



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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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

FIDELITY & GUARANTY LIFE INSURANCE COMPANY
601 LOCUST ST 2 RUAN CTR
DES MOINES IA 50309

dated April 18, 2014, and served upon the company on December 22, 2016, 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 14th day of July, 2017

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

**FIDELITY & GUARANTY LIFE INSURANCE COMPANY
BALTIMORE, MARYLAND**

MARCH 30, 2014 - APRIL 18, 2014

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December 21, 2016

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Honorable Theodore K. Nickel
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted March 31 to April 18, 2014 of:

FIDELITY & GUARANTY LIFE INSURANCE COMPANY
Baltimore, Maryland

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Fidelity & Guaranty Life Insurance Company (FGL), a stock company, incorporated in 1959 under the laws of Maryland, and commenced business in 1960. Its headquarters are now in Des Moines, IA. The company was primarily formed to write individual life insurance and annuity products focusing its efforts on serving middle market consumers.

The company's products are distributed by approximately 20,000 independent agents through FGL's established network of independent marketing organizations. FGL is the marketing name of Fidelity & Guaranty Life Insurance Company issuing insurance in the United States outside of New York and, in New York only, Fidelity & Guaranty Life Insurance Company of New York.

Until June 1, 1995, the company was a wholly owned subsidiary of United States Fidelity and Guaranty Company, a Maryland domiciled property and casualty insurer. In 1998, the company became an indirect subsidiary of The St. Paul Companies, Inc. In 2001, the company was acquired by Old Mutual PLC; a London based financial services company. As a

result, the company became a direct, wholly owned subsidiary of Old Mutual U.S. Life Holdings, Inc. (owned by Old Mutual).

In 2002, through a reorganization plan Old Mutual PLC created a new Texas domiciled life insurance company, Omnia Life Insurance Company, Inc. resulting in the company becoming a direct wholly owned subsidiary of Omnia. Effective 2007, the company changed its name to OM Financial Life Insurance Company.

In 2011, OM Financial Life Insurance Company changed its name back to Fidelity & Guaranty Life Insurance Company (the only difference being the former name used the word "and" and the current name uses an ampersand), and Old Mutual completed the sale of its life and annuity business to Harbinger Group Inc. Currently, FGL is a direct wholly-owned subsidiary of Fidelity & Guaranty Life Holdings, Inc. (FGLH), a Delaware corporation. FGLH is, in turn, a direct, wholly-owned subsidiary of Fidelity & Guaranty Life, a Delaware corporation, which is, in turn, ultimately owned by HRG Group, Inc. (f/k/a Harbinger Group, Inc.).

On April 6, 2011 Harbinger OM, LLC acquired from OM Group (UK) Limited all of the outstanding shares of capital stock of FGL's direct parent, FGLH, including the company and its wholly-owned subsidiary, Fidelity & Guaranty Life Insurance Company of New York (the names of which at the time were still the prior company names under Old Mutual). Pursuant to the stock purchase agreement, FGL recaptured all of the life insurance business ceded to Old Mutual Reassurance (Ireland) Ltd. During 2011, FGL recognized a loss of \$488 million related to the recapture of this business.

At the time of this exam, the headquarters for the company was in Baltimore, MD. However, effective November 1, 2013 FGL redomesticated to Des Moines, IA and the headquarters are now in Des Moines, IA. FGL will maintain its presence in Baltimore but anticipates that most future growth will occur in Iowa. The company also has a customer service center in Lincoln, NE which handles policyholder services for its life and annuity products.

The tables below summarize the total direct national premium written in 2011 and 2012 as compared to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

| 2012 | | | | | |
|-----------------------|--------------------------|-------------------------------|-------------------------|---------------------------|-----------------------------|
| | Life Ins Premiums | Annuity Considerations | A&H Premiums | Deposit Type Funds | Other Considerations |
| Wisconsin | \$3,462,641 | \$34,917,058 | \$0 | \$449,798 | \$0 |
| National | \$431,369,222 | \$1,550,199,734 | \$0 | \$217,039,586 | \$0 |
| WI as a % of National | .80% | 2.25% | 0% | .21% | 0% |

National Direct Business to Wisconsin Direct Business Summary

| 2011 | | | | | |
|-----------------------|--------------------------|-------------------------------|-------------------------|---------------------------|-----------------------------|
| | Life Ins Premiums | Annuity Considerations | A&H Premiums | Deposit Type Funds | Other Considerations |
| Wisconsin | \$4,089,388 | \$10,088,567 | \$0 | \$1,160,920 | \$0 |
| National | \$455,275,753 | \$841,147,977 | \$0 | \$282,452,698 | \$0 |
| WI as a % of National | .90% | 1.20% | 0% | .41% | 0% |

In 2011 and 2012, FGL had premium written in annuity and life insurance business. The majority of the premium written by the company in 2011 and 2012 was for annuity business, both nationally and in Wisconsin. In 2012, the company's life insurance business nationally was 27.83% of its annuity business, a decrease from 2011 at which time the company's life insurance business nationally was 54.13% of its annuity business. In Wisconsin, the same trend occurred.

In 2012, the company's life insurance business in Wisconsin was 9.92% of its annuity business; a decline from 2011 when the company's life insurance business in Wisconsin was 40.53% of its annuity business. In 2012 in Wisconsin, the company ranked 89th with a

market share of 0.2% for its life insurance business. Compared to 2011, the company dropped from a ranking of 77th with a market share of 0.2% for its life insurance business.

In 2012 in Wisconsin, the company was ranked 35th with 0.6% market share for its annuity business. This was a jump in market share compared to the 2011 ranking of 60th, with a 0.2% market share. As the table (previous page) indicates, the company nearly doubled its annuity business from 2011 to 2012 in Wisconsin with annuity considerations going from 1.20% of the company's national business, to 2.25% of its national business in 2012. During the same period, the life insurance business has declined slightly from .90% of the company's national business in 2011, to .80% of its national business in 2012.

The following tables summarize the company's Wisconsin premium written and benefits paid in for 2012 and 2011 broken down by line of business.

Wisconsin Life Insurance Business

2012

| Direct Premiums & Annuity Considerations | Ordinary | Credit Life | Group | Industrial | Total |
|---|---------------------|--------------------|-----------------|-------------------|---------------------|
| Life Insurance | \$3,462,641 | \$0 | \$0 | \$0 | \$3,462,641 |
| Annuity Considerations | \$34,854,729 | \$0 | \$62,329 | \$0 | \$34,917,058 |
| Deposit Type Funds | \$449,798 | \$0 | \$0 | \$0 | \$449,798 |
| Other Considerations | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total (Sum of Lines 1 to 4) | \$38,767,168 | \$0 | \$62,329 | \$0 | \$38,829,497 |

| Direct Claims & Benefits Paid | Ordinary | Credit Life | Group | Industrial | Total |
|--|---------------------|--------------------|------------------|-------------------|---------------------|
| Death Benefits | \$994,296 | \$0 | \$0 | \$0 | \$994,296 |
| Annuity Benefits | \$11,401,645 | \$0 | \$6,888 | \$0 | \$11,408,533 |
| All Others | \$27,412,506 | \$0 | \$170,785 | \$0 | \$27,583,291 |
| Totals | \$39,808,447 | \$0 | \$177,673 | \$0 | \$39,986,120 |

2011

| Direct Premiums & Annuity Considerations | Ordinary | Credit Life | Group | Industrial | Total |
|---|---------------------|--------------------|-----------------|-------------------|---------------------|
| Life Insurance | \$4,089,388 | \$0 | \$0 | \$0 | \$4,089,388 |
| Annuity Considerations | \$10,033,822 | \$0 | \$54,745 | \$0 | \$10,088,567 |
| Deposit Type Funds | \$1,160,920 | \$0 | \$0 | \$0 | \$1,160,920 |
| Other Considerations | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total (Sum of Lines 1 to 4) | \$15,284,130 | \$0 | \$54,745 | \$0 | \$15,338,875 |

| Direct Claims & Benefits Paid | Ordinary | Credit Life | Group | Industrial | Total |
|--|-----------------|--------------------|--------------|-------------------|--------------|
| Death Benefits | \$2,901,984 | \$0 | \$10,000 | \$0 | \$2,911,984 |
| Annuity Benefits | \$7,128,759 | \$0 | \$9,075 | \$0 | \$7,137,834 |
| All Others | \$24,442,716 | \$0 | \$101,847 | \$0 | \$24,544,563 |
| Totals | \$34,473,459 | \$0 | \$120,922 | \$0 | \$34,594,381 |

In Wisconsin, the amount of annuity consideration in 2012 increased by \$24,828,491 from 2011. However, the life insurance premiums in 2012 decreased by \$626,747 from 2011. The total for All Others under the Direct Claims and Benefits Paid section represent surrender values and withdrawals for life contracts. This total increased from 2011 to 2012 by \$3,038,728.

The Office of the Commissioner of Insurance (OCI) received nine complaints against the company between January 12, 2012 and December 31, 2013. A complaint is defined as “a written communication received by OCI that indicates dissatisfaction with an insurance company or agent”. As of the date of the exam, one complaint had been filed in 2014.

The nine complaints were due to issues with individual annuities (six), individual life (two), and group disability income (one). The majority of complaints filed in 2012 (67%) and 2013 (67%) were filed under the individual annuity coverage. The primary complaint reason was replacement and suitability problems with individual annuities. Four of the nine complaints dealt with marketing and sales problems such as replacement concerns, and suitability issues. Three of the nine complaints dealt with policyholder service concerns such as policy surrender delays, confusion on surrender value, and billing/premium change delays. Two of the nine complaints dealt with agent handling problems, such as misrepresentation. One of the nine complaints dealt with claim handling concerns.

The following tables categorize the complaints received against the company by type of policy and complaint reason. There may be more than one type of coverage and/or reason for each complaint. Complaints received in 2011 were included for historical purposes.

Complaints Received 2013

| 2013 | | | | | | | | | | | | |
|--------------------|-------|------------|--------------|------------|-------------------|------------|--------|------------|----------------------|------------|-------|------------|
| Reason Type | Total | | Underwriting | | Marketing & Sales | | Claims | | Policyholder Service | | Other | |
| | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total |
| Individual Life | | % | | % | | % | | % | | % | | % |
| Group Life | | % | | % | | % | | % | | % | | % |
| Individual Annuity | 2 | 67% | | % | 1 | 50% | | % | | % | 1 | 50% |
| Group Annuity | | % | | % | | % | | % | | % | | % |
| Credit Life | | % | | % | | % | | % | | % | | % |
| All Others | 1 | 33% | | % | | % | 1 | 100% | | % | | % |
| Total | 3 | 100% | | % | 1 | 33% | 1 | 33% | | % | 1 | 33% |

Complaints Received 2012

| 2012 | | | | | | | | | | | | |
|--------------------|-------|------------|--------------|------------|-------------------|------------|--------|------------|----------------------|------------|-------|------------|
| Reason Type | Total | | Underwriting | | Marketing & Sales | | Claims | | Policyholder Service | | Other | |
| | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total |
| Individual Life | 2 | 33% | | % | | % | | % | 1 | 50% | 1 | 50% |
| Group Life | | % | | % | | % | | % | | % | | % |
| Individual Annuity | 4 | 67% | | % | | % | | % | 1 | 25% | 3 | 75% |
| Group Annuity | | % | | % | | % | | % | | % | | % |
| Credit Life | | % | | % | | % | | % | | % | | % |
| All Others | | % | | % | | % | | % | | % | | % |
| Total | 6 | 100% | | % | | % | | % | 2 | 33% | 4 | 67% |

Complaints Received 2011

| 2011 | | | | | | | | | | | | |
|--------------------|-------|------------|--------------|------------|-------------------|------------|--------|------------|----------------------|------------|-------|------------|
| Reason Type | Total | | Underwriting | | Marketing & Sales | | Claims | | Policyholder Service | | Other | |
| | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total | No. | % of Total |
| Individual Life | 1 | 33% | | % | 1 | 100% | | % | | % | | % |
| Group Life | | % | | % | | % | | % | | % | | % |
| Individual Annuity | 2 | 67% | | % | | % | 1 | 50% | 1 | 50% | | % |
| Group Annuity | | % | | % | | % | | % | | % | | % |
| Credit Life | | % | | % | | % | | % | | % | | % |
| All Others | | % | | % | | % | | % | | % | | % |
| Total | 3 | 100% | | % | 1 | 33% | 1 | 33% | 1 | 33% | | % |

II. PURPOSE AND SCOPE

A 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 12, 2012 through December 31, 2013. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

Wisconsin's Suitability In Annuity Transactions statute, s. 628.347, Wis. Stat., was strengthened, effective May 1, 2011. The statute requires that there be reasonable grounds to believe sale of an individual annuity is suitable for the consumer based on facts disclosed by the consumer as to the consumer's financial situation and needs. Section 628.347, Wis. Stat., requires that insurers establish and maintain a system to supervise the annuity recommendations of its agents. The law requires an agent to complete a four-hour general annuity training course in addition to the company's specific product training prior to the company accepting any annuity applications from the agent. The examination was conducted to determine whether the company has established an effective system to supervise the recommendations of its agents and has a system in place to prevent the processing of annuity applications from agents who have not completed the proper annuity training.

The examination covered individual annuity and life business in Wisconsin and included, but was not limited to a review of claims, company operations and management, marketing, sales and advertising, policy forms, policyholder service and complaints, producer licensing, and new business which included replacement business and suitability review.

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

III. CURRENT EXAMINATION FINDINGS

Claims

The Claims department is organized under Client Services and Claims and is responsible for the investigation and adjudication of all life, annuity, and disability claims received by FGL.

The company uses an outside vendor, Dell, Inc., for claim settlement, located in Lincoln, NE. The company does not allow consumers to submit claims electronically. The claims process begins when a claim is reported to the company. However; it should be noted that beginning in 2012 the company also initiates claim handling through use of the Social Security Death Master File. The company engaged a third-party vendor (Pension Benefits Information, PBI) to compare in-force and terminated life insurance policies and annuities, in the prior 2-year period against a regularly refreshed database containing data from the Social Security Death Master File. The only exclusions are policies that are inactive due to surrender by the policy owner, cancellation by written request of the policy owner, free-look, surrender, rescission, or payment of a death benefit. The third-party vendor provides a report of decedents who potentially match individuals insured by the company and delivers the report through a secured website. The company retrieves the report and researches potential matches to see which, if any, can be confirmed or eliminated as potential death claims. If a potential match cannot be eliminated as the company's insured or annuitant, the company initiates the process for the potential claim.

When all claim requirements are met, the company reviews the documents and determines whether a claim investigation is required. Typical investigations are contestable claims, foreign death claims, manner of death reported as homicide or accidental, etc. During any investigation the company provides status letters to the claimant every 30 days until a claim decision is made.

If only a portion of the requirements are received, the company again will follow-up every 30 days until all claim requirements are received. The company will continue to follow-up for claim requirements until the expiration of 180 days from the date a claim is reported. If the company has no reasonable expectation that a claim will be forthcoming, the current practice of the company is to treat the death benefit as unclaimed property and begin the process of tracking the applicable dormancy period for the policy. Once a claim decision is made, the company reviews the claim documents and identifies the settlement option elected by the beneficiary, and follows the same process as indicated below when no investigation is required.

In cases where no investigation is required, the company makes the determination to pay or deny. If paid, the company prepares a Statement of Benefits detailing the benefit calculation, which is mailed to the beneficiary under separate cover from the check for benefits. The company targets a 2-business day average turn-around from receipt of all claim requirements, in good order, until payment of the claim (claims that do not require an investigation). If the claim is denied, the company tailors the denial letter to the specific facts of the claim referring to the relevant policy provision that forms the basis of the denial decision.

In regard to late claim payments with potential interest owed, the company provides its claims examiners access to regulatory guidelines that summarize the laws and regulations of each state, including the Wisconsin timely payment of claims statute (s. 628.46, Wis. Stat.). The claims examiner calculates interest from the date of receipt of proof of loss, which is usually the date of receipt of the Claimant statement and death certificate, through the date the claim payment is mailed to the beneficiary at an annual rate of 12% if the claim was not paid within 30 days of receipt of proof of loss. The claim requirements are a Claimant Statement, a certified copy of the death certificate and, in the case of a non-natural beneficiary, proof of authority to make the claim (e.g. Letters Testamentary if an estate is beneficiary).

For investigated claims, the company may also require a HIPAA authorization form to conduct the investigation and a Health Statement from the claimant. For disability claims, the

company requires a Claimant's Statement, Attending Physician's Statement, and Employer's Statement.

The company performs quality control checks on most claims prior to the final disposition of the claim. Some examiners have limited 'self-pass authority' for incontestable claims with a low face amount, meaning additional approval is not required. Experienced claim examiners who have demonstrated the ability to accurately process claims may be given authority to approve claim payments up to \$75,000.00 without additional quality control checks prior to issuing payment. The Claim Supervisor reviews payments between \$75,000.00 and \$250,000.00. The Vice-President of Client Services and Claims, reviews payments over \$250,000.00. The Company performs a monthly audit of 5% of the 'self-pass authority' claims. These audits are prepared and reviewed on a monthly basis by the Claims Supervisor and the Vice-President of Client Services and Claims. The claims department also prepares a monthly Pending Claims Report; a Life-Contingent Single Premium Immediate Annuity (SPIA) claims report, and a Disabled Lives Report which shows pending and processed disability claims.

The examiners reviewed the company's response to the claims interrogatory, hiring process for claims personnel, training requirements, and the company's procedures for handling claims.

The examiners reviewed 50 annuity paid claims and 37 life paid claims. The company did not have any denied life or annuity claims during the period of review.

No exceptions were noted.

Company Operations and Management

FGL was incorporated in 1959 under the laws of Maryland, and was primarily formed to write individual life insurance and annuity products focusing its efforts on serving middle market consumers, specializing in the sale of fixed annuities, single premium deferred annuities and immediate annuities, and term life insurance and universal life insurance policies. In more

recent years the company focuses more of its efforts on fixed indexed annuities, multi-year guaranteed annuities, and universal indexed life insurance products.

The company does not write or support variable insurance products or any other types of securities. Since April 2011, the company has been under new ownership, Harbinger Group Inc. On December 13, 2013 the company's up-stream owner (Fidelity & Guaranty Life) launched an initial public offering on the New York Stock Exchange.

Effective November 1, 2013 the Company redomesticated from Maryland to Iowa. FGL will maintain its presence in Baltimore. However, it anticipates most future growth will occur in Iowa. The company also has a service center office in Lincoln, NE.

According to the LIMRA U.S. Individual Annuities Sale Survey Fidelity & Guaranty Life was ranked 14th in indexed annuity sales for 2012. The company states that in the United States it is a market leader of fixed indexed annuities and fixed indexed universal life insurance. In Wisconsin, the company ranked as the 89th largest writer of life insurance for the year 2012, and the 35th largest writer of annuities. The Company markets its products via a nationwide network of Independent Marketing Organizations (over 200), and independent agents (over 20,000).

As previously mentioned, the company utilizes a third party administrator for its claim processing; Dell Inc. The company's Vice President of Client Services and Claims together with Annuity and Life Operations Managers meet weekly with Dell's management staff to discuss productivity of Dell and any operational issues that need to be addressed.

The company utilizes a third party administrator for other services as well, including HooperHolmes (HH) for underwriting services. The company's Chief Underwriter produces and reviews reports of HH activity on a daily and monthly basis. The reports are distributed to the company's senior management, and monthly review meetings are held by the company and HH to review the activities. These reports include files assigned for underwriting and new business, requirements ordered on these cases and final underwriting decisions made. Daily underwriting

activity audits are also performed by the HH Team Leader, as well as the Chief Underwriter. The audit includes requirements ordered, underwriting decision and time service, and are reviewed each month with HH and the company.

The company assigns responsibility for internal audits to the Risk Department, the Company's Audit Committee, and to the firm of PricewaterhouseCoopers (PwC). Areas of the company that are audited include, but are not limited to computer systems and software, investments, and suitability concerns. A written audit report is provided to management with the results and recommendations based on the specific audit performed. While there are no formal audits of agents or agencies, the company's anti-fraud officer monitors agent activity and also handles special investigations and oversees agent monitoring efforts. The anti-fraud officer reports to the Director of Compliance Oversight within the Legal and Compliance Department. During the period of review, the company provided an example of a Suitability Compliance Review.

The external auditor for the company is KPMG LLP. During the period of review, the company provided three completed U.S. General Accepted Accounting Principles (GAAP) audits, and two completed Statutory Audits.

The company has a Record Retention and Destruction Policy to ensure compliance with Wisconsin record retention requirements (s. Ins 6.80, Wis. Adm. Code). A review of the policy shows that it generally exceeds the record retention requirements for the state of Wisconsin.

To ensure compliance with all Wisconsin insurance laws, the company has a business unit oriented compliance program. A designated person in each business unit is responsible for maintaining processes and procedures to keep their area compliant. On a daily basis, the company distributes new and revised laws and regulations through the company's legislative tracking system, Comply On Demand Enterprises (CODE). The compliance

personnel for the business unit are required to review and implement any necessary changes. In addition to the changes reported through the CODE system, each business unit is required to perform a self-assessment to determine their compliance status.

All results are presented to the Risk Management Committee and, as applicable, the Audit Committee. In addition, the person responsible for compliance within each business unit provides a quarterly compliance certification to the Director, Compliance Oversight. The Compliance Department is within the Legal and Compliance Department of the company and is run under the direction of the General Counsel. The General Counsel reports audit results to the Board of Directors.

As stated above, the company typically communicates state law and regulation changes through CODE. However; in addition to CODE, the company uses other resources, such as the National Insurance Law Service (NILS) and the American Council of Life Insurers (ACLI) to access new and revised state laws and regulations. Those areas of the company that rely on federal law, such as the Tax area, have other resources, such as IRS publications, etc.

The examiners reviewed the company's response to the company operations and management interrogatory.

No exceptions were noted.

Marketing, Sales and Advertising

FGL assigns responsibility for marketing, sales and advertising to the following departments: Strategy and Corporate Development, Sales and Marketing, and Legal and Compliance. The Strategy and Corporate Development area is responsible for strategy, branding, digital media and public communications. The Sales area is responsible to recruit and manage the Independent Marketing Organizations (IMOs), including managing IMO goals and expectations. The Marketing area manages the product development project management process, illustration software support, competitive intelligence, marketing material fulfillment and

internal sales reporting. Lastly, the Legal and Compliance Department is responsible for the marketing material and advertising material review and approval process.

The company produces over 20 sales related reports which are reviewed by Senior Management, Sales Management, Product Development, Operations, and Finance on a daily, weekly, and monthly frequency. Many of the reports are generated automatically and all reports are made available to Sales Management. When appropriate, specific reports are shared with Product Development, Finance, Operations, and Senior Management. As a report example, there are weekly and monthly reports for Life or Annuity submitted applications showing trending patterns. These reports are reviewed by Sales Management.

The company does not market directly to consumers. All sales are conducted through independent agents, IMOs or agencies. The company does use paid search on Google to drive traffic to its website, Facebook, LinkedIn, Twitter, and YouTube. However, any leads received from consumer-facing websites are distributed to Sales to send out to producers or IMOs.

The company provides products and marketing materials to producers and IMOs/agencies through various means such as conferences, phone calls, weekly/monthly mailings. The company provides access to SalesLink for agents to consult. As an example of material available on SalesLink, the company posts the life insurance buyers guide as it is required for sales related to life insurance.

In addition to the sites maintained by the company, FGL advertises through Google AdWords and www.producersweb.com. Google AdWords typically promote free access to the company's whitepapers or video series in exchange for providing contact information. While these ads are targeted at agents, they often result in client leads as well. The ads on www.producersweb.com promote either a new product, service or a free whitepaper to download if the company is provided with contact information for the responder.

All advertisements proposed by producers or the company must be submitted for review by the company on the Advertising Approval Form. Producers are informed annually of this requirement via the Advertising Guidelines Bulletin, emailed to all producers, along with posting the advertising requirements on the SalesLink portal. Ad pieces originated by the company are reviewed by the following departments: Product Compliance, Actuarial, and Legal and Compliance. Ad pieces originated by producers are reviewed by the following departments: Product Compliance, Actuarial, Corporate Communications, and Legal and Compliance. The Tax area also reviews all ads containing tax-related items. In addition, if the piece references company financials or the parent company, the piece will be sent to the parent company for review.

If the ad is disapproved, an email notification is sent to the submitter and the file is closed. If the ad is acceptable, a file is created for record retention, including all required information based on company procedure. An email notice is sent to the submitter notifying the submitter of the approval, and indicating the period of time the ad can be used. If the company finds an ad that did not go through the proper review process, the company's Legal area sends a letter to the party using the unapproved piece.

The company does not maintain a list of agents who have their own websites. However, if there is a producer website that promotes the company or its products by name, the company's advertising requirements apply and the producer must submit the information to the company for approval. Though the company's anti-fraud officer does not review producer websites as general practice, the anti-fraud officer will become involved when concerns or issues are brought to the company's attention.

Producers are also sent communications from the company on new products, product changes, and company procedures by electronic mail. An example provided by the company is a continuing education reminder sent to producers outlining the requirement for annuity / suitability training.

FGL and its affiliate companies' website address is <https://home.fglife.com>. On its home page there are 3 main tabs titled: About FGL, Life Insurance, and Annuities. The first tab, About FGL, contains links to read more about: Leadership Team, Ratings, Investment Portfolio, Corporate Responsibility, Company Culture, Careers. The second tab, Life Insurance, contains links that allow the user to read more about: life insurance 101, the various products that FGL offers, as well as a link to compare the products. In addition, there is a link to download forms allowing existing policyholders to make changes to their life policy as well as surrendering their policy. The annuities tab contains links allowing the user to learn more about the various annuities offered by FGL, as well as a download forms link allowing the policyholder to request changes to their annuity. There is also a product performance link that shows how a fixed index annuity can increase in value over several years. The annuities tab also has an annuity exchange link, which refers to the option of a 1035 exchange.

Along with the three main tabs mentioned above, the home page also has the following links: Agent Central, Find an Agent, Become an Agent, Investors, and Contact Us. The Agent Central link has resources, tools, how-to's, information, news and blogs for agents. The Find an Agent link provides an electronic form for the user to complete requesting an agent. The Become an Agent link has various links referring to the requirements for contracting with FGL, as well as the following links: Insights Blog, Sales Tools, Product Tutorials, Change Contracting Status, Ready to Sell, Find an Independent Marketing Organizations (IMO), and Need More Information. The Investor link provides information on Investor Relations including FGL's upstream corporate owner's profile, Recent Press Releases, SEC Filings, Financial Information, Statutory Statements, Investor Calendar, Shareholder Services, Bondholder Relations, Board of Directors, Featured Reports, Stock Quote and a form to Join the Investor Email List. The Contact Us link provides information on Customer Service for Policyholders or Agents, Home Office information, as well as FGL contact information including physical address, mailing address, phone numbers and email form.

The website does not allow consumers to apply for coverage on-line, nor are there any options to receive a quote on-line. In addition to the all the links mentioned above, the website contains links to social networking sites including: YouTube, Facebook, Twitter, LinkedIn, and Google+.

FGL provides general consumer information as well as company information via YouTube <http://www.youtube.com/user/MyFGLife>. The Video link presents opportunities to view numerous FGL videos. As of January 16, 2014, there were 161 subscribers and 46,307 views. FGL joined YouTube November 9, 2011.

FGL has a Facebook page <https://www.facebook.com/FidelityandGuarantyLife/info> which also indicates the site visitor can download an app for iPad. The company's Facebook page provides an overview of the company, its mission and contact information, company photos, and links to general retirement content. The page has 9,068 likes, numerous posts, no videos.

FGL has a presence on LinkedIn and as of January 16, 2014, has 715 followers. A recent article posted states that Fidelity & Guaranty Life (FGL's parent company) is proud to announce that it successfully listed its stock on the New York Stock Exchange (NYSE:FGL). FGL also has career postings on LinkedIn, however, it does not have any products listed.

FGL is on Twitter following 1,012 accounts, and has 822 followers. Its profile summary contains the following statement "For over 50 years, Fidelity & Guaranty Life has been a catalyst to help Middle America plan for tomorrow. Over 735,000 individuals count on us to provide safety".

In addition to the above information, the company listed URLs that are registered to, or used by the company. Company URLs: <https://home.fglife.com> (Public website), <https://www.fglife.com> (Agent portal), <https://training.fglife.com> (Annuity Producer Product Training site), <http://blog.fglife.com> (Blog site), and <http://success.fglife.com/own-your-future> (Digital marketing site). Vendor URL's: <https://igoforms2.ipipeline.com/CossEnterpriseSuite>

(iPipeline), <https://naic.pinpointglobal.com/FidelityAndGuaranty/Apps/Default.aspx> (LIMRA training), and <https://fglife.successce.com/PSTLoginCarrier.aspx> (Success CE), <https://portal.rhoadsonline.com/home/Login.do> (Aithent Electronic Agent Contracting).

The Strategy and Corporate Development department is responsible for managing all information on the company's website that is directed towards the general public. The department ensures that published information is accurate and up to date. In addition, the company conducts periodic penetration tests and evaluates the results to determine if vulnerabilities exist. The company also has a firewall system in place to guard the internal network from unauthorized access.

The examiners reviewed the company's response to the marketing, sales and advertising interrogatory.

The examiners reviewed a sample of 50 out of the 1,198 advertising files. The 50 files included advertising samples from: multimedia, PowerPoint, print, trade publications, newsletters, press releases, YouTube videos, and Facebook pages. A review of advertising files for videos posted on YouTube revealed there were no policy numbers associated to advertisement file 13-274, as required by s. Ins 2.16 (28), Wis. Adm. Code, nor did the company file include the manner and extent of use as required by s. Ins 2.16 (30), Wis. Adm. Code. Advertisement file 13-274 refers to the Simplicity Elite product. The company stated that many of the YouTube videos are directed towards agents, not the general public and therefore could be considered Institutional Advertisements.

Institutional Advertisements are not subject to s. Ins 2.16 (28), Wis. Adm. Code, however; due to the open nature of YouTube any consumer can view the videos posted, therefore; the company needs to revise their procedure to ensure compliance with s. Ins 2.16 (28), and s. Ins. 2.16 (30), Wis. Adm. Code.

- 1. Recommendation:** It is recommended that the company ensure all advertising files are complete, including the manner and extent of distribution, and the form number of the policy, amendment, rider or endorsement form advertised as required by s. Ins 2.16 (28), and s. Ins 2.16 (30), Wis. Adm. Code. Specifically, the advertising files for YouTube advertisements must contain policy numbers associated with the advertisement and include manner and extent of use.

Policy Forms

The Compliance Oversight area of the Legal and Compliance Department is responsible for all form filings. The Product Compliance section of the Compliance Oversight area is responsible for drafting and filing of policy forms. They are also responsible for product compliance review of advertising materials and test print review prior to product launch. All form filings are submitted via an outside vendor, McHugh Consulting Resources, Inc. for the actual SERFF submission. Product Compliance is also responsible for preparing responses to filing objections and for working with state insurance departments on any filing issues. The Assistant Vice President and Director, Compliance Oversight signs all certificates of compliance on form filings.

To ensure compliance with any changes in Wisconsin insurance laws or regulation, the company has an expert in each business unit responsible for ensuring the unit complies with Wisconsin insurance laws. New and revised laws and regulations are distributed to the compliance expert in each business unit through the legislative tracking system, Comply On Demand Enterprises (CODE). On a quarterly basis, the business unit certifies to the Director of Compliance Oversight any compliance activities it has performed.

When a new product is developed, the review process starts with a product concept, typically from the Sales Management Team. A feasibility assessment is performed including product design, cost, strategy, system concerns, etc. The product then goes through an implementation review, which includes schedules, finalized costs, testing and deployment of software, ad approvals and marketing strategies with required form filing. In addition, product training is developed, websites are updated, and the product is deployed to production. Upon

product launch, distribution is directed to the field and all employees (if applicable). A post implementation review is also conducted to review lessons learned and measure success of the product at 9, 12, and 15 months from launch.

The state of Wisconsin requires an insurer to provide a form to notify its insureds of their right to file a complaint pursuant to s. Ins 6.85, Wis. Adm. Code. The company provides this notice at the time the contract is issued advising the policyholder to keep the notice with their insurance papers.

The examiners reviewed the company's response to the policy forms interrogatory. The interrogatory inquired about the process the company uses when forms are discontinued, and should no longer be used. The company stated that as part of the company's ordinary operation, the department responsible for the retired policy or form would advise affected internal staff or departments to the extent necessary. Though the company did not provide a documented procedure, the company did say if a policy or form is discontinued, as part of the company's ordinary operation, the department responsible for the retired policy or form would advise affected internal staff or departments to the extent necessary.

The examiners reviewed 96 policy forms submitted for use to the Office of the Commissioner of Insurance since January 1, 2012. The policy form review revealed the following concern. Form API-1013(02-11), associated with the company's flexible premium deferred annuity product, was lacking the full address of the company's home office, as required by s. 631.20 (2) (c), Wis. Stat. When asked, the company stated that the welcome package sent with every policy contains the full address of the company's administrative offices in Lincoln, NE. The welcome package also includes the company's toll free numbers, web address, and post office box address of the administrative offices of the company. However, the actual policy does not contain the complete address of the company's home office, which is in violation of s. 631.20 (2) (c), Wis. Stat.

2. **Recommendation:** It is recommended that the company revise its form filing process to ensure the full address of its home office is included in all policies, pursuant to s. 631.20 (2) (c), Wis. Stat. Specifically, form API-1013(02-11) needs to be revised and refiled to include the full home office address, with proof of such filing supplied to the OCI.

Policyholder Service and Complaints

The Client Services department is responsible for responding to policyholder inquiries, requests, and maintenance of life and annuity policies. Service requests received via the company's call center are handled by phone, unless requested or required to respond in writing. Client Services handles any activity related to contract values, benefits, changes, withdrawals, annual statements, and tax reporting. The company has documented Administrative Guidelines for employees to follow for all policyholder service processes, including free-look cancellations and surrenders.

The Client Services department also handles regulator and consumer complaints. The company defines a complaint as "Complaint includes any oral or written statement (including e-mails and faxes) received directly or indirectly, from an applicant, insured, owner, or any person acting on behalf of an applicant, insured, or owner, or from any regulatory or administrative agency, which alleges a grievance involving an insurance product sold by the Company, the conduct of an employee or third-party administrator of the Company, or an independent Producer/Agency authorized to take/submit applications for the Company's products".

Any complaint received by an employee of the company, or a third party administrator will be date-stamped and immediately forwarded to the company's Vice President of Client Services and Claims. Complaints received verbally, by telephone should be immediately forwarded to the Vice President of Client Services and Claims, responsible for managing the investigation of and responding to all complaints. Complaints received from the media or a vendor must be immediately referred to the company's General Counsel and the

company's Vice President of Client Services and Claims. The company's Vice President of Client Services and Claims remains responsible for investigating and responding to the complaint, except in cases involving the media in which case the company's Vice President of Corporate Public Relations and Communications is also consulted.

When a complaint is received, it is registered into the Complaint Log by the company's third party administrator, Dell. The Complaint Log is maintained by the Vice President of Client Services and Claims. A complaint report may be generated for any period of time and with any defined data elements, from the log. It is serviced and maintained by the company's internal IT department, with Dell physically maintaining the database. The Complaint Log is published on a monthly basis and is provided to the Chief Risk Officer and/or to other authorized individuals upon request.

The Vice President of Client Services and Claims is responsible for managing each complaint investigation, and providing a timely response to each complainant, utilizing internal and external resources as necessary. For any complaint that alleges misconduct of a producer or agency, a statement responding specifically to each allegation is requested from the producer or agency. Any failure by the producer or agency to fully and promptly cooperate is subject to termination for cause. If multiple complaints have been received, or evidence suggesting a pattern and practice of misconduct by a specific producer or agency, this information will be additionally reported to the company's Chief Risk Officer for additional review and investigation.

The company responds to complaints within the timeframes established by each state, unless an extension has been granted. Any response to complaints received from a department of insurance shall reference the applicable NAIC number, and any applicable company policy or producer/agency number. Responses to a department of insurance will be copied and mailed to the complainant as well, unless directed otherwise.

The company's Legal and Compliance Department reviews complaints involving potential fraud, misconduct on the part of a producer, and complaints threatening litigation. In

addition, any complaint disposition that could result in litigation with risk to the Company in an amount exceeding \$250,000 will be immediately reported to the company's General Counsel for purposes of assessing risk and reporting obligations to the insurer and the company's reinsurers.

If an appeal is filed after a complaint is responded to, the company's Vice President of Client Services and Claims will manage, investigate, and review the appeal in a reasonable and timely fashion.

The company stated that the Vice President of Client Services and Claims is responsible for the investigation of all complaints. If the complaint alleges the sale of an annuity policy that was unsuitable, the company obtains a statement from the producer who sold the policy asking the producer to respond to the specific allegations in the complaint. The company also gathers relevant personal and financial information from the complainant. The company will review this information and its original application file to assess the reasonableness of the producer's recommendation of the product taking into consideration, among other things: age, annual income, financial situation, financial experience, financial objectives, and purpose of purchasing annuity, financial time horizon, existing assets, liquidity needs, liquid net worth, risk tolerance, and tax status. The company's Suitability Process Manual along with the Complaint Handling Guide will be used to address suitability related complaints.

When a complaint is received with allegations of misconduct or misrepresentation by an agent, the company's third party administrator (Dell) review's prior complaints for patterns of alleged misconduct, and/or similar complaints that may tend to support the allegations of the current complaint. The company designates a specific field in its complaint database for allegations of agent misconduct and can produce reports, by agent, for any similar complaints.

The company produces a Monthly Complaint Summary to identify trends and issues related to sales practices and services as well as potential broader market conduct concerns. The company reviews this report each month in the Monthly Operations Committee meeting.

The committee is a cross functional team of officers and managers across the company, and its third party administrator, Dell.

OCI received nine complaints against the company between January 12, 2012 and December 31, 2013. As of the date of the exam, one complaint had been filed in 2014.

The nine complaints filed during the period of review were related to issues with individual annuities (six), individual life (two), and group disability income (one). Broken down by year, there were six complaints filed in 2012. Four (67%) filed under the individual annuity coverage, with the remaining two (33%) filed under the individual life coverage. In 2013 there were three complaints filed, two (67%) filed under the individual annuity coverage, with the one (33%) remaining complaint listed as "other" involving a loan on a life policy.

The primary complaint reason was replacement and suitability problems with individual annuities, followed by policyholder service concerns such as policy surrender delays, confusion on surrender value, and billing/premium change delays with individual life policies.

The examiners reviewed the company's response to the policyholder service and complaints interrogatory.

No exceptions were noted.

Producer Licensing

The Agency Services department is responsible for the management of agent contracts, agent appointments and terminations. Internally, this department is sometimes referred to as the Contract Commission and Licensing (CCL) Department. The head of the CCL Department reports to the FGL Chief Administrative Officer and has overall responsibility for the strategic direction and management of the CCL department and personnel.

The CCL Department consists of: (i) business analysts responsible for management of certain contract payments, document processes and quality control functions; (ii) an Agency Compensation Unit, which is responsible for resolution of various issues related to payment of

commission and other revenue to agencies and producers and of appointment and licensing fees to states and other jurisdictions; (iii) a Contract and Licensing Group which is responsible for making and maintaining records regarding agencies and producers; including records regarding payments to the same; and for administration of the appointment and licensing of Agencies and Producers with states and other jurisdictions; (iv) a Collections Unit, which is responsible for recovering unearned commissions and other unearned compensation paid to agencies or producers; and (v) a Mail Administration Unit, which is responsible for processing, recording and dispatching incoming and outgoing correspondence, ordinary and electronic.

In addition to the information listed above, the Contract and Licensing Group determines whether an agency or producer will do business with the company and if so, ensures all processes are in place; effecting the appointment with states and enabling a third party vendor to make payment of the appropriate commission or other revenue related to the sale of the company's insurance products.

The company's distribution system consists of independent agents (not captive) and Independent Marketing Organizations (IMOs). Nationwide, the company has over 20,000 agents under contract. Company employees who are properly licensed and appointed are eligible to sell the company's insurance products to family and friends. Commissions on such sales may not exceed \$10,000 per calendar year.

FGL does not write or support variable insurance products, or any other types of security. Therefore the company's appointed agents are not required to obtain a variable life and variable annuity license.

Agent recruitment is typically done by the IMOs. The process begins when the company receives the required "Information Form" signed on behalf of the agency and by each prospective producer. All independent agents are under contract and must agree to the terms of the company's selling agreements, which include the Insurance Producer Agreement, Agency Selling Agreement, Agent Appointment Instructions, Annualization Addendum, Market Conduct

Guide, Code of Ethical Conduct Guide and Commission Schedules. In addition to these agreements, the company requires the agent to complete a W-9 form, a Direct Deposit Authorization Agreement form, a Fair Credit Reporting Act Disclosure and an Authorization for Employment Purposes form.

In most jurisdictions, the process of appointing an agency or producer begins with the receipt of the first application to purchase a company insurance product submitted by a producer. The process includes a background check and the entire licensing process. A background check is performed to generate a score indicating whether the company wishes to do business with the agency or producer. Pending the receipt of the background information, the prospective agency or producer may be appointed to the company. If no negative information is generated, the appointment will be valid until it is terminated. In the event negative information is generated, it is possible that one application will be accepted and processed, but the agency and/or producer will promptly be terminated upon 30 days' notice. With respect to agencies, a background check should be conducted for the agency itself and for each of the principals whose identity and social security number is disclosed to the company.

As required by s. 628.347(3), Wis. Stat., the company provides specific training modules for each product series and publishes the information to the agent web portal; SalesLink. Each agent is responsible for learning the material and certifying completion of the training. The date the agent completes the training is recorded and posted to SalesLink, which becomes the date on which the agent can submit business for that product.

As required by s. 628.347(4m), Wis. Stat., the agents must also complete a one-time four hour Department of Insurance approved course on annuities prior to soliciting the sale of annuity products. The company posts the one-time annuity education course on SalesLink. The new business department verifies the agent is in good order before accepting and processing any annuity application. If the company receives an application solicited prior to the producer's completion of the training and submission of the required certification, the application will be

rejected. In addition, the commission system blocks payment of commissions to an agent for sales of a product if the required training has not been completed.

The Company relies on IMOs to provide agent training, along with appropriate support from various departments of the company, as indicated above.

In addition to the company's annuity suitability training requirement, the company requires other certifications such as evidence of anti-money laundering (AML) training and errors and omissions coverage. Continuing Education (CE) training is tracked by the company and supported through training modules created, hosted and delivered by external vendors, including LIMRA for AML training and Success CE for annuity suitability training. Additional training support is provided by the company sales and corporate communications departments through materials placed on SalesLink. These materials are used by IMOs to provide training to their respective recruited agents.

If the company introduces new products, these changes along with new company procedures are communicated to agents by electronic mail, as well as through the agent web portal SalesLink. The company posts communication about state specific product requirements and forms on the agent web portal Sales Link. Additionally, communications about regulatory developments are posted to the "compliance corner" section of SalesLink. The company agreements signed by the agent require the agent to be familiar with compliance requirements and relevant product materials distributed through SalesLink.

Records of agency and producer information, including payments thereto are maintained on the FGL Commission System. Paper documents received and processed by Agency Services are scanned, indexed and maintained on the FGL Network System. Original paper documents are to be retained for 90 days, after which time the originals are destroyed. Among the records maintained on the FGL Network System is a historical record of all entries made to the FGL Network System.

An agent file will typically contain paper documents used during the appointment process such as the Agency/Producer Information Form, Commission Annualization Form, EFT Authorization Form/Automated Clearing House (ACH) Form, Form W-9, and the company Welcome Letter. The file may also contain any agent requests for change along with the company response, and confirmation of the change. Agent requests may include debit balance collection letters, reminder notices, and termination notices. Agent files are kept as permanent records, except to the extent any records may have been lost in past system conversions. Current and historical agent appointment and termination records are maintained with a vendor, Rhodes On-Line/Aithent. However, any correspondence regarding licensing or appointment received from a state insurance department is imaged and retained in the agent file, maintained by the company. Background reports are not contained in the agent file to protect agent's privacy; those reports are filed and maintained by an outside vendor, General Information Systems (GIS).

Agent information on the company's licensing systems is continuously updated with license and appointment status. The agent license and appointment information maintained by the company's vendor is regularly updated to the company commission system in order to maintain accurate agent licensing status within the commission system. Several times per year the Agency Services Department performs license and appointment reconciliation with the states to ensure each license record is active and appointment record is in good order. The state reconciliation process compares the company data to state data to ensure the information matches. Discrepancies are noted and action is then taken to resolve any such discrepancies. The state license data are then updated to the company's system via a license export file. Agency Services provides daily updates to the company's new business area. If an agent's record is determined not to be in good order due to an apparent lapse, termination or other event, hold codes are added to the agent record and any new business record is treated as a revolving error until the issue is resolved.

In 2010 the company automated its licensing processes with the assistance of electronic data interfaces between the company's commission system and the company's vendor licensing system, Rhoades On-Line/Aithent system (called PCRM), which in turn interfaces with NIPR. In 2014 the company's appointment termination process was automated to ensure whenever the company submits a termination request to the state, regardless of whether the agent is resident or non-resident, a state appointment termination letter is generated and sent to the agent. Agency Services provides daily updates to the company's new business area administrated by the company's third party administrator, Dell.

In regard to tracking complaints filed against an agent or agency, the company or the third party administrator, Dell, will review the complaint database to identify any prior complaints against the agent prior to responding to the complaint. If there are any past complaints, they are reviewed for patterns of alleged misconduct or similar complaint that may tend to support the allegations in the current complaint. The company has a file available in the complaint database to indicate allegations of agent misconduct, and the system can produce reports based on the agent. The company also refers potentially egregious complaints to the anti-fraud officer in the Legal and Compliance Department for review and possible investigation.

Though the company does not have a process for formally reprimanding agents, the company's anti-fraud officer does monitor agent activity, and will at times take disciplinary action. The anti-fraud officer also makes the decision to terminate an agent for cause. The circumstances in which the company would terminate for cause are set forth in the producer and agency agreements. If disciplinary action is required, the company generally terminates the agent. However, in rare circumstances the company will take other kinds of action such as coordinating with IMOs to place agents under heightened supervision. If termination action is taken, Agency Services enters the termination in the system which triggers an automatic notice to the company's appointment/termination vendor which in turn sends notice to the state. The notice to the state would include Termination For Cause. If the state inquires or seeks further

information about the termination of the agent, these requests are referred to the Legal and Compliance Department.

The examiners reviewed the company's response to the producer licensing interrogatory, including agent contracts, and appointment and termination procedures.

The examiners reviewed 100 agent files that included 50 appointed and 50 terminated agents, to determine if the company's practices and procedures related to the appointment and termination of its agents comply with Wisconsin Insurance statutes and rules.

The producer licensing interrogatory requests company procedures for agent terminations to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code, which requires the appointment termination be filed with OCI prior to, or within 30 calendar days of the actual termination date. The company's response included its process and samples of company termination letters. When an agent is terminated by the company, the Agency Services representative will process the termination within the company commission system. The system will send a request to process the termination with the state via an electronic interface to TPS-Aithent Rhoades, the company's vendor. However, the process does not state the request must be sent prior to, or within 30 calendar days of the actual termination date. The 50 terminated agent files reviewed by the examiners revealed three instances of late notification to OCI for agent termination. To ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code, the company must ensure the 30 calendar day requirement is included in the termination process.

- 3. Recommendation:** It is recommended that the company revise its agent termination procedure to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code, which requires the notice of agent appointment termination be filed with OCI prior to, or within 30 calendar days, of the actual termination date. Specifically, three instances were identified where such notice was provided late to the OCI.

Of the 50 appointed agent files, the examiners found 35 files where the date of appointment with the OCI was greater than 15 days from the date the agent contract was signed. This is contrary to the requirements of s. Ins 6.57 (1), Wis. Adm. Code, which requires

an insurer to appoint an agent within 15 days after the earlier of the date the agent contract is executed or the agent submits his or her first insurance application to the company. The company stated that as a general matter, the company seeks to ensure appointments are made within 15 business days of application date for the first business submitted by the agent to the company. The company also stated that while the agent may have signed the contract when enlisted by the company's IMO, the contract is not considered executed by the company until the agent typically goes on SalesLink to complete the appointment and licensing process. In addition, many of the agents have contracted with the company for purposes of selling business in other states and thus the contract date is not applicable with regard to sales in Wisconsin. Due to these factors, the company stated it uses a "just in time" appointment procedure that strives to effectuate appointment within 15 business days of the first application sign date. Based on the company's response, this process is not in compliance with s. Ins 6.57 (1), Wis. Adm. Code.

The company is not taking into consideration the date the agent signed the contract; rather the company is strictly looking at the date of the first application. In regard to agents that are selling business in other states, the company's procedures are reasonable as those agents would typically be non-residents of Wisconsin. The examiners removed the 10 non-resident agent appointment files from the 35 appointed agent files, which were in non-compliance with the appointment requirement. This left 25 of the 50 appointed agent files reviewed that, along with the company's appointment procedures, do not comply with s. Ins 6.57 (1), Wis. Adm. Code.

4. **Recommendation:** It is recommended that the company revise, document, and implement a procedure to ensure it submits resident agent applications for appointment to the Office of the Commissioner of Insurance within 15 days after the earlier of the date the agent contract is executed or the agent submits his or her first insurance application to the company, pursuant to s. Ins 6.57 (1), Wis. Adm. Code.

Of the 50 terminated agent files, the examiners found three agent files that contained the termination letters; however, no termination effective date was listed in the letter. The examiners also found five agent files that did not contain the written notice of termination as required by s. Ins 6.57 (2), Wis. Adm. Code. The company responded stating that in cases where the agent was still active in another state, no termination date was provided. There were also cases where the termination request was rejected for reasons not understood by the company; however, the situation has now been resolved. In 2014 the company's appointment termination process was automated to ensure whenever the company submits a termination request to the state, regardless of whether the agent is resident or non-resident, a state appointment termination letter is generated and sent to the agent. The company provided a sample termination letter generated in 2014, which includes the termination date.

The agent files and data lists provided by the company were compared to the records maintained by the OCI. In the comparison of the company's list to the OCI list, the examiners found that 23 agents were listed as appointed according to the company, but were terminated according to OCI. Section Ins 6.57 (5), Wis. Adm. Code, states that no insurer shall accept business directly from any producer, or enter into an agency contract with a producer, unless that producer is licensed with the State of Wisconsin and appointed by the company. In response to the discrepancies, the company stated that it appears the vendor may have had appointment requests rejected but did not pass that information along to the company. The company also stated that the discrepancies were picked up when the company performed the state reconciliation process. The company verified that no new business was accepted from any of the 23 agents. The company stated that in the last 15 years there have been numerous system conversions and vendors. Some of the issues raised were due to lack of action on the part of the vendor to alert the company that there was an issue with an agent appointment or termination request. The company stated that the vendor is no longer with the company, and in 2014 the company's appointment and termination processes were automated.

New Business

The company's Chief Underwriter is responsible for all activities related to new business. For life products, the company outsources underwriting services to HooperHolmes Underwriting Solutions (HHUS) and for annuity products, no underwriting is required.

At this time the company does not allow producers or consumers to submit applications electronically. The company is researching this capability for producers to submit business electronically in the future.

New business life applications are received from producers in the company's third-party administrator's Lincoln, NE service center. All application information is imaged and placed into the workflow for data entry. Any hard copy received at the service center is retained for seven years per the company's document retention policy. Once the application arrives at the underwriting Workdesk, underwriters perform a review of each application file to ensure all underwriting and new business requirements are identified, ordered and approved (or rejected) within the company's underwriting guidelines. Once the decision is made, the file is passed to the policy issue team who will review the entire application prior to processing per the underwriter's final decision. If any requirements are missing or if clarification is needed the issue team will pass the file back to underwriting, until all requirements are received and/or clarified. The policy issue team issues the policy, which is printed in an overnight cycle and mailed to the producer for delivery to the policy owner. If delivery requirements are required to be returned, the service center staff will follow up with the producer until all delivery requirements are received.

In the event of an adverse underwriting on a life application, the assigned underwriter makes a decision and records the decision in the Underwriting Workdesk. The case is then forwarded to the Case Manager for communication to the agent regarding the Adverse Underwriting Decision (AUD) which can include declines, special ratings and postpones. The company does not use exclusionary riders on their life insurance policies. Once a Case

Manager receives an AUD case, he or she contacts the agent regarding the decision. If the case requires special rating, the agent is asked to respond whether the rating is accepted by the proposed insured, or not. If accepted, an increased-premium letter is sent to the proposed insured with the appropriate attachment and the case is sent to policy issue for policy print. If the rating is not accepted, the increase-premium letter is sent to the proposed insured with the appropriate attachment and the case is considered "incomplete". In the event the case is declined, the agent is informed of the declination and a decline letter with the appropriate attachment is sent the next day to the applicant.

New business annuity applications do not require underwriting. However, the annuity applications follow the same process as life applications as far as being received and data entered. If funds are received with an annuity application, they are placed in a suspense account and coded to match the application number. The company's new business team will review the application to determine whether it is in good order, and that the agent is properly contracted and licensed. If not properly contracted and licensed, the team coordinates with the Agency Services team to complete the contracting and licensing of the agent. The new business team also performs suitability review functions. If an annuity application is not in good order and/or the company has follow up questions on suitability or anything else, the company communicates with the producer through its website and through fax, email, or outbound call. Once all requirements are received and in good order, the company proceeds to issue the policy. The annuity policy pages are printed in an overnight cycle and are mailed to the producers for delivery to the policy owner.

In regard to the renewal of existing life insurance policies, the company stated this applies to term policies that reach the end of the guaranteed term coverage period and have a provision to renew annually. The owners of these types of policies are sent a notice that the policy will automatically renew for another year. The notice includes the rate that will be charged for the coverage, and the date that the coverage will renew at the new rate.

To ensure accuracy and compliance, the company requires HHUS to perform internal audits of its work according to the agreed upon audit procedures. Each week at least 5% of the week's finalized cases are audited according to the company's service contract with HHUS. These results are reviewed with HHUS during the monthly Service Agreement meeting and presented to FGL AVP Chief Underwriter, FGL VP New Business and Claims, FGL AVP Operations Manager, HHUS VP Chief Underwriter, HHUS Underwriter Team Leader, HHUS Admin Director, and the HHUS Admin Team Leader.

According to the information provided to the examiners, policies sold during the period of review were Fixed Indexed Universal Life Policies, and Fixed or Immediate annuities.

For the Fixed Indexed Universal Life policies, the company received 102 applications during the period of review. Of the 102 applications, 59 policies were issued (58%), 15 policies were incomplete or missing required information (15%), 12 policies were not taken (12%), 5 lapsed (5%), 4 were declined (4%), 4 were pending lapse (4%), and 3 were surrendered.

The following chart shows life policies issued during the period of review, broken down by product.

| Fixed Indexed Universal Life Policy Product Name | Number of Life Insurance Policies Issued During the Period of Review | Percentage of Total Life Insurance Policies Issued During the Period of Review |
|---|---|---|
| FG Life-Choice | 36 | 35% |
| FG Life-Elite | 13 | 22% |
| FG Life-Gold | 8 | 14% |
| Legacy SecureMaster | 2 | 3% |

The FG Life-Choice product accounted for over a third of all life policy sales during the period of review, with 36 policies issued.

For the annuity products, the company received 1,110 applications during the period of review. Of the 1,110 applications, 884 policies were issued (80%), 167 policies were not taken (15%), 24 policies remained incomplete (2%), 13 policies were still pending (1%), and 8 policies were surrendered.

The following chart shows the annuity products issued during the period of review.

| Annuity Product | Number of Annuities Issued During the Period of Review | Percentage of Total Annuities Issued During the Period of Review |
|----------------------------------|---|---|
| Fixed Traditional Annuity | | |
| Fidelity Platinum 5 | 301 | 27% |
| Fidelity Platinum Plus 5 | 38 | 33% |
| Fidelity Platinum 7 | 4 | <1% |
| Dexterity 3 | 3 | <1% |
| Fixed Indexed Annuity | | |
| Prosperity Elite 14 | 196 | 17% |
| Prosperity Elite 10 | 168 | 15% |
| AmeriMark Freedom 7 Bonus | 65 | 6% |
| Prosperity Elite 7 | 46 | 4% |
| AdvanceMark Ultra 14 | 11 | 1% |
| Spectrum Choice 9 Bonus | 11 | 1% |
| FG AccumulatorPlus 10 | 10 | <1% |
| AdvanceMark | 9 | <1% |
| AmeriMark Freedom 7 | 5 | <1% |
| FG Index-Choice 10 | 5 | <1% |
| SpectraMark | 4 | <1% |
| FG AccumulatorPlus 14 | 3 | <1% |
| OM Accelerator Bonus 10 | 2 | <1% |
| Fixed Traditional Annuity | | |
| Senior Safeguard | 2 | <1% |
| Guaranty Income Plan | 1 | <1% |

The top annuities issued were the Fixed Indexed Annuities with a total of 535 policies issued during the period of review. Though the Fixed Traditional Annuities show a total of 346 policies issued, the Fidelity Platinum 5 product was the top seller of all annuities with 301 policies issued.

The examiners reviewed the company's response to the new business and underwriting interrogatory.

The examiners also reviewed 50 new business annuity files, 50 new business life files, 19 terminated life files, 50 declined annuity files, and 4 declined life files.

The review revealed two files where the resident agent was not appointed within 15 days of the date of the application. In response to the exception about the two resident agents not being appointed within 15 days of the date of the application, the company stated that in both cases the company made a good faith effort to appoint the agents on a timely basis according to s. Ins 6.57, Wis. Adm. Code.

The company explained that in both cases, the agent had not yet completed the required product training course, so the applications were rejected with notification sent to the agents and the clients. One of the agents completed the required training, and that application was resubmitted on the same date the agent was appointed by the company. However, the file the examiners reviewed did not contain the resubmitted application. Concerning the second case, the company followed routine steps to appoint the agent with its vendor using standard operating procedures. However, the company stated that for reasons that remain unclear, the appointment apparently was not accepted by Wisconsin. Based on the exception, the company reviewed all business submitted by the agent and found the agent submitted three applications. The company stated the application identified by the examiners was not placed; however, one of the three applications did eventually place and get issued. The company is researching the matter to determine why the appointment request was rejected by Wisconsin and has currently suspended the agent's Wisconsin appointment within the company's commission system. The company's response also referred to "15 business days exclusive of weekends and holidays", however; the statute does not refer to business days.

Accepting business from an agent who is not appointed with the company is not in compliance with s. Ins 6.57 (5), Wis. Adm. Code. This recommendation is listed previously, under Producer Licensing.

No additional exceptions were noted.

New Business - Replacement

FGL relies upon its Administrative Guidelines regarding State Replacement Requirements, for handling replacements. The guideline defines a replacement as any transaction in which a new insurance policy is to be purchased, and the producer knows or should know that an existing insurance policy has or will be:

- Lapsed, forfeited, surrendered or partially surrendered, or otherwise terminated;
- Converted to reduced paid-up insurance, continued as extended term insurance, otherwise reduced in value by the use of non-forfeiture benefits or other policy values;
- Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;
- Reissued with any reduction in cash value; or
- Surrendered, borrowed against, or withdrawn from in order to purchase a new insurance policy or annuity.

The company goes on to state that with the exception of a policy change or exercise of a conversion privilege under the terms of the existing insurance policy, replacement laws and regulations apply to all policies for any transfer or exchange from one policy to another.

With regard to life replacements, the company's Market Conduct Guide requires that the agent sell company products based on clients' needs and financial objectives.

The company's guiding principal in replacement transactions is that the transaction should not be made unless there is a reasonable basis that it is in the customer's interest. The company's underwriters review each file prior to issuance to determine that face amount is justifiable, any financial criteria are satisfied, insurable interest is established, and any other relevant factors are in order from an underwriting perspective. For annuity replacements, the company's suitability procedures and guidelines are contained the Suitability Process Manual.

The process applies to all states, including Wisconsin. The company requires agents to complete a Suitability Acknowledgement Form (SAF) with every annuity application. The current process was instituted in January 2011.

Each agent, and agency, is required to enter into a contract with the company obligating the agent to comply with state laws and adhere to the company's Market Conduct Guide, including those provisions pertaining to suitability and replacement. The company largely relies on its Independent Marketing Organizations (IMOs) for this type of training, with appropriate support from various departments within the company. Replacement forms and instructions are provided to agents primarily through the company's web based agent portal, SalesLink. The company provided a copy of the field bulletin that advised agents of the changes to the replacement requirements for the state of Wisconsin. The bulletin also advised the agents of the new form requirements, and that applications will not be accepted unless they are accompanied by the important replacement notice. Replacement notices are saved as images in each policy file and policy files are maintained for the life of the policy plus an additional 7 years. This exceeds the requirements of s. Ins 2.07 (6), Wis. Adm. Code. As previously stated, the company only uses agents recruited through IMOs and does not sell any direct response business.

The company does not set any limitation per se on the amount of replacement business that is acceptable; instead, the company ensures the agents are aware of the company's expectations. The company requires the agent to abide by its Market Conduct Guide and Code of Ethical Conduct which contain requirements in connection with replacement transactions. The agent is required to sign these documents, and the Insurance Producer Agreement refers to the guides, and the requirement to read and sign them. The company reviews the merits of each proposed annuity replacement individually through its suitability review process. FGL prepares a new business report for its Monthly Business Review meeting that includes various companywide metrics, including percentage of new sales that are cash-

with-application as opposed to replacement or transfer. The report is presented to and reviewed by senior officers of the company in the Monthly Business Review meeting. Through these reports, senior leaders of the company monitor for any unusual patterns in new business activity, including whether the source of funds are cash-with-application versus other sources, such as replacements. If the company discovers issues with any given agent, the company's compliance team would produce a report on the individual agent. The report would look at, among other things, the agent's book of business showing what percent or number of sales involve replacements. This would be taken into account for purposes of evaluating whether further investigation is needed or whether discipline is warranted.

The company generally does not pay commission on internal replacement sales, if the policy being replaced is still in its surrender charge period. An exception to this can be requested, and the home office would determine whether to grant the exception. If the replaced policy is outside of the surrender charge period, a reduced commission is typically paid. Each is reviewed on a case-by-case basis.

Several years ago, the company adopted a practice of providing a 30-day free look period for replacements in all states, including Wisconsin. The cover letter of the policy contains language saying the policyholder has a right to examine the policy and return it for a full refund within thirty days of delivery of the replacement policy. If there is no signed delivery receipt, the company allows a free look period of 60 days from the date of mailing the contract to the producer, thereby allowing 30 days for delivery and another 30 days for the free look period. Free look requests that are made outside of these timeframes, especially in cases where there is not a signed delivery receipt on file, are reviewed by a manager and considered on an exception basis. The manager considers all relevant circumstances including timing of the free look request and any information available about the actual timing of delivery of the policy. The procedures are set forth in the company's third party administrator's Administrative Guidelines for Free Looks.

The company has documented procedures for replacements that agents are instructed to follow. When an external replacement is processed, the company procedures dictate the notification to the replaced insurer is to be sent within five business days of receiving a completed application.

The examiners reviewed the company's response to the replacement interrogatory. The examiners also reviewed 50 new business annuity replacement files, and 3 new business life replacement files. The examiners wrote an exception for 2 situations where the surrender charge information the company received is different from what the agents recorded in the annuity Suitability Acknowledgement form. The company responded stating that since 2013, it has instituted procedures to contact agents by phone to advise them of concerns about inaccurate surrender charges. As of June 2014, the company's internal phone team has contacted 72 agents nationwide, who have had surrender charge discrepancies on policies sold generally between May and December, 2013. The company is in the process of connecting with 25 additional agents, who will be terminated if the company cannot reach them for an explanation of surrender charge discrepancy. The calls were based on the company's initial listing of agents with surrender charge discrepancies. The company plans to update the list routinely, and call agents as warranted. The company also plans on refining and institutionalizing the call out process to ensure agents who submitted business with surrender charge discrepancies are aware of the company's concerns, and to help identify potential offenders who require closer scrutiny and potential disciplinary action. In cases where the agent had more than one incident, the company will investigate further and, if warranted, take action against the agent up to and including termination.

The review of the 50 annuity replacement files revealed all the policies contained a 20-day free look, which is not in compliance with s. Ins 2.07 (6) 4, Wis. Adm. Code, which requires the right to return the policy or contract within 30 days of the delivery of the contract. The examiners wrote an exception for the 20-day free look, and the company responded with a

sample of an annuity face page (2 pages). Page 1 (API-1013(02-11) of the sample shows a 30 day free look as required; however, page 2 (ADMIN 5458 (02-2007) of the sample is a 20-day notice of "Extended Free Look Period for Replacement of Life Insurance or Annuities", which is confusing and misleading for consumers. The company stated it will take steps to remove the 20-day notice form from the policy issuing system as soon as administratively possible.

5. **Recommendation:** It is recommended that the company revise its policy issue system to comply with Ins 2.07 (6) 4, Wis. Adm. Code. Specifically, Form ADMIN 5458 (02-2007) refers to a 20 day extended free look, which is not compliant. The form should no longer be used, and removed from the policy issuing system.

The review of the 50 annuity replacement files revealed that in 12 of the 50 files, the applicant would be age 90 or above at the end of the surrender period. The examiners wrote an exception inquiring about the company's suitability policy as it applies to the age of the applicant. The company developed certain suitability criteria for applicants of older ages. As an example, in cases where the applicant is age 65 or older and will incur a surrender charge or penalty equal to or greater than 3%, the company performs an escalated suitability review. The company also applies different criteria with respect to the percentage of liquid assets for applicants age 65 or older. Each application is subject to the company's suitability review process, and escalated applications are handled on a case-by-case basis taking into consideration the age of the applicant, as well as all other relevant suitability criteria. The company believes adequate safeguards are in place to ensure the company products are appropriate for applicants of all ages, up to specified maximum age limits which are usually 80 or 85 for deferred annuities, and 100 for immediate annuities.

New Business - Suitability

In response to questions in the suitability interrogatory, FGL described its procedures for complying with s. 628.347, Wis. Sta., with regard to the suitability of annuity sales to consumers.

The company stated that during the year 2012, there were 9 applications declined as unsuitable, and in 2013 there were 17 applications declined as unsuitable in Wisconsin.

The Legal and Compliance Department manages the suitability review process. The Suitability Officer is in this department and reports to the Director of Compliance Oversight. The Suitability Officers' responsibilities include, among other things, training personnel assigned to suitability tasks.

A dedicated team in the new business area is operated by Dell (third party administrator) and performs the initial review of all applications, including suitability. The team consists of eight people who received suitability training when the process was initially implemented in January 2011, along with annual training sessions, and bi-weekly meetings with the Suitability Officer to discuss cases, issues, and procedures. In addition, the company has a Premier Service Team made up of five in house employees who report to the Vice President of Client Services, and a Compliance Department at Legacy Marketing Group (one of the company's agencies) made up of two specialists who report to the Legacy Compliance Vice President. These two teams also have bi-weekly meetings with the Suitability Officer for training purposes and/or to discuss recent developments or issues relating to suitability.

The company maintains a Suitability Process Manual which is to be followed for annuity sales in all states, including Wisconsin. All personnel involved in the suitability process have a copy of, and are expected to adhere to the Suitability Process Manual which contains instructions, guidelines, definitions, forms, and question and answer sections.

To aid with the suitability review, the company introduced the Suitability Acknowledgement Form (SAF) in 2011, and in 2012 the company updated its suitability process further by adopting new front-end review requirements. Examples of the new requirements include minimums for remaining liquid assets, household income, monthly disposable income, and a new limit on surrender charges. The company believes this will improve efficiency and

speed up the application review process. Applications that do not meet these new requirements will be declined automatically.

When the company makes procedural changes such as this, the agents are informed primarily through compliance bulletins. The bulletin advises the agent of the upcoming changes, along with a notice stating all relevant documents are posted to SalesLink (Annuity Suitability Guide – Questions and Answers, Annuity Suitability Instructions and Definitions, etc.) and are to be reviewed. The company provided a sample of the bulletin sent with the new requirements for suitability.

Additionally, the company's suitability requirements are set forth in the company's Market Conduct Guide, which is provided to all agents and also addressed in the company's Code of Ethical Conduct which requires an agent to acknowledge and agree to its terms. Suitability is also addressed in mandatory product training for each annuity product series, which is provided through SalesLink and requires the agent to certify completion of the training. This certification is tracked so agents cannot process an application unless product training, including suitability, has been completed for that particular product series.

For each state that has adopted the NAIC Suitability In Annuity Transactions Model Regulation (including Wisconsin), annuity education training is required. The company posts the status of each state requirement on the agent web portal SalesLink and accordingly posts the one-time four hour annuity education course required in Wisconsin. The company's commission system contains checks which prevent the acceptance of an annuity application and payment of commission on annuity sales if the one-time annuity training course is not completed by the agent. The new business area verifies the agent is in good order before accepting and processing any annuity application.

To determine that an annuity sale is appropriate, s. 628.347 (1) (e), Wis. Stat. requires the company to gather certain information to determine the suitability of a recommendation. The company utilizes the Suitability Acknowledgement Form (SAF) to gather

and document the information needed to determine the suitability of the product. The company does not permit opt-outs; the fully completed form (SAF) is always required from the applicant and the agent. The SAF also instructs the applicant to not sign the form if any item is left blank. If the applicant refuses to provide required financial information to determine suitability, the company will decline the application. Additionally, if the minimum suitability standards are not met, the company will decline the application.

Utilizing the company's established suitability criteria, all applications are reviewed to determine whether the annuity should be issued, declined, or the review escalated. If the SAF form is missing, or if there is any material information that was not included, the form is deemed not in good order and will be returned to the agent and client for completion.

The company provided its Suitability Review and Escalation Guidelines, which are followed for all annuity applications. If an application is escalated for additional review, the company may ask further questions of the agent and/or the client. While every application goes through the Suitability Review, the company provided potential factors that could trigger an escalated review. An example of a factor triggering an escalated review would be changes made to the Suitability Acknowledgement Form (SAF), which must be initialed and dated by the applicant. Additional factors that may result in escalated review are surrender charges exceeding the company threshold, purchasing the annuity in connection with establishing a trust, the applicant is a resident of a nursing home, or the annuity is being used to qualify for government assistance. The SAF requires the signature of the owner/applicant as well as the agent, and the date the forms were signed. When an application is received in good order, the next step the company takes is to screen the application to determine whether it meets the minimum criteria for suitability.

Since the company revised its suitability program in 2011, historically approximately 20% to 30% of applications require follow up with agents to clarify or supplement the basis for suitability and of those approximately 2% to 5% of applications were declined.

In regard to the applicant providing factual and correct information on the SAF, the company does not have a formal process in place to audit the applicants' responses. However; if any information on the SAF appears to be in error, the company follows up with the agent and/or applicant. In addition, random audits are performed by the Suitability Officer and other management staff to determine whether the suitability guidelines and procedures are being followed. While there is no formal report produced as a result of these random audits, the Suitability Officer uses the findings to train vendors and staff as necessary on any concerns identified in the audit.

In addition to this random audit, the company uses other complementary processes to help detect potentially unsuitable or inappropriate sales. As an example, all applicants who are over age 80, or in a nursing home, receive a telephone call from Dell (third party administrator) inquiring if the policyholder understands the features of the annuity, and reaffirming the policyholder's objectives, as well as inquiring about the satisfaction with the selling agent. If the policyholder can't be reached by telephone, the company leaves a voice mail with notification that a written version of the survey will be mailed to the policyholder, and a call back number is provided for any questions the policy holder may have. The Annuity New Business Case Management team does not follow up once the survey letter has been mailed, however; the voice mail left for the policy holder provides the contact information for any additional policy holder concerns.

Additionally, the company's Suitability Officer routinely reviews applications and SAFs to identify any unusual circumstances or concerns. If potential concerns are identified, the Suitability Officer refers the matter to the Anti-Fraud Officer who in turn would conduct an investigation. As an example, the company stated that at times the Suitability Officer has referred certain sales involving establishment of trusts that appeared to be for the purpose of qualifying for government program benefits without being properly disclosed as such by the agent. Where these concerns have been identified, the Suitability Officer refers the matter for

further investigation, and appropriate actions are taken to ensure the sale satisfies the company's suitability criteria and disciplinary action taken against the agent if necessary. While the company does not track suitability denials by agent, the Suitability Officer refers cases of concern to the company's Anti-Fraud Officer who in turn investigates and takes action as required. Within the past 2 years due to these referrals, the company has terminated agents for various reasons including concerns over how the agent reported surrender charges on replaced policies and concerns over agent marketing methods. These situations occurred in states other than Wisconsin.

As required by the NAIC Suitability in Annuity Transactions Model Regulation, an audit of the suitability process is performed and given to the senior management team on an annual basis. The audit is prepared by the company's retained internal auditor PwC. The company provided a copy of the audit based on the suitability program in 2012 due to the fact that the 2013 audit is currently in process. The findings revealed the company's suitability program design generally adheres to the standard industry practice and regulatory expectations.

In regard to record keeping as required by s. 628.347 (7) (a), Wis. Stat, the company exceeds the required time frame (6 years). The suitability acknowledgment form, together with the calculation worksheet and any other information used by the company or submitted by the agent for suitability consideration is maintained in the policyholder file for as long as the policy is active. When the policy is terminated, the company retains all documents for an additional seven years.

The examiners reviewed the company's response to the suitability interrogatory. As previously mentioned in the New Business section of this report, the examiners reviewed 50 new business annuity files and 50 new business replacement files. The examiners reviewed the consumer's suitability information in each file.

The examiners wrote an exception relating to a misstated surrender charge on the suitability form and asked the company if any disciplinary action was taken against the agent.

The company stated that in this case, the new business area caught the error and returned the application to the agent for correction. However, the policy was ultimately not taken so no additional corrections were made to the application file. The company typically does not discipline agents unless a pattern is discovered suggesting the agent is disregarding or circumventing requirements in completing the Suitability Acknowledgement Form (SAF). Based on the facts presented in the exception, the company reviewed all annuity sales made by this agent. The company discovered the agent wrote four annuities total; two were not taken and two were issued (in error) with misstated surrender charges on the Suitability Acknowledgement Form. The company explained that for two annuities issued, they will contact the clients in both cases to explain the situation and give each the opportunity for a surrender charge-free withdrawal if the difference in the surrender charge amount affected the decision to purchase the annuity. The company is also taking action immediately to terminate the agent based on low production and careless business practices.

As noted above, in order to detect potentially unsuitable or inappropriate sales, the company sends a follow up survey to any policyholder who is over age 80 or in a nursing home. The company does not have statistics of surveyed policyholders that responded negatively to the survey questions or the annuity purchase in general; however, the company states the number is relatively small nationally and there were four in Wisconsin during the exam period.

The company's process shows any negative survey response is put into a shared drive for review by the Legal and Compliance Department. In some cases, these surveys are referred to the company's Anti-Fraud Officer if there were concerns about potential agent misconduct or fraud.

The examiners requested additional information on the surveys the company had received with a negative response. The company stated they have not been following up on surveys with negative responses, which was their intent since the survey program was instituted in 2011. The lack of follow up action on the surveys received with a negative response does not

comply with s. 628.347 (3) (a) 5, Wis. Stat., which requires companies to maintain reasonable procedures to detect recommendations that are not suitable.

- 6. Recommendation:** It is recommended that the company adhere to its established suitability survey guidelines. Specifically, if the company is using the survey as a means to identify recommendations that are not suitable, the company must follow up on negative survey responses to comply with s. 628.347 (3) (a) 5, Wis. Stat.

It should be noted that the company stated that not following up on these survey responses was an oversight, and the person responsible for the review at that time, is no longer with the company. The company is in the process of reviewing all surveys received with a negative response. Once this has been completed, the company expects the Legal and Compliance Department to follow up on all negative survey responses, as originally intended.

IV. CONCLUSION

This was the first market conduct examination of Fidelity & Guaranty Life Insurance Company conducted by the State of Wisconsin Office of the Commissioner of Insurance. The examiners wrote a total of six recommendations for the company. The examiners found areas of concern during the examination of this company including marketing, sales and advertising; policy forms; producer licensing; new business – replacement; and suitability.

In the marketing, sales and advertising area, the examiners found advertising files for YouTube advertisements that are not in compliance with Wisconsin insurance regulations. It was recommended that the company ensure that all advertising files contain all information as required by s. Ins 2.16 (30), Wis. Adm. Code.

In the policy forms area, the examiners found several forms that did not contain the full address of the company's home office as required by s. 631.20 (2) (c), Wis. Stat. It was recommended that the company ensure the home address is indicated on all forms as required.

In the producer licensing area, the examiners found noncompliance with Wisconsin insurance regulations regarding timely notification to the state when agents are appointed, and/or terminated. It was recommended that the company revise their procedure to ensure agent appointment/termination information is transmitted to the state within the required time frame.

In the new business replacement area, the examiners found certain free look notices confusing and misleading to consumers. Some of the policies contained language indicating the free look period was 30 days as required, but another page of the policy for replacements indicated the free look period was 20 days. It was recommended that the company revise their policy issue system to ensure all replacement policies are issued with the accurate free look time period.

In the suitability area, with respect to its consumer survey, the examiners found the company to be noncompliant with Wisconsin insurance regulations requiring the company to

maintain reasonable procedures to detect annuity recommendations that are not suitable. The company sent surveys to determine the satisfaction of the policy owner; however, negative responses were never followed up on. It was recommended that the company follow its documented process to ensure all survey responses are followed up on, specifically survey responses that are negative.

V. SUMMARY OF RECOMMENDATIONS

Marketing, Sales and Advertising

Page 19 1. **Recommendation:** It is recommended that the company ensure all advertising files are complete, including the manner and extent of distribution, and the form number of the policy, amendment, rider or endorsement form advertised as required by s. Ins 2.16 (28), and s. Ins 2.16 (30), Wis. Adm. Code. Specifically, the advertising files for YouTube advertisements must contain policy numbers associated with the advertisement and include manner and extent of use.

Policy Forms

Page 21 2. **Recommendation:** It is recommended that the company revise its form filing process to ensure the full address of its home office is included in all policies, pursuant to s. 631.20 (2) (c), Wis. Stat. Specifically, form API-1013(02-11) needs to be revised and refiled to include the full home office address, with proof of such filing supplied to the OCI.

Producer Licensing

Page 30 3. **Recommendation:** It is recommended that the company revise its agent termination procedure to ensure compliance with s. Ins 6.57 (2), Wis. Adm. Code, which requires the notice of agent appointment termination be filed with OCI prior to, or within 30 calendar days, of the actual termination date. Specifically, three instances were identified where such notice was provided late to the OCI.

Page 31 4. **Recommendation:** It is recommended that the company revise, document, and implement a procedure to ensure it submits resident agent applications for appointment to the Office of the Commissioner of Insurance within 15 days after the earlier of the date the agent contract is executed or the agent submits his or her first insurance application to the company, pursuant to s. Ins 6.57 (1), Wis. Adm. Code.

New Business - Replacement

Page 42 5. **Recommendation:** It is recommended that the company revise its policy issue system to comply with Ins 2.07 (6) 4, Wis. Adm. Code. Specifically, Form ADMIN 5458 (02-2007) refers to a 20 day extended free look, which is not compliant. The form should no longer be used, and removed from the policy issuing system.

New Business - Suitability

Page 49 6. **Recommendation:** It is recommended that the company adhere to its established suitability survey guidelines. Specifically, if the company is using the survey as a means to identify recommendations that are not suitable, the company must follow up on negative survey responses to comply with s. 628.347 (3) (a) 5, Wis. Stat.

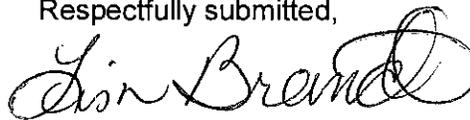
VI. ACKNOWLEDGEMENT

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> |
|--------------------------------------|-----------------------------|
| Janelle Dvorak, ALMI, AIRC, AIE, MCM | Insurance Examiner |
| Renee Fabry | Insurance Examiner |
| Ernest James | Insurance Examiner |
| John Kitslaar | Health & Life Section Chief |

Respectfully submitted,



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Examiner-in-Charge