policy or contract, including contracts in which funds (full or partial) from an existing insurance product are used to fund a new insurance product(s), the company obtains with each application a copy of the Important Notice in order to comply with its own company procedures and s. Ins 2.07 (5) (d), Wis. Adm. Code.

The total number of records the company supplied the examiners for the Replacement Register – Fixed ("Register") did not match the total number of New Business - Individual Fixed Replacements ("new business listing"). For the Register, the company enters one record for each policy being replaced. If one application is replacing three policies, there will be three separate records listed. In the new business listing, it would only show one record

for the one new policy. Also in the new business listing, the company enters one record for each agent that is shown as agent of record. If two agents are shown, it will give a result of two records. On the Replacement Register, only one record will show but both agents will be included. Some policies on the new business listing are due to Cancel/Re-key (typically due to product/allocation/bonus change), Divorce (policy is split into two), or Death (when current policy is annuitized at death, a new policy is issued to beneficiary). Since these are not new replacements, they aren't logged in the Register. Register data was filtered based on the date the Important Notice ("Notice") was sent to the replaced company. If a policy was issued in 2008 but the Notice was sent in 2007, it would not show up on the register; rather only on the new business listing and vice versa. The Replacement Register includes records that have a Notice sent, regardless of whether or not a policy is issued. In addition to these inconsistencies, some replacements were not identified as replacements and some non-replacements were identified as replacements. Samples were pulled from the original Replacement Register population supplied as a response to the data call. The sample was comprised of 25 fixed and 25 variable annuity files.

The examiners reviewed the sample of 25 complete, fixed annuity files from the Register, as well as the agent appointment and license information from the sample of 25 variable annuity files from the Register. No additional exceptions were noted.

Market Conduct Annual Statement (MCAS)

Wisconsin participates in the National Association of Insurance Commissioners (NAIC's) Market Conduct Annual Statement (MCAS). Allianz Life meets the minimum premium threshold for life and annuity business and therefore is required to file a Market Conduct Annual Statement in Wisconsin. As part of the market conduct exam, the examiners reviewed the company's Market Conduct Annual Statements for 2008 and 2009, and inquired as to why the

company had reported having zero group life policies in force in 2008 and 92 group life policies in force in 2009. Allianz stated that it has no group life policies situated in Wisconsin and had mistakenly reported the number of Wisconsin certificate holders who had coverage under group life policies situated in other states. The company stated that the correct number for the 2009 Market Conduct Annual Statement for group policies was zero.

The 2008 Market Conduct Annual Statement reported 1,990 total individual variable annuities in force. In the Market Conduct Annual Statement for 2009, the company reported a total of 11,604 individual variable annuities in force which is an increase of 9,614 individual variable annuities. However, the 2009 Market Conduct Annual Statement only reported 1,451 individual variable annuities issued in 2009 which was 8,163 less than the increase in the number of individual variable annuities in force from 2008 to 2009. The company admitted that the number of in force individual variable annuities reported in the 2008 Market Conduct Annual Statement was incorrect. The number of individual variable annuities reported in 2008 was significantly less than the number that had been reported in the five preceding years as well as the number that was reported in 2009.

The Market Conduct Annual Statement requires that an officer of the company submitting the filing certify that he or she is knowledgeable of the information required to be provided in the Market Conduct Annual Statement and that to the best of his or her knowledge and belief, the filing along with necessary related exhibits, schedules, and explanations contained in, or annexed or referred to therein, represent a full and accurate statement of the information required in accordance with the filing instructions. The required certification of accuracy, signed by an officer of the company, was included with both the 2008 and 2009 Market Conduct Annual Statement filings made by the company. Section 628.34 (1), Wis. Stat. states that no person on behalf of an insurer may make or cause to be made any communication relating to the insurance business which contains false or misleading

information, including information that is misleading because of incompleteness. Filing a report with false entries in the report is a communication within the meaning of this statute.

5. **Recommendation:** It is recommended that the company correct and refile its Market Conduct Annual Statements for 2008 and 2009 with OCI, and develop, document and implement a process and procedures to accurately report to the Commissioner required information about the company's business in Wisconsin, including but not limited to the information provided in the Market Conduct Annual Statement, as required by s. 628.34 (1), Wis. Stat.

Agent Licensing

The area responsible for the management of agent contracts, agent appointments and terminations for Wisconsin is Enterprise Producer Services (EPS). The agent recruitment process differs between the fixed and variable lines of business. Fixed agents are recruited through the FMOs and variable agents are recruited through broker-dealers.

All fixed agents are contracted by completing and signing the Application for Agent Agreement. There are seven types of contracts available: Agent, General Agent, Associate Field Marketing Organization (AFMO), National Marketing Organization (NMO), Field Marketing Organization (FMO), General Agency Agreement (Broker-Dealer) with Fixed Insurance Addendum (BDMA), and a Broker-Dealer Master AFMO contract.

All variable agents, or registered representatives, appointed to sell Allianz Life variable annuity products must first contract with a broker-dealer that has entered into a "General Agency Agreement" with the Company. Registered representatives are appointed with Allianz Life, but the company does not contract individually with registered representatives. All commissions are paid to the broker-dealer.

See the chart on the following page for a breakdown of the number of new agents, producing agents and terminated agents for both fixed and variable annuities in the last three years.

Fixed and Variable Annuity

Agents appointed with the Company during each year	2008	2009	2010
New Producers	1064	853	1694
Terminated Producers	937	666	862
Producing Producers	913	648	704

As can be seen in the chart, there was a drop in new agents between 2008 and 2009 of 19.8 percent, while in 2010, the number significantly increased by 98.6 percent. Despite this drop in 2009, the number of terminated agents dropped as well and increased again in 2010 as did the new agent listing.

The FMO's are responsible for submitting all contracting paperwork to the EPS Compensation team when an agent is recruited. Included in this paperwork is a release allowing Allianz Life to conduct a credit and criminal background check on the applicant. A background investigation is also conducted on registered representatives by FINRA as part of the registration process.

Upon receipt of an agent application for contracting with Allianz Life, EPS will verify the agent holds a valid Wisconsin license through the NIPR (National Insurance Producer Registry). This search will provide the following agent Wisconsin license information: license number; effective dates; expiration dates; and appointment information. Since September 2010, the company stated that if the agent is not already appointed with Allianz Life, the system will automatically send an appointment request for all active lines for Wisconsin. Prior to September 2010, the appointment would be manually requested at the time of contracting.

Prior to June 2008, the company's process was to submit appointment paperwork to the OCI within 15 days from its receipt of an application and not necessarily at the time the agent was contracted. In response to OCI's previous examination report, the company updated its process to ensure all agent appointments would be submitted upon contracting the agent. This involved a manual process until 2010 when it was automated.

The examiners compared the list of appointed agents from the OCI appointed agent database to the company's appointed agent database. The examiners found 15 agents that were listed with the company but were not reported as appointed to the OCI during the period of review. The company stated that it had conducted a clean-up effort at the time the process was automated in an attempt to appoint all previously contracted Wisconsin agents; however, six agents were missed. In addition, the company missed two agents during its manual appointment process. The remaining seven agents who were contracted with the company in 2010 were found to be not appointed. The company determined that a request was entered for an appointment for these seven agents but a subsequent, unrelated entry into those agents' records caused a stoppage of the notices of the appointment being sent to the OCI. The company requested a system modification to address the issue; however, until this system is enhanced, Allianz stated that there will be a manual workaround put in place. The company stated that none of the agents had written any business in Wisconsin. Section Ins 6.57 (1), Wis. Adm. Code. states that an application shall be submitted to the Office of the Commissioner of Insurance and entered in the OCI licensing system in a format specified by the commissioner within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted.

6. **Recommendation:** It is again recommended that the company develop and implement a process and procedures to ensure that it has submitted an application for agent appointment to OCI for each agent who it intends to have represent the company within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted as required by s. Ins 6.57(1), Wis. Adm. Code.

Also in the agent appointment comparison, the examiners found that the appointments of 678 agents that the company had terminated for non-production had not been terminated with OCI. The company discovered that its 2007 "Termed for Non-Production" project had failed to terminate the agents' appointment with OCI.

7. **Recommendation:** It is recommended that the company develop, document and implement a process and procedures to ensure it notifies the OCI that an agent's appointment with the company is terminated pursuant to s. Ins 6.57 (2), Wis. Adm. Code.

In addition, during the agent appointment comparison it was found that two individuals were listed in the Allianz data as being appointed with the company in Wisconsin as of the end of the examination period; however the OCI records indicated that the licenses for these two individuals were terminated for failure to pay prior to the end of the period of review. The two agents did continue to be contracted with the company; however, licensed in other states. Upon receiving the Notice of Termination from the OCI, the company's system failed to complete the non-resident terminations properly, resulting in the company not contacting the agents to inform them that their appointment in Wisconsin was terminated and that they may not act as the company's representative in Wisconsin as required by s. 6.57 (2), Wis. Adm. Code. A system modification was requested by the company to address the issue. Until the system is enhanced by the company, there will be a manual workaround put in place to ensure the process is completed. The company stated that no business had been written by the two agents in Wisconsin after termination and the company has since terminated the appointment in Wisconsin for the two agents.

8. **Recommendation:** It is recommended that the company develop, document and implement a process and procedures to ensure it terminates the appointment of an agent when notified that the agent's license has been terminated by OCI, and that it provides the agent with written notice that the agent is no longer appointed as a representative of the company as required by s. Ins 6.57 (2), Wis. Adm. Code.

The examiners had difficulty in obtaining correct agent appointment information from the company. In response to the examiners' request for agent appointment data, the company identified a problem associated with the company's new agent management tool, the TrueProducer (LCA) system, which was implemented August 30, 2010. The purpose of this system is to hold and manage agent (individual and corporate) demographic, license, appointment, continuing education, and contracting and relationship data for Allianz agents.

This system houses agent-related information which is compared to business submitted to Allianz to ensure each agent is up-to-date with all requirements. TrueProducer also interfaces with various systems including: policy administration; commission (validates all parties associated with the sale are properly compensated); new business (to validate the agent for the sale to ensure compliance); customer management; and the internet. As stated earlier, agent training and continuing education are tracked in TrueProducer for all states that require training to be completed. This includes the completion and expiration date of the course, the status of the training (completed, expired, etc.) and the provider through which the training was completed. This data is entered both manually and by automated feeds by third-party vendors.

This LCA system replaced two legacy source systems; fixed and variable. Two missing data items, National Producer Numbers (NPNs) and Licensed and Appointment Lines of Authority (LOA), resulted in seven percent of the information not being migrated from the legacy source systems. As NPN information was not present in either of the original legacy source systems, it was therefore not available in TrueProducer. This LCA system provides integration with the NIPR database. As a result, when reporting from TrueProducer, agent records that were migrated from the two source systems that had no transactions processed since the system was implemented were not available in TrueProducer. The company currently has short and long-term plans in place to populate complete data needed for market conduct reporting, data requests, as well as its business management. Manual processes have been put in place until a long-term solution can be developed.

Agent terminations except for terminations due to non-production are processed by EPS. The termination may be initiated by the company, the agents themselves, a State insurance department, FMO/BD or FINRA. A termination reason is entered into the system when a termination is being processed. The reason that is entered into the system determines the appropriate type of termination letter that is generated and sent to the agent. The

termination letter is generated by the system the same day the termination is processed and is sent to the agent's resident address the following business day.

The company's "Termed for Non-Production" procedures direct the company to generate a report of agents that have not produced any new business in the past 24 months. The termination lists are reviewed for accuracy and letters are mailed to the affected agents notifying them of the company's intent to terminate them if they do not produce new business within 60 days. After this period, the report is generated and validated again. Once it is confirmed, an IT script is created to automate the normal termination procedures and process the terminations electronically. This "Termed for Non-Production" process is conducted by Allianz in Minneapolis; however, in 2009, TCS was given a list of variable agents for which to process terminations using existing standard operating procedures (SOPs). The list of agents to terminate was prepared and validated by Allianz prior to executing the terminations.

The "Termed for Non-Production" process is conducted outside of the company's normal termination process and as such, the termination letters, which would normally request a return of indicia, were not generated from the system. The letters were manually created for the projects and did not include the request. As such, the examiners found that 390 Wisconsin agents that were terminated in 2008 and 134 Wisconsin agents that were termed in 2009 in the company's "Termed for Non-Production" process were not asked by the company to return indicia.

9. **Recommendation:** It is again recommended that the company develop, document and implement a process and procedures to provide all agents whose appointment to represent the company has been terminated, including those agents terminated for non-production, a written notice stating that the agent is no longer a representative of the company, and requesting that the agent return to the company all indicia of agency as required by s. Ins 6.57(2), Wis. Adm. Code.

The examiners found that the company's procedures did not require representatives preparing agent termination notices to disclose to OCI all complaints and problems as required by s. Ins 6.57 (2) (b), Wis. Adm. Code (company indebtedness, forgery, altering policies, fraud,

misappropriation, misrepresentation, failure to promptly submit applications or premiums, poor policyholder services involving the intermediary). The company had experienced problems and/or had received complaints involving such issues for 76 of its agents and did not report the information to the OCI until after the period of review. The company has remediated this violation with the OCI's agent licensing section.

- 10. Recommendation:** It is recommended that the company develop, document and implement a process and procedures to report any complaints or problems regarding company indebtedness, forgery, altering policies, fraud, misappropriation, misrepresentation, failure to promptly submit applications or premiums, and/or poor policyholder services involving any intermediary of which the company notifies the OCI has been terminated pursuant to s. Ins 6.57 (2) (b), Wis. Adm. Code.

The examiners also found that the company did not inform OCI that four agents were terminated for cause pursuant to s. Ins 6.57 (2) (a) Wis. Adm. Code. The company initially terminated these agents for reasons not listed under s. Ins 6.59 (5) (d), Wis. Adm. Code. After the terminations and the company's investigations of the four agents, the company changed its termination reasons to be 'for cause' due to reasons listed under s. Ins 6.59 (5) (d), Wis. Adm. Code; however, this change was not reported to the OCI as required by s. Ins 6.57 (2) (c), Wis. Adm. Code.

- 11. Recommendation:** It is recommended that the company develop, document, and implement a process and procedures to ensure it notifies the OCI in writing if, upon further review or investigation, the insurer discovers additional information regarding a terminated agent that would have been reportable to the OCI as a termination "for cause" pursuant to s. Ins 6.57 (2) (c), Wis. Adm. Code.

The examiners also reviewed agent appointment and license information associated with 50 variable annuity new business files (non-replacements) to confirm that the writing agents were properly licensed and appointed for variable business. No exceptions were noted.

Policy Forms

The Product Filing department is responsible for filing forms for use with the OCI. This department creates and maintains Allianz's annuity policy forms that are filed with state insurance departments.

The Product Development area of the Product Filing department is involved in the product development process. Employees create policy forms and gather the information for any changes implemented on forms filed with states for approval. This area develops the contract drafting process for new products and for product enhancements. They maintain contract "templates" to ensure each new product is drafted from the base contract that complies with company procedures and systems as well as applicable state and federal laws and regulations. In addition, they evaluate new benefits to ensure compliance with state and federal laws and regulations. The Product Filing area of the Product Filing department maintains a history of state specific requirements and incorporates the necessary state specific changes into policy forms prior to submitting the policy forms to the state for approval. The company's procedures state that policy form filings are submitted to the states for approval via the System for Electronic Rate and Form Filing (SERFF). The Product Implementation area of the Product Filing department releases new product approvals through an automated workflow database, which notifies applicable internal employees of the approval and state specific changes. In addition, Product Filing is involved in the review process for product related materials such as sales literature, advertising and disclosure pieces.

In order to notify staff of new and/or updated policy forms, the newly filed forms are deposited into a database. A note is then sent to a distribution list advising those on the list that the new forms are available to be installed into the system from which contracts are assembled for delivery to clients.

The fixed and variable annuity policy issuance processes for policy forms are fully automated. The issue systems are programmed to use only the most current electronic copies of forms needed for any given policy to be issued.

The examiners reviewed 171 policy forms which comprised all forms filed between July 1, 2008 (when 'file and use' became effective in Wisconsin) and December 31, 2010. Of the 171, some were revised form filings as indicated in applicable filings. In the review it was found that the company believed that the OCI reviews policy forms for *approval*. However, it was explained to the company that Wisconsin became a "File and Use" state effective July 1, 2008 and that the company is required to assure each form's compliance prior to filing it with the OCI. It was also discovered that the company believed that if a form that is filed in Wisconsin is not *used* in Wisconsin, non-compliance issues do not apply. The company believed that its forms were compliant as it did not get any feedback regarding its filed forms.

12. Recommendation: It is recommended that the company develop, document, and implement a process and procedures to ensure all forms filed for use with the OCI are compliant with Wisconsin Insurance Law, as is attested in the Certificate of Compliance filed with each form required by s. Ins 6.05 (4) 2, Wis. Adm. Code.

V. CONCLUSION

The market conduct examination of Allianz Life was conducted by the OCI to determine compliance with the prior recommendations made in the market conduct examination report adopted April 28, 2008. Another purpose of the exam was to verify that the company had established an effective system of supervision to ensure that its agents' recommendations to consumers to purchase or exchange an annuity are appropriate and suitable for their consumers' financial situation and needs.

The examiners found that the company's program for monitoring the suitability of annuity sales is called the Allianz Life Suitability Process. This includes the rules engine, Suitability Review Team, Partnership for Consumer Trust (PACT) program, and the Field Suitability Officer (FSO) program. The company also has a requirement that the Product Suitability Form (NB 3051) be submitted with every application (except those submitted by registered representatives) and has updated its form as of December 2010, as well as an agent guide to assist the completion of the forms during sales. Information on the Product Suitability Forms is then evaluated through an automated system which contains rules that trigger additional review based on various criteria including but not limited to financial triggers such as liquid assets, income and net worth, surrender charges, and source of funds. These triggers then determine which applications will be reviewed by the suitability team. Additional triggers were created to coordinate with the updated suitability form that went into effect after the period of review.

The examiners found exceptions in the company's new business process as some annuity contracts were issued even though the Product Suitability Forms included with the annuity applications contained incomplete information. In addition to this finding, which was a repeat violation from a previous exam recommendation, the examiners found that the company had not complied with four additional recommendations of the ten made in the previous market conduct examination report. As a result, the examiners found it necessary to repeat five of the

previous exam recommendations. The repeat exceptions were in the categories of New Business and Agent Licensing.

This compliance examination also resulted in seven additional recommendations in the areas of Consumer Complaints, New Business, Agent Licensing, and Policy Forms.

VI. SUMMARY OF RECOMMENDATIONS

Consumer Complaints

- Page 20 1. It is recommended that the company revise its complaint handling procedures involving the handing of OCI complaints to be sure the complainant is contacted in an attempt to resolve the problem within 10 days of receiving the complaint, per OCI referral instructions, in order to comply with s. 601.42, Wis. Stat.

New Business

- Page 22 2. It is again recommended that, except for those applications submitted by registered representatives whose broker dealers review the suitability of the transactions, the company develop, document, and implement a process and procedures to ensure that all questions on the Product Suitability Form, NB 3051 are answered and complete, and that they are reviewed for inconsistencies as required by its own company procedures and/or the requirements of s. 628.347, Wis. Stat.
- Page 31 3. It is again recommended that in all instances in which funds (full or partial) from an existing insurance product are used to fund another insurance product(s), a Notice of Possible Replacement is sent to the replaced insurer as required by s. Ins 2.07 (6) (a) 2, Wis. Adm. Code.
- Page 31 4. It is again recommended that in all instances where an applicant has an existing policy or contract, including contracts in which funds (full or partial) from an existing insurance product are used to fund a new insurance product(s), the company obtains with each application a copy of the Important Notice in order to comply with its own company procedures and s. Ins 2.07 (5) (d), Wis. Adm. Code.
- Page 34 5. It is recommended that the company correct and refile its Market Conduct Annual Statements for 2008 and 2009 with OCI, and develop, document and implement a process and procedures to accurately report to the Commissioner required information about the company's business in Wisconsin, including but not limited to the information provided in the Market Conduct Annual Statement, as required by s. 628.34 (1), Wis. Stat.

Agent Licensing

- Page 36 6. It is again recommended that the company develop and implement a process and procedures to ensure that it has submitted an application for agent appointment to OCI for each agent who it intends to have represent the company within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted as required by s. Ins 6.57(1), Wis. Adm. Code.
- Page 37 7. It is recommended that the company develop, document and implement a process and procedures to ensure it notifies the OCI that an agent's appointment with the company is terminated pursuant to s. Ins 6.57 (2), Wis. Adm. Code
- Page 37 8. It is recommended that the company develop, document and implement a process and procedures to ensure it terminates the appointment of an agent when notified that the agent's license has been terminated by OCI, and provides the agent with written notice that the agent is no longer appointed as a representative of the company as required by s. Ins 6.57 (2), Wis. Adm. Code.
- Page 39 9. It is again recommended that the company develop, document and implement a process and procedures to provide all agents whose appointment to represent the company has been terminated, including those agents terminated for non-production, a written notice stating that the agent is no longer a representative of the company, and requesting that the agent return to the company all indicia of agency as required by s. Ins 6.57(2), Wis. Adm. Code.
- Page 40 10. It is recommended that the company develop, document and implement a process and procedures to report any complaints or problems regarding company indebtedness, forgery, altering policies, fraud, misappropriation, misrepresentation, failure to promptly submit applications or premiums, and/or poor policyholder services involving any intermediary of which the company notifies the OCI has been terminated pursuant to s. Ins 6.57 (2) (b), Wis. Adm. Code.
- Page 40 11. It is recommended that the company develop, document, and implement a process and procedures to ensure it notifies the OCI in writing if, upon further review or investigation, the insurer discovers additional information regarding a terminated agent that would have been reportable to the OCI as a termination "for cause" pursuant to s. Ins 6.57 (2) (c), Wis. Adm. Code.
- Page 42 12. It is recommended that the company develop, document, and implement a process and procedures to ensure all forms filed for use with the OCI are compliant with Wisconsin insurance law, as is attested in the Certificate of Compliance filed with each form required by s. Ins 6.05 (4) 2, Wis. Adm. Code.

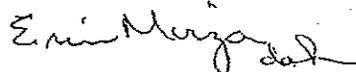
VII. ACKNOWLEDGMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

<u>Name</u>	<u>Title</u>
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John Pegelow	Insurance Examiner
Marcia Zimmer	Insurance Examiner

Respectfully submitted,



Erin Mirza, MCM
Examiner-in-Charge