



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

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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

JACKSON NATIONAL LIFE INSURANCE COMPANY
1 CORPORATE WAY
LANSING MI 48951

dated May 24, 2012, and served upon the company on March 18, 2013, 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 11th day of April, 2013.

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

**JACKSON NATIONAL LIFE INSURANCE COMPANY
LANSING, MICHIGAN**

MAY 7-24, 2012

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May 24, 2012

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

Commissioner:

Pursuant to your instructions and authorization, a compliance and targeted market conduct examination was conducted May 7–24, 2012, of:

JACKSON NATIONAL LIFE INSURANCE COMPANY
Lansing, Michigan

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

Jackson National Life Insurance Company (Jackson National Life or the company), a stock company, was incorporated on June 19, 1961, in the state of Michigan, its domicile state. Jackson National Life Insurance Company received its certificate of authority from the state of Wisconsin on December 16, 1981.

Jackson National Life Insurance Company is the U.S. operating arm of Prudential plc. (not affiliated with The Prudential Insurance Company of America), a multi-national financial services company headquartered in London, England. Within the corporate structure, Jackson National Life is a wholly owned subsidiary of Brooke Life Insurance Company, also of Lansing, Michigan, which was formed by Prudential plc. subsequent to acquiring Jackson National Life. Jackson National Life is Prudential plc.'s largest business outside of the United Kingdom. Jackson National Life acquired Life of Georgia from ING America Insurance Holdings, Inc., in May 2005 and subsequently merged the company into Jackson National Life Insurance Company. Life of Georgia had a portfolio of life insurance policies and annuity contracts. The

acquisition of Life of Georgia increased the scale of Jackson National Life's life insurance business. Jackson National Life is one of the largest individual annuity writers in the U.S. life insurance industry. In addition to fixed, fixed indexed and variable annuities, Jackson National Life also sells life insurance and institutional products. Jackson National Life markets its products through independent insurance agents, financial institutions and broker/dealers.

Jackson National Life Distributors, Inc., a licensed broker/dealer, is the wholesale distribution arm of Jackson National Life responsible for marketing and distributing Jackson National Life's retail products to independent broker dealers, independent agents and financial institutions. Jackson National Life Distributors' wholesalers serve more than 100,000 registered representatives and agents appointed to sell Jackson National Life's products. In 2003, field sales operations were consolidated from five to four regions with more resources dedicated to the variable annuity business in response to market demand.

Jackson National Life complements its wholesale distribution with retail distribution managed by National Planning Holdings. National Planning Holdings is an independent, broker/dealer network with roughly 3,500 representatives. Jackson National Life further developed its capabilities in the broker/dealer market through its own full service broker/dealer, National Planning Corporation. National Planning Corporation expects to grow primarily through strategic acquisitions of other independent financial planning firms and producer groups as well as through aggressive recruiting of representatives who are not members of the company's key accounts.

Jackson National Life Insurance Company is licensed in the District of Columbia and all states except New York. Jackson National Life operates in New York through Jackson National Life Insurance Company of New York.

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

National Direct Business to Wisconsin Direct Business Summary

2010					
	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit-Type Funds	Other Considerations
Wisconsin	\$ 8,841,733	\$ 365,686,864	\$ 13,056	\$ 391,554	\$0
National	524,890,394	16,549,328,217	9,042,887	41,100,171	0
WI as % of National	1.68%	2.21%	.14%	.95%	0.00%

2009					
	Life Insurance Premiums	Annuity Considerations	A&H Premiums	Deposit-Type Funds	Other Considerations
Wisconsin	\$ 9,056,029	\$ 297,103,438	\$ 16,071	\$ 648,930	\$0
National	543,766,709	13,043,176,118	11,005,306	82,885,143	0
WI as % of National	1.66%	2.28%	.15%	.78%	0.00%

In 2010 and 2011, Jackson National Life Insurance Company had premium written in annuity and life insurance business. The majority of the premium written by the company in 2010 and 2011 was for annuity business both nationally and in Wisconsin. The company's life insurance business nationally is 3.17% of its annuity business and in Wisconsin the life insurance business is 2.42% of its annuity business. The company's ranking of market share in Wisconsin for annuity business in 2010 was 1st with a 6.9% share of the market. For life insurance business, the company ranked 43rd with a 0.4% share of the market.

From 2008 to 2009, Jackson National Life jumped from a ranking of 7th in annuity business to 1st and increased its market share by 1.9%. From 2009 to 2010, the company remained 1st in Wisconsin annuity business but again increased its market share by 1.5%. From 2008 to 2010, Jackson National Life about doubled its percent of market share, from 3.5% to 6.9% for annuity business. The company's percent of market share for life insurance business in Wisconsin has remained fairly constant at about 0.5%.

The following tables summarize the company's Wisconsin premium written and benefits paid in for 2010 and 2009 broken down by line of business.

Wisconsin Life Insurance Business

2010	Ordinary	Credit Life	Group	Industrial	Total
<u>Direct Premiums and Annuity Considerations</u>					
Life Insurance	\$ 8,841,733	\$0	\$ 0	\$ 27	\$ 8,841,760
Annuity Considerations	365,686,864	0	326,205	0	366,013,069
Deposit Type Funds	391,554	0	0	0	391,554
Other Considerations	0	0	0	0	0
Total (Sum of Lines 1 to 4)	\$374,920,151	\$0	\$ 326,205	\$ 27	\$375,246,383

<u>Direct Claims and Benefits Paid</u>					
Death Benefits	\$ 9,957,881	\$0	\$ 0	\$ 0	\$ 9,957,881
Annuity Benefits	25,713,298	0	273,683	0	25,986,981
All Others	115,787,649	0	959,478	190	116,747,317
Totals	\$151,458,828	\$0	\$1,233,161	\$190	\$152,692,179

2009	Ordinary	Credit Life	Group	Industrial	Total
<u>Direct Premiums and Annuity Considerations</u>					
Life Insurance	\$ 9,056,029	\$0	\$ 0	\$40	\$ 9,056,069
Annuity Considerations	297,103,438	0	263,932	0	297,367,370
Deposit Type Funds	648,930	0	0	0	648,930
Other Considerations	0	0	0	0	0
Total (Sum of Lines 1 to 4)	\$306,808,397	\$0	\$ 263,932	\$40	\$307,072,369

<u>Direct Claims and Benefits Paid</u>					
Death Benefits	\$ 10,816,823	\$0	\$ 0	\$4,594	\$ 10,821,417
Annuity Benefits	21,639,619	0	493,015	0	22,132,634
All Others	99,100,034	0	1,056,737	667	100,157,437
Totals	\$131,556,477	\$0	\$1,549,751	\$5,261	\$133,111,488

In Wisconsin, the amount of annuity considerations in 2010 increased by \$68,583,426 over the annuity considerations in 2009. However, the life insurance premiums decreased from 2009 to 2010 by \$214,296. The total for All Others under the Direct Claims and Benefits Paid section represents surrender values and withdrawals for life contracts. This total increased from 2009 to 2010 by \$16,687,615.

The Office of the Commissioner of Insurance (OCI) received twelve complaints against the company between January 1, 2010, through December 31, 2011. A complaint is defined as "a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." Of the twelve complaints against the

company OCI received in 2010 and 2011, seven dealt with individual life and five involved individual annuities. Six of the twelve complaints (50%) dealt with policyholder service problems such as return of premium delay, policyholder service delay, policy change delay and cancellation/nonrenewal problems. Four of the twelve complaints (33%) dealt with underwriting problems such as unsuitability, replacement and premium and rating. The following table categorizes 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

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
Coverage Type												
Individual Life	5	84%					1	20%	4	80%		
Group Life												
Individual Annuity	1	16	1	100%								
Group Annuity												
Credit Life												
All Others												
Total	6	100%	1	16%			1	16%	4	68%		

2010												
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
Coverage Type												
Individual Life	2	33%	2	100%								
Group Life												
Individual Annuity	4	67	1	25	1	25%			2	50%		
Group Annuity												
Credit Life												
All Others												
Total	6	100%	3	50%	1	17%			2	33%		

II. PURPOSE AND SCOPE

The examination was conducted to determine compliance with recommendations made in OCI's previous market conduct examination done in October of 2008 with the final report adopted as of March 31, 2010, and to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2010, through December 31, 2011. 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 the sale of an individual annuity be suitable for the consumer based on the person'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 and 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 life and annuity 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. PRIOR EXAMINATION RECOMMENDATIONS

The previous market conduct examination of the company, as adopted March 31, 2010, contained 15 recommendations. Following are the recommendations and the examiners' findings regarding the company's compliance with each recommendation.

Marketing, Sales and Advertising

1. It is recommended that the company cease using the term "advisor" in its template advertisement to prevent a possible violation of s. Ins 2.15 (9) (c), Wis. Adm. Code.

Action: Compliance

2. It is recommended that the company develop, document and implement a process and procedure to ensure all advertisements, including dinner invitations and slide show presentations, include a statement of the fact that insurance would be discussed at the event, that individuals may be contacted by an insurance agent following the event, and the type of insurance that may be solicited as required by s. Ins 20.01 (4), Wis. Adm. Code.

Action: Compliance

3. It is recommended that the company develop, document and implement a process and procedure to ensure that all advertisements showing an advertised interest rate also show the guaranteed interest rate with equal prominence as required by s. Ins 2.16 (24), Wis. Adm. Code.

Action: Compliance

Policyholder Service and Complaints

4. It is recommended that the company develop, document and implement a process and procedure to ensure that the company contacts a complainant within 10 calendar days of receiving an OCI complaint, per OCI's referral instructions, in order to comply with s. 601.42, Wis. Stat.

Action: Compliance

New Business – Replacement

5. It is recommended that the company further enhance its producer monitoring program so that it is not solely based on company averages and can better monitor and identify inappropriate replacement activity and when a high percentage of an agent's new annuity sales involve replacement, pursuant to s. Ins 2.07 (5), Wis. Adm. Code.

Action: Compliance

6. It is recommended that the company develop, document and implement a procedure to ensure it mails a notice of replacement to the insurer whose policy is being replaced in accordance with its own procedures and as required by s. Ins 2.07 (5) (a) 4b., Wis. Adm. Code.

Action: Compliance

7. It is recommended that the company develop, document and implement a process and procedure to ensure it obtains with each new application the statements as to whether the policy will replace an existing life insurance policy or annuity in accordance with its own company procedures and as required by s. Ins 2.07 (5) (a) 1., Wis. Adm. Code.

Action: Compliance

New Business – Suitability

8. It is recommended that the company develop, document and implement a process and written procedure to obtain with each new fixed and fixed indexed annuity application certain facts disclosed by the consumer as to his or her investments, other insurance products, and financial situation and needs, to ensure that before it issues a new fixed or fixed indexed annuity, there are reasonable grounds to believe that the recommendation to purchase or exchange an annuity is suitable for the consumer, as required by s. 628.347 (3), Wis. Stat.

Action: Compliance

9. It is recommended that the company develop, document and implement a process and written procedure to monitor and supervise the new fixed and fixed indexed annuity recommendations of its agents that include internal monitoring practices that are reasonably designed to assist in detecting and preventing unsuitable annuity sales as required by s. 628.347 (3), Wis. Stat.

Action: Compliance

Producer Licensing

10. It is recommended that the company develop, document and implement a process and procedure to accurately report and maintain agent listings to comply with s. 628.11, Wis. Stat., and s. Ins 6.57 (1), Wis. Adm. Code.

Action: Compliance

11. It is recommended that the company develop, document and implement a process and procedure to ensure it submits agent applications for appointments to OCI 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.

Action: Noncompliance

12. It is recommended that the company develop, document and implement a process and procedure to ensure that the company demands the return of all indicia of agency upon termination of an agent pursuant to s. Ins 6.57 (2) Wis. Adm. Code.

Action: Compliance

13. It is recommended that the company develop, document and implement a process and procedure to ensure that notice of an agent's termination is filed with OCI prior to or within 30 days of the termination as required by s. Ins 6.57 (2), Wis. Adm. Code.

Action: Compliance

14. It is recommended that the company develop, document and implement a process and procedure to accurately maintain its agent appointment and termination records as required by s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

Action: Noncompliance

15. It is recommended that the company amend its agent and agency contracts and selling agreements to delete language stating the company is not liable for the acts of its agents in order to comply with s. 628.40, Wis. Stat., and s. 631.09, Wis. Stat.

Action: Compliance

IV. CURRENT EXAMINATION FINDINGS

Claims

The Claims Department is in the Operations area of the company. The Claims Department verifies the validity of the claim, notifies beneficiaries, and settles the claim in accordance with the terms of the policy contract. Claim payments and denials are explained to the claimant through forms and correspondence sent to the claimant. The Claims Department handles living benefits as well as death benefit claims.

Jackson National Life Insurance Company maintains its own claims settlement system, Claims Management Accelerator, which has multiple functions that allow user edits. Interest calculations are programmed into the system and the interest amount, including any interest amount that would be owed due to late claim payments, is done automatically.

The time the company takes to process a claim will vary depending on when all of the necessary requirements are received, which is when the claim is considered to be in good order. Standard processing time is three to five business days for a claim in good order to the date of payment of the benefits; however, the processing time can range up to 14 business days when there are peaks in business. For annuities, the death benefit is calculated as of the date the company considers the claim to be in good order. The company's Special Investigative Unit investigates allegations of misconduct and fraud involving claims.

Both internal and external audits are performed on the company's claims. The audit reports include the review of the company's claims practices and are reviewed by senior management. Additional internal auditing of settled claims is performed to ensure compliance with applicable state regulations and company procedures. Audit results are provided to the Claims Department management and are included in the company's Operations' Key Performance Indicator reports.

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

No exceptions were noted.

Company Operations and Management

Jackson National Life Insurance Company started business in Jackson, Michigan, in 1961. The company stressed the value of term life insurance. In 1975, Jackson National Life Insurance Company developed an early form of universal life insurance. Since the mid-1990s, the company has focused on diversification of products and distribution channels. In 1995, Jackson National Life Insurance Company launched its first variable annuity and began selling guaranteed investment contracts and funding agreements through the company's Institutional Products Department. In 1996, Jackson National Life Insurance Company introduced its first fixed index annuity, and by 1999, the company was the top seller of fixed indexed annuity sales in the United States. In 2002, Jackson National Life Insurance Company introduced Perspective II (VA250), a modular variable annuity that allows the policyholder to choose and pay for only those features that they desire.

Since 1994, sales through brokers and banks have been steadily increasing, further diversifying Jackson National Life Insurance Company's distribution channels. In March 2003, the company entered the registered investment advisor area with the launching of Curian Capital LLC.

Jackson National Life Insurance Company manages its own operations but has four intercompany agreements with certain of its affiliates and subsidiaries that provide some of the services. The services contracted include information technology, marketing, distribution and product development, processing services, and two investment advisory services agreements. Jackson National Life Insurance Company also has 56 vendor agreements with third-party suppliers for services related to its operations. Some of the services provided by vendor agreements include paramedical services used in underwriting life insurance policies, errors and

omission coverage for independent agents appointed with Jackson National Life Insurance Company, shredding sensitive documents, pre-hire background screening, storing and destruction of microfiche, laboratory services to obtain information for underwriting life insurance policies, record retrieval and interview services for foreign death claim investigations, annual audit of financial statements, and licensing data validation.

The examiners reviewed 26 internal audits done between May 2010 and February 2012. No significant findings were noted in the examiners' review of the internal audit reports. The internal audits of Jackson National Life Insurance Company are completed by Group-wide Internal Audit. Group-wide Internal Audit is an independent review function established by the Prudential Group CEO and the Board. The Group-wide Internal Audit team's internal audits identify and analyze major risks throughout the organization and identify and evaluate the related internal controls and procedures. Authority is granted to the Group-wide Internal Audit team by the Board for full and unrestricted access to any and all records and personnel relevant to any activity or function under review. The internal audit reports are shared with the Board, Group Executive Committee, Group Audit Committee, and for management purposes with the Group Chief Financial Officer. The company's audit director reports to the Group-wide Internal Audit Director and the North American Audit Committee.

Audits in the form of investigations of potential agent misconduct or fraud, including possible financial improprieties, are handled by the Special Investigations Unit, which is part of the company's Customer Relations Department. In addition, the Special Investigations Unit will audit agents related to their sales activity. The company performed seven investigations of agents during the period of review, January 1, 2010, through December 31, 2011. All seven were closed with no action taken by the company.

The company's Legal Department Compliance Group monitors LEXIS-NEXIS, ODEN Online/Thomson West, state insurance departments' bulletins and regulatory notices and individual state insurance department Web sites for newly enacted laws and/or regulations or

changes to existing laws and/or regulations. The company also uses LEXIS ALERT which automatically notifies the user of a new bill/regulation which has been introduced in the legislature and if it has been amended and when the bill/regulation has been approved. A weekly review of records not recently updated is conducted using a report generated from the Regulatory Tracking database. Once a new or changed statute or regulation is found to be applicable to the company, the actual law containing the change is e-mailed to each business unit within the company along with a Regulatory Compliance Statement which requests the impacted business unit to assess the impact of the change and to provide a statement regarding steps taken or to be taken to comply with the change. All statutory and regulatory changes that have been distributed to business units are tracked by the Compliance Group to ensure completion of the Regulatory Compliance Statement.

The Compliance Group also provides quarterly reports to the company's Board and to the North American Audit and Risk Management Committee. The quarterly reports are a Quarterly Compliance Report and Separate Account Compliance Report which summarizes significant changes in regulations, significant market conduct activities and the outcome of any market conduct exams or investigations.

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

No exceptions were noted.

Marketing, Sales and Advertising

The Jackson National Life Insurance Company's departments responsible for marketing, sales and advertising are Marketing, Corporate Communications, National Sales Development, and Jackson National Life Distributors. The Marketing Department is responsible for the creation, distribution, regulatory filing and archiving of all product sales literature and advertising. The Corporate Communications Department is responsible for corporate communications, media relations, trade and community-based advertising. Jackson National

Life Distributors and National Sales Development departments are responsible for educating financial advisors on Jackson National Life Insurance Company's products and services.

The Marketing Department seeks input from the company's wholesalers and independent agents, and based on that input, the Marketing Department develops a variety of marketing and sales support tools including printed marketing materials, seminar support and electronic media. All of these advertising, sales literature, seminar support, electronic media (i.e., e-mails, Web sites and chat rooms) and independently prepared reprints intended for use with the general public are considered advertisements by the company and must be approved, in writing and prior to use, by the Marketing Department. Advertising files are managed by the company's electronic workflow and digital asset management system called Jackson Content Management System (JCMS) and are stored electronically on the company's network. When advertisements are created or updated, the advertising file is routed through the JCMS to reviewers who are responsible for reviewing the advertisement for accuracy of the information as it relates to their area of expertise. All reviews and filings must be retained in JCMS. A date is indicated in JCMS when an advertisement is first available for use. Jackson National Life Insurance Company has a review process in which all advertisements in use are reviewed every two years to ensure compliance with new laws and regulations. If an advertisement in use is not reviewed by the end of the second year, the advertisement is pulled until a new version is approved.

In addition to the advertising materials intended for use with the general public, Jackson National Life Insurance Company requires all sales literature used to educate financial advisors on Jackson National Life Insurance Company's products and services or used for internal use only to be approved in writing prior to use. These advertising materials are also reviewed and filed in the JCMS. JCMS maintains all advertising files for a minimum of six years.

Jackson National Life Insurance Company's agents are prohibited from preparing and using advertising material using the company name without submitting the material to the company for review and approval prior to use. This also applies to the use of the internet. The company does not maintain a list of agents who have their own Web sites but does conduct searches of the internet for potential misuse of the company name without prior written approval. The company also reviews consumer complaints for the use of unapproved advertising material by an agent. Agents are reminded of the company's policies and procedures regarding agent-produced advertising at least annually by a periodic market conduct update newsletter.

Jackson National Life Insurance Company's Web site is www.jackson.com. On the home page there are tabs titled Annuities, Life Insurance, and Retirement Planning. Under each of those tabs, the company explains the different types of annuities and life insurance products along with a brief overview of each product. The Web site does not allow a customer to apply for any products online. The home page also includes a tab, "My Account," that both a policyholder and agent can access. To access "My Account" information, a user name and password is needed. This site allows a policyholder to view account information, all transactions processed since inception of the policy, access to the Client Filing Cabinet which includes all statements and correspondence sent to the policyholder, and a forms tab which includes forms to change addresses, beneficiaries, etc. Agents can access their pending business, their book of business, all statements and correspondence sent to their clients; perform investment changes, forms to make policy changes such as addresses, beneficiaries, etc., and the agent's appointment and licensing certifications.

The company is not currently using social networking sites (Facebook, Twitter, YouTube, etc.) to promote products or company sales activities. The company does use social networking sites to promote its charity work and the charity events its employees are

participating in. The company's Public Relations Department is responsible for the social networking usage.

The examiners reviewed the company's response to the marketing, sales and advertising interrogatory and a sample of 84 of the 7,897 advertising files. The 84 advertising files included some advertising files from each type of the company's advertising. The types of advertising included multimedia, PowerPoint, print, trade publications, newsletters, press releases, and 12 Web page advertisements.

No exceptions were noted.

Policy Forms

The Product Drafting and State Filing Department is responsible for the drafting and filing of all policy forms, including riders, endorsements and applications, with the appropriate department of insurance for review and approval.

When new policy forms are released, the policy assembly database (PAD) is updated with the most current version of the form and its effective date. If a policy form is replacing an existing policy form or a policy form is discontinued, the policy form being replaced or the discontinued policy form is assigned an expiration date. After the expiration date, if a replaced or discontinued policy form is chosen, the PAD produces an error code indicating the policy form is not available for use. All necessary personnel in the company, including field personnel, are notified of the effective date of release or discontinuation of a policy form. Once a policy form is added to the PAD, it is never removed. The PAD contains any policy, application, rider or endorsement form that was ever marketed by the company.

The examiners reviewed the company's response to the policy forms interrogatory and reviewed 146 policy forms that were submitted to the Office of the Commissioner of Insurance since July 1, 2008, under file and use.

No exceptions were noted.

Policyholder Service and Complaints

The Policy Owner Services Department is responsible for providing responses to the common inquiries received by mail, phone, fax or e-mail from customers and producers. In addition to providing information regarding the policyholders' policies, the Policy Owner Services Department processes address changes, withdrawals, provides policy values and surrender charge information, and mails billing notices. The department also handles the requests for free-look cancellations and policy surrenders.

Jackson National Life Insurance Company's Customer Relations Department is responsible for investigating and resolving all complaints that the company receives. The Customer Relations Department also has the responsibility of analyzing cases to determine current and potential problem areas, and working with the appropriate department(s) to resolve and prevent those problems.

The company defines a complaint as "Any grievance against the Company or a producer." It includes all written complaints as well as oral complaints that are not addressed through routine or standard policyholder communication. The definition applies to grievances submitted by customers, producers, and the Department of Insurance (DOI), and includes complaints alleging fraud, which are referred to the Special Investigative Unit (SIU) within the Customer Relations Department. All complaints received are entered into the Customer Relations Register which is the company's complaint log and then assigned to a Customer Relations Representative for handling. The Customer Relations Representative will discuss the complaint with other company departments if the complaint concerns services which that department provides or if the department can provide specific information relating to the complaint. Once all of the information has been collected, the Customer Relations Representative prepares a response which is reviewed by the Customer Relations Supervisor before being sent to the complainant. The Customer Relations Supervisor must discuss with

and get approval from the assistant vice president for the Customer Relations Department for any recommendation to resolve a complaint with a monetary payment of \$5,000 or more.

The company's Annuity Suitability Team tracks suitability-related complaints. The Annuity Suitability Team reviews the suitability-related complaints and policy files to identify any gaps in the review procedures. If gaps or deficiencies are identified, the Annuity Suitability Team makes changes to the procedures to improve the pre-issue suitability review and determination process.

The company's general counsel, compliance officer, vice president of Legal and others in senior management receive weekly and monthly reports which include summaries and resolutions of all complaints received and closed in the current week or month. In addition, a monthly report which contains charts and graphs of various complaint statistics is prepared and distributed to middle management and senior management. These reports and the statistics included in the reports are used to identify trends in the types of complaints the company receives and whether there are any compliance issues that should be addressed with particular company departments.

When a complaint involving an agent is received, a search is completed to see if there have been any prior complaints of a similar nature against the agent. If there are prior complaints against the agent, the number of prior complaints and a summary of the prior complaints are entered into the Complaint Relations Register in the current agent complaint. If an agent has two or more prior complaints, the agent's name is included in a monthly report that summarizes the previous complaints and makes a recommendation as to what, if any, action should be taken against the agent. The Director of the Customer Relations Department reviews the monthly report with the Assistant Vice President of Compliance/Legal. The monthly report is also shared with other senior management.

The examiners reviewed the company's response to the policyholder service and complaints interrogatory, company complaint reports, and 76 complaints recorded in the

company's Customer Relations Register. These 76 complaints included 6 complaints outside the period of review. Of the 70 complaints the company received during the period of review, 12 complaints were received from the Office of the Commissioner of Insurance and 58 complaints were received directly from complainants. Of the 12 complaints received from OCI, 7 dealt with individual life and 5 involved individual annuities. Of the 12 complaints, 6 (50%) dealt with policyholder service related problems such as return of premium delay, policyholder service delay, policy change delay, and cancellation/nonrenewal problems. Of the 12 complaints, 4 (33%) dealt with underwriting problems such as unsuitability, replacement, and premium and rating. Of the 58 complaints received directly from complainants, 41 dealt with individual annuities, 15 involved individual life, and 2 complaints were not related to any specific type of insurance. In addition, 43 (74%) of the 58 complaints dealt with policyholder service related problems, and 11 (19%) involved alleged misrepresentation. The examiners noted that 49 (70%) of all complaints recorded in the company's Customer Relations Register involved policyholder service complaints.

No exceptions were noted.

Producer Licensing

The Broker Management Department is responsible for the management of agent contracts, agent appointments, and terminations. The Broker Management Department assists independent agents, agencies, banks, and broker dealers with licensing and appointment related issues.

The company's distribution system consists of agents who are independently contracted with Jackson National Life Insurance Company either directly or indirectly through the agent's agency, bank, or broker dealer. The company classifies agents into four distribution channels. Agents working directly with the company are classified as Guaranteed agents. Agents working through a bank relationship are classified as Institutional Marketing Group. Agents working through a broker dealer are classified as Registered, and agents working

through a large regional broker dealer are classified as Regional Broker Dealer agents. The company does not require all of its agents to obtain a variable life and variable annuity license. Jackson National Life Insurance Company does not accept brokered business.

Jackson National Life Insurance Company does not recruit for agents in the traditional sense. The company attempts to gain the interest of independent agents who are employed by firms and broker dealers that the company already has contracts with through the marketing activity of the company's sales force. If the agent is interested in becoming appointed with the company, the agent will apply for appointment and provide the company with written permission to perform reference and background checks. Company training of Guaranteed agents involves providing the agents a copy of the company's Producer Compliance Manual which includes the Jackson National Life Insurance Company's philosophy on proper market conduct including the company's expectations regarding replacement and suitability. The Guaranteed agents must provide verification that they have read the Producer Compliance Manual. Agents classified as Institutional Marketing Group, Registered, and Regional Broker Dealer, are not required to read the Producer Compliance Manual because those agents are appointed through entities which have selling agreements with Jackson National Life Insurance Company. The selling agreements with these entities include the supervisory requirements of both the entities and Jackson National Life Insurance Company. Jackson National Life Insurance Company requires all agents to complete the company's product training and the general annuity training that is required by s. 628.347 (4m), Wis. Stat., before soliciting annuities. The company offers its agents both online and live continuing education courses approved for state continuing education credits as well as to earn the professional designations Certified Financial Planner (CFP), Chartered Life Underwriter (CLU), and Chartered Financial Consultant (ChFC).

Information regarding new or changes to Wisconsin insurance laws and regulations, company procedures and policies, and the company's insurance products is provided to agents

in all distribution channels through a series of communications including e-mail, regular mail and conference calls. The company also distributes to agents in all distribution channels a periodic market conduct update newsletter that discusses current market conduct issues, company policies and procedures, and market conduct best practices. In addition to notifying the agents about new or changes in products, the company provides agents with new or revised sales kits which include product guides and the new or revised product forms.

The examiners reviewed the company's response to the producer licensing interrogatory, agent's contract, appointment and termination procedures, and 100 agent files that included 50 active 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 agent files and data lists provided by the company were also compared to the records maintained by the Office of the Commissioner of Insurance.

In the comparison of the company's list to the Office of the Commissioner of Insurance's list, the examiners found that 73 agents on the company's list were licensed in Wisconsin but not appointed with the company. In response to the discrepancies, the company stated that it follows a "just in time" (JIT) procedure for processing agent appointments. Under this procedure, the agent signs the company's producer contract along with other required paperwork prior to establishing the JIT status for the agent. A letter is then sent advising the agent that he or she has been added to the company system and that licensing and certification information will be verified at the time a new business application is received. When an application is submitted by a JIT agent, the New Business Department pends the application and a same day request is sent to the company's Broker Management Department to process the agent's appointment. When the appointment is completed, the New Business Department is notified that the application can be processed. The company stated that all agents in Wisconsin are initially appointed as JIT unless they are being appointed under a broker dealer who has opted out of the process. Since agents are given 24 months in which to submit their first

application, the JIT procedure can result in a lengthy time difference between the date of execution of an agent's contract and the date the agent is appointed. This practice can be contrary to the requirements of s. Ins 6.57 (1), Wis. Adm. Code, that 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's appointment procedures are still not in compliance with s. Ins 6.57 (1), Wis. Adm. Code, and the recommendation in the previous market conduct examination report.

- 1. Recommendation:** It is again recommended that the company develop, document, and implement a procedure to ensure it submits agent applications for appointments 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.

The examiners noted that according to the Office of the Commissioner of Insurance data, three agents were listed with Jackson National Life Insurance Company but the company data provided did not indicate these agents were appointed with the company. Jackson National Life Insurance Company explained that these three agents' terminations were not sent to the Office of the Commissioner of Insurance. The company's failure to send the agents' terminations to the Office of the Commissioner of Insurance does not comply with s. Ins 6.57 (2), Wis. Adm. Code. The company failed to follow its established procedures for ensuring that notice of termination of an agent is filed with the Office of the Commissioner of Insurance prior to or within 30 days of the termination as required by s. Ins 6.57 (2), Wis. Adm. Code. Although the company established procedures for ensuring that notice of termination of an agent is filed with the Office of the Commissioner of Insurance prior to or within 30 days of the termination in compliance with s. Ins 6.57 (2), Wis. Adm. Code, and a recommendation in the previous market conduct examination report, the company failed to follow its established procedures.

- 2. Recommendation:** It is recommended that the company follow its established procedures to ensure that notice of an agent's termination is filed with the Office of the Commissioner of Insurance prior to or within 30 days of the termination as required by s. Ins 6.57 (2), Wis. Adm. Code.

During the review of the 50 terminated agent files, the examiners found that 7 terminated agents did not receive a termination letter from the company or the letter was not included in the agent's file. The examiners also found that the termination letters which were included in the agent files did not specifically state that the agent is no longer a representative of the company and did not specify the termination date on which the company effectively severed the agency relationship with the agent and withdrew the agent's authority to represent the company in any capacity.

3. **Recommendation:** It is recommended that the company follow its established procedures to provide all agents whose appointment to represent the company has been terminated with a written notice stating that the agent is no longer a representative of the company, that he or she may not act as its representative, and which indicates the specific termination date and a formal demand for the return of all indicia of agency as required by s. Ins 6.57 (2), Wis. Adm. Code.

The examiners determined that based on their findings the company still does not accurately maintain its agent appointment and termination records as required by s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code, and the recommendation in the previous market conduct examination report.

4. **Recommendation:** It is again recommended that the company develop, document and implement a process and procedure to accurately maintain its agent appointment and termination records as required by s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

New Business

The company's New Business Department is responsible for reviewing incoming annuity and life new business forms to ensure that all applications are complete and all other applicable forms have been submitted in a way that they comply with all applicable state and federal regulations as well as company-specific procedures. The New Business Department is also responsible for determining if forms are required but were not received. If it is determined that the forms submitted are not sufficient to issue a contract for the applicant, the New Business Department is responsible for contacting the submitting agent to obtain the corrected

forms or request the submission of required forms. The New Business Department is responsible for issuing the contract and then mailing the contract to the insured.

To aid the associates in the New Business Department, Jackson National Life Insurance Company uses an automated workflow system called the New Business Desktop. All received applications and many of the new business forms are entered into the New Business Desktop that reviews the data to determine and communicate to the associate if the submitted form is an acceptable version for the state where the business was solicited, if the submitted form was completed correctly and if other forms are required that were not submitted. The New Business associates review the system-generated information for accuracy and follow the new business procedures outlined in the product-specific standard operating procedures. After entering the information in the New Business Desktop, immediate annuities are reviewed by the Payouts team in the Policy Owner Services Department.

The New Business Department relies on random review of cases and referral questions to consider the appropriateness of the work of the underwriters on the company's life insurance business. The New Business Department conducts a more in depth review of the performance of each underwriter with sporadic audits of cases. The audits of cases are based on company requirements and other aspects of the case. This review includes the use of certain services such as the Medical Information Bureau and the appropriate use of HIPPA authorizations.

Jackson National Life Insurance Company currently allows agents to only submit annuity business electronically. For new annuity business submitted electronically, the company allows the application paperwork, including signatures, to be received subsequent to the electronic submission of the application data up to and after policy delivery. For replacement annuity business submitted electronically, the company is to receive the application paperwork, including replacement paperwork and signatures, prior to issuing the policy.

The company does not allow nor does the company have any future plans to allow consumers the ability to apply for coverage online and submit applications electronically.

According to the information provided to the examiners, all of the variable annuity products sold by the company during the period of review were a combination of variable and fixed. These variable contracts do not have a maximum percentage of the amount in the contract which can be placed into the fixed account. However, Jackson National Life Insurance Company reserves the right to impose fixed account restrictions at any time. The fixed account of these variable contracts has a guaranteed minimum interest rate of between 1% and 3%.

The following chart shows the variable annuity forms, fixed indexed annuity forms and fixed annuity forms issued most often by the company during the period of review.

Policy Form Number	Number of Annuity Policies Issued During the Period of Review	Percentage of Total Annuity Policies Issued During the Period of Review
Variable Annuity Policies		
VA 620	3,920	35.19%
VA 220	2,250	20.20
VA 610	1,862	16.71
VA 210	1,053	9.45
Fixed Indexed Annuity Policies		
FIA 800	401	3.60
FIA 850	166	1.49
FIA 100	140	1.26
Fixed Annuity Policies		
FA-A650C-2	105	.94
FA-A730C	104	.93

The top 4 policy forms issued during the period of review were variable annuity policy forms. These 4 variable annuity policy forms accounted for 9,085 (81.55%) of the 11,141 total annuity policies issued during the period of review. Three fixed indexed annuity policy forms accounted for 707 (6.35%) of the 11,141 total annuity policies issued and 2 fixed annuity policy forms accounted for 209 (1.87%) of the 11,141 total annuity policies issued during the period of review. Nine of the company's annuity policy forms accounted for 10,001 (89.77%) of the 11,141 total annuity policies issued by the company in Wisconsin during the period of review.

The following chart shows the term life, universal life, variable life and whole life policy forms issued most often by the company during the period of review.

Policy Form Numbers	Number of Life Insurance Policies Issued During the Period of Review	Percentage of Total Life Insurance Policies Issued During the Period of Review
Term Life Insurance Policy		
L1700	334	56.23%
Universal Life Insurance Policies		
UL2005	171	28.79
UL2007	65	10.94
Variable Universal Life Insurance Policy		
VUL1804WI	17	2.86
Whole Life Insurance Policy		
L1580	4	.67

The sale of term life insurance policies (Form #L1700) accounted for 334 (56.23%) of the 594 total life insurance policies issued during the period of review. Two universal life policy forms accounted for 236 (39.73%) of the 594 total life insurance policies issued, 1 variable universal life policy form accounted for 17 (2.86%) life policies issued and 1 whole life policy form accounted for 4 (.67%) of the 594 total life insurance policies issued in Wisconsin during the period of review. Five of the company's life policy forms accounted for 591 (99.49%) of the 594 total life policies issued by the company in Wisconsin during the period of review.

The examiners reviewed the company's response to the new business and underwriting interrogatory. The examiners also reviewed 50 new business annuity files of which 46 were variable new business files, 50 new business life files of which 25 were term life insurance and 21 were universal life files, 50 terminated annuity files and 12 terminated life files.

During the review of 50 new business non-replacement life insurance files, the examiners found 1 exception in which the agent was not appointed with Jackson National Life Insurance Company at the time the application was submitted to the company. The company explained that the appointment was submitted for the incorrect state, Washington, and mistakenly, the processor did not follow up on the rejected appointment transaction. Accepting

business from an agent who is not appointed with the company does not comply with s. Ins 6.57 (5), Wis. Adm. Code. In another exception, the examiners noted that one of the files the company provided in the sample of non-replacement new business life files actually involved a replacement, but during the processing of the application, the new business associate missed the fact that replacement was involved and that the required replacement form was not completed as required. The examiners also noted a file in which the applicant had checked on the application that there was existing insurance coverage but the agent checked in the agent's statement that the applicant did not have existing insurance coverage. The company's response was that it used only the agent's statement to determine whether there was existing coverage and a replacement form was required. According to the company's Replacement Procedures, JNL 116, if the statement regarding existing policies or annuity contracts is completed incorrectly, then a correction must be made and initialed by the owner. In this case, the new business associate did not follow the company's replacement procedures by not making a correction and obtaining the owner's initials on the correction.

No other exceptions were noted.

New Business—Replacement

Jackson National Life Insurance Company defines both internal and external replacement as any transaction in which an individual life insurance policy or annuity contract is to be purchased and the agent and/or insurer knows or should know that, as a result of the transaction, an existing life insurance policy or annuity contract has been or will be: 1) lapsed, forfeited, surrendered (totally or partially), assigned to the replacing insurer or terminated; 2) converted to reduced paid up insurance, continued as extended term insurance or otherwise reduced in value by the use of nonforfeiture benefits or other policy values; 3) amended to produce a reduction in benefits or in the term for which coverage would otherwise remain in force, or for which benefits would be paid; 4) reissued with reduction in cash value; or 5) an actual or intended source of funds obtained by the withdrawal or surrender of, or by borrowing

from, values to pay all or part of any premium due on a new policy within 4 months before or 13 months after the effective date of the new policy.

All received applications and many of the new business forms are entered into the New Business Desktop which recognizes the data entered regarding the source of funds to determine if a replacement has occurred and triggers the appropriate process steps outlined in the company's standard operations procedures. If the New Business Desktop is unable to determine the source name, then a note is generated for the new business associate to review the file and follow the documented procedures outlined in the company's replacement procedures. In addition to the replacement form, the company requires the agent to complete and submit the Jackson Internal Exchange Request Form which contains a notice to be reviewed with and signed by the policyholder prior to the exchange taking place for all annuity and life internal replacements.

Jackson National Life Insurance Company has set guidelines for determining when the company waives withdrawal charges on existing policies and contracts involving internal replacement.

Jackson National Life Insurance Company pays full commission to agents for external replacements. However, the company does make adjustments to the commission payable for internal replacements. No commission is payable for a policy when the new premium received came from an existing policy issued in the past 12 months. The amount of commission payable on internally replaced policies older than 12 months varies depending on the type of product and terms of the new policy.

The company does not provide specific replacement training to its agents. The company's training of Guaranteed agents consists of providing the Guaranteed agents a copy of the company's Producer Compliance Manual which includes the Jackson National Life Insurance Company's philosophy on proper market conduct including the company's expectations regarding replacement and suitability. The Guaranteed agents must provide

verification they have read the Producer Compliance Manual. In the Replacements section of the Producer Compliance Manual it states that a recommendation to replace an existing policy should only occur after an agent has made a determination that replacement is in the client's best interest and has fully provided a complete and accurate comparison of the old and new policy premiums, expenses, surrender charges, cash values, death benefits, and guaranteed and maximum values. Failure to make this comparison is considered an improper replacement according to the company.

In order to monitor the percent of business involving replacement both company wide and by individual agents, the company's Legal/Compliance Department monitors agent sales related to replacement and senior sales to identify questionable product sales and excessive replacements. The review involves both annuity and life insurance sales. Reports are generated monthly and quarterly. The monthly reports identify agents for review based on the agent's percentage of replacement business and senior sales compared to the company averages. The monthly monitoring reports track agents' sales, the number of replacement sales, the agents' percentage of replacement sales, the company's percentage replacement sales, percentage of senior (65 years old and older) sales made by the agents and the company's average age by product. On each monthly monitoring report, the information is reported by month for three months at a time. The monitoring reports are reviewed in weekly meetings with the associate general counsel and the compliance consultant to identify agent activity that requires review. The company's review criteria is determined by reviewing the percentage of replacements compared to the company average and reviewing the percentage of sales to seniors compared to the company age range. According to the company's Life Company Compliance: Producer Replacement/Suitability Surveillance procedures for Wisconsin, an agent's life and annuity sales are reviewed for suitability when the agent has five or more replacements and 50 percent or more of their new business sales involve replacement in a month. Based on the review, if it is determined that the agent requires heightened review

as a result of the existence of moderate to high surrender charges associated with the replacement business, the agent is referred to the Annuity Suitability Team for additional review. When it receives an agent referral, the Annuity Suitability Team performs an in-depth review of the agent's recent new business activity. Depending on the amount of the agent's new business, the Annuity Suitability Team may review up to six months of recent activity for suspicious or inappropriate activity. If questionable replacements are identified, the Annuity Suitability Team will contact the agent or the agent's broker/dealer to discuss the concerns. If, after the discussion, the Annuity Suitability Team believes its concerns are warranted, additional steps will be taken. Depending on the type of activity identified or suspected, the additional steps may include a letter of caution/warning to the agent, the agent may be placed on a probationary period and the agent's new business will be closely monitored for any suspicious or inappropriate activity, or termination of the agent's company appointment.

In response to questions in the replacement interrogatory, the company described its compliance with Wisconsin's new replacement rule which went into effect on July 1, 2009, with an implementation date of November 1, 2009. According to the company, the new business processing system, New Business Desktop, was updated to create an error when the incorrect form was received or the correct form was received but not completed correctly. The relevant manuals used by the company were also updated. The company's replacement notice form is the same as in s. Ins 2.07, Appendix 1, Wis. Adm. Code, and the company changed the free-look period to 30 days. Jackson National Life Insurance Company filed changes in the free-look language of its policies with the Office of the Commission of Insurance. Examiners also reviewed the letter that is sent to policy or contract owners who request replacement of their policy that explains how the surrender may affect elements of their current policy. An announcement was sent to all agents informing them of the change in the Wisconsin replacement rule and the effective date of the rule. The announcement to the agents provided a

detailed explanation of the new replacement rule and what the agent requirements would be under the new replacement rule.

According to data provided by the company in response to questions in the replacement interrogatory, approximately 41% of the company's annuity sales involved either an internal or external replacement during the period of review.

The examiners reviewed the company's response to the replacement interrogatory. Examiners also reviewed 50 new business annuity replacement files of which 45 were variable annuity files, and 50 new business life replacement files of which 34 were term life files. In addition, examiners identified the top 10 agents with a high volume of replacement business during the period of review. Each of the top 10 agents had also been identified by the company's producer monitoring program for review based on five or more replacements in a month and with replacements representing 50% or more of the agent's total annuity sales in a month. These agents were reviewed for a period of three months. The reviews determined that the sales of eight of the ten agents had no items of concern. The reviews noted that two of the ten agents had one or more sales that involved moderate surrender charges ranging from 4% to 6%. Examiners also found that one of the agents had sold three variable annuity policies without being appointed with Jackson National Life Insurance Company for the variable line of authority as required by s. Ins 6.57 (1), Wis. Adm. Code. Section Ins 2.13 (12m), Wis. Adm. Code, states that on or after April 1, 2010, any agent selling or offering for sale a variable contract shall have a variable license. The Office of the Commissioner of Insurance agent information indicated that the agent did have a variable license but had not been appointed with Jackson National Life Insurance Company for the variable line of authority. Section Ins 6.57 (1), Wis. Adm. Code, states that a company appointment is valid only for the lines of insurance requested by the company. The company stated that it had inadvertently added a variable line of authority to the agent in the company's licensing system prior to the agent's appointment. The error was caught and the agent was subsequently appointed with the variable line of

authority. The company's acceptance of new business from the agent who was not appointed for the variable line of business and the acceptance of new business from an agent not appointed with the company at all, that was noted in the New Business section of this report, does not comply with s. Ins 6.57 (5), Wis. Adm. Code. In both of these situations the company's established procedures were not followed.

5. **Recommendation:** It is recommended that the company follow its established procedures for not accepting any business from an agent until the agent has been properly appointed with the company as required by s. Ins 6.57 (5), Wis. Adm. Code.

New Business—Suitability

In response to questions in the suitability interrogatory, Jackson National Life Insurance Company described its procedures for complying with s. 628.347, Wis. Stat., with regards to the suitability of annuity sales to consumers. The company stated that while the initial responsibility for ensuring that annuity recommendations are suitable rests with the writing agent, the company is responsible for and has developed a suitability review process for monitoring the recommendations made by its agents. Jackson National Life Insurance Company reviews all fixed and fixed index annuity applications and those variable annuity applications submitted by an agent affiliated with a non-certified broker/dealer for suitability. The company pointed out that it is not required to perform a suitability review on transactions submitted by agents who are affiliated with a broker/dealer that has provided a suitability certification, provided the certification covers the line of business the agent is submitting. Sales of variable annuities are required to meet the Financial Industry Regulatory Authority, Inc. (FINRA) suitability rules, and sales made in compliance with those FINRA rules would meet the suitability requirements in s. 628.347, Wis. Stat.

The company's Annuity Suitability Team, located in the Legal Department, is specifically assigned to review the suitability of cases that are flagged for heightened review. The current Annuity Suitability Team is made up of a suitability manager and one suitability

analyst. All members of the Annuity Suitability Team must have or must obtain their FINRA Series 6 or Series 7 license within six months of employment. The suitability manager must also maintain a Series 26 license. The Annuity Suitability Team participates in required FINRA continuing education and industry conferences when available.

The company requires a Product Suitability Determination form (X0960 09/11) be submitted with all annuity applications unless the agent submitted the business through a suitability certified broker/dealer. In addition to all of the suitability information required by s. 628.347 (1) (e), Wis. Stat., the company's Product Suitability Determination form includes a section for the side-by-side comparison of the current fees, charges and features of any existing annuity to the Jackson National Life Insurance Company's annuity policy. The Product Suitability Determination form requires the signature of both the applicant and the agent confirming that, based on the financial information provided by the applicant, the purchase is suitable for the applicant's needs and/or financial objectives. If information on the Product Suitability Determination form is missing and the applicant has not opted out of providing the information, the New Business Department will contact the agent to obtain the information before the case is presented for review. Cases for which the New Business Department is unable to obtain complete suitability information are rejected.

Applicants can opt out of providing the suitability information by checking the box which states that the annuity transaction is not based on the recommendation of the agent or the insurer in the applicant signature section of the Product Suitability Determination form. The company will issue policies to those applicants who opt out, and the signed opt-out form is kept in the policy file.

Jackson National Life Insurance Company has an automated underwriting system in place to review the suitability of annuity applications. The system is programmed to perform comparisons of various pieces of suitability information and to identify when the figures fall outside of the company established thresholds. Cases that fail the automated underwriting

system are flagged for heightened review by the Annuity Suitability Team. Some of the reasons cases are flagged for heightened review are: if the applicant's age is greater than 80 years old; if the applicant's liquid net worth is greater than 25% of the applicant's total net worth; if the proposed contract is greater than 25% of the applicant's liquid net worth; if the risk tolerance is "low" and the product being applied for is a variable annuity; if the time horizon does not match the surrender schedule of the product being applied for; if the surrender charge percentage is greater than 3% for the existing policy in replacement transactions; if the annual income requirement exceeds the annual income; or if the replacement information indicates that the replaced contract has been in force for less than three years. When reviewing replacement business for suitability, the annuity suitability analyst considers a number of items when comparing the existing policy with the proposed policy. A few of these items include: surrender charges associated with the transaction; a new surrender period; the applicant's investment objectives, risk tolerance and time horizon; and whether the applicant is giving up any benefits on the existing policy that may not be available on the proposed policy. The Annuity Suitability Team reviews cases flagged for heightened review to determine the suitability of the sale. A suitability review checklist that was used informally during 2011 provides guidance to the Annuity Suitability Team when reviewing cases. The use of the suitability review checklist was formally implemented for all annuity policies reviewed effective February 2012. According to the company, suitability reviews were not performed prior to 2011. In 2011, the company information indicated that Wisconsin had three annuity applications which were deemed unsuitable and the company declined to issue those policies.

The company provides its agents product-specific training required by s. 628.347 (4m) (a), Wis. Stat. The training describes all material features of the company's annuity products. The product-specific training is broken down by product line and each product line is presented separately. Agents are only required to complete the product-specific training requirements for the product lines they sell. Most of the agents who complete the product-

specific training through an online course take the course through Fugent's Web site. The company can verify the information by pulling a report for the vendor, Fugent. Agents, who complete a classroom presentation, must complete a form, (CMX7432) that must be completed by both the agent and the wholesaler and submit the form to the company. For the general annuity training required by s. 628.347 (4m) (b), Wis. Stat., the Broker Management Department verifies the completion of the training by reviewing Sircon course completions in Wisconsin as well as with the various vendors the company is working with. If Broker Management can't verify the completion of the training, they will contact the agent to request a copy of the approved training course certificate of completion. The Performance Plus system, which is the company's internal licensing system, tracks the states that require the product-specific training and the general annuity training. The product-specific training and general annuity training completion dates are entered into the company's Performance Plus system after which the information is sent to the front end of the New Business Desktop system. This prevents the New Business Department from issuing policies for an agent who has not completed the required training. The information which is sent to the New Business Desktop system is based on the specific line of authority. For example, the agent who has completed the general annuity training and the variable product-specific training can only sell variable products for Jackson National Life Insurance Company. If that agent would submit an application for a fixed indexed annuity, the New Business Desktop system would produce an error message and the application could not be processed. An alert would be sent to the Broker Management Department for review of the agent's record. The Broker Management Department would review the necessary systems and Web sites to determine if courses have been completed. If the training has been completed, the Broker Management Department will notify the New Business Department to process the application. If the training has not been completed, the Broker Management Department will notify the agent regarding the outstanding training requirements and inform the agent that a new application will have to be completed after the

training requirements have been met. During the period of review, the company had 9 agents submit 13 applications prior to the agents completing the required product training. Of those 13 applications, 9 applications were rewritten after completion of the product training and the policies were issued. The other 4 applications were cancelled.

Broker/dealer procedure reviews are conducted on an annual basis and include 50 firms. The broker/dealer firms are selected from those that have completed a suitability certification. Jackson National Life Insurance Company's Legal Department tracks and maintains the suitability certifications received from the broker/dealers. The broker/dealer firms receive a letter requesting the submission of their current sales suitability procedures and new account form. The procedures and new account form are reviewed by Jackson National Life Insurance Company and are required to contain adequate guidance that supports the suitability requirements outlined in s. 628.347, Wis. Stat. Any broker/dealer firm whose procedures appear to lack the required elements will be contacted to bring its procedures into compliance. According to Jackson National Life Insurance Company, it has not taken any action against a broker/dealer firm due to lack of compliance.

Jackson National Life Insurance Company's Internal Audit Department performs an annual audit of the company's suitability program. The latest audit report was issued on December 13, 2011, for the period of review January 1, 2011, to September 30, 2011. The audit noted that approximately 8% of the annuity new business submitted from the 14 states with suitability regulations was flagged to go through Jackson National Life Insurance Company's heightened review process. The audit pointed out that the company is not required to perform suitability review on transactions submitted by agents who are affiliated with a broker/dealer that has provided a suitability certification. According to the internal audit report, the company's suitability procedures are effective in monitoring the suitability of annuity sales.

The company has a Policyowner Questionnaire program to detect recommendations that are not suitable. A Policyowner Questionnaire is sent 45 days after issuance of a policy to

policyowners of all life, fixed annuity and fixed indexed annuities. If the policyowner answers "no" to either of the questions, "Are you familiar with the features of the Jackson annuity that you purchased (for example, tax deferral, interest rates, surrender charges, etc.)?" and "Do you believe that the Jackson annuity meets your needs?," the Policyowner Questionnaire is forwarded to the Annuity Suitability Team for review. The company told the examiners that the rate of return of the Policyowner Questionnaires in 2010 was 25%.

The Annuity Suitability Team prepares monthly reports on the number of annuity applications approved and flagged for review by the automated underwriting system, and the number of no-key-data business that is defined as applications that are already keyed in the New Business Desktop but had suitability forms resubmitted with changes. The monthly report includes the total data for all of the states in which the company does business. The Annuity Suitability Team is required to review the no-key cases and reviews all of the cases that are flagged for review by the automated underwriting system. The cases approved and flagged by the automated underwriting system is broken down by fixed annuities, fixed index annuities and variable annuities submitted by an agent not affiliated with a Suitability Certified Broker/Dealer. In 2011, the Annuity Suitability Team also reviewed all of the cases that were approved by the automated underwriting system to determine if there were any issues involving processor or system errors. Processor errors are reported to management in the New Business Department and system issues are reported to the IT Department for resolution. In addition, the monthly reports note how many applications were received with only the Opt Out section on the Product Suitability Determination form completed, the number of applications approved, the number of applications denied, and the number of cases cancelled for not receiving the additional information requested. The monthly reports are reviewed by the Vice President of Compliance, Assistant Vice President of Compliance and the Associate General Counsel. The suitability statistics are also provided annually to the Board of Directors. As explained in the Replacement section of this report, in order to monitor the percent of business involving replacement and

sales to seniors both company wide and by individual agents, the Legal/Compliance Department reviews monthly and quarterly reports to identify trends, questionable product sales, and excessive replacements.

A review of the monthly Annuity Suitability Team reports from May 2011 through December 2011 indicated that the automated underwriting system approved 166 (19.28%) and flagged 695 (80.72%) of the 861 applications it processed. All 861 of the cases were reviewed by the Annuity Suitability Team. According to the reports, there were 5 denials because the applicant's existing contract had better earning potential than the proposed policy due to a higher contractual minimum guaranteed interest rate. There were also 9 cases cancelled because the agent failed to provide responses to the Annuity Suitability Team's suitability follow-up questions. During this period of May 2011 through December 2011, the Annuity Suitability Team also chose 38 randomly selected cases for post-issue review. Post-issue review includes review of the Policyowner Questionnaire and other policy information to identify potential suitability issues. The Annuity Suitability Team reviewed 5 post-issue cases each month except May when only 3 were selected for review. According to the Annuity Suitability Team reports, there were 228 Wisconsin cases that had annuity suitability reviews done by the Annuity Suitability Team from May 2011 through December 2011.

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

No exceptions were noted.

V. CONCLUSION

The market conduct examination of Jackson National Life Insurance Company was conducted by the Wisconsin Office of the Commissioner of Insurance to determine compliance with the prior recommendations made in the market conduct examination report adopted March 31, 2010. The examination was also conducted to verify that the company has established an effective system of supervision to ensure that its agents' recommendations to consumers to purchase or exchange an annuity are appropriate and suitable for their customers' financial situation and needs, and that the company has a system in place to prevent the processing of annuity applications from agents who have not completed the general annuity training and the company's specific product training required by s. 628.347 (4m), Wis. Stat.

The examiners found that the company has complied with 13 of the 15 recommendations made in the previous market conduct examination report adopted March 31, 2010. The two previous recommendations that the company is still not in compliance with deal with producer licensing.

The examiners found that agents appointed using the company's "just in time" procedure can result in a lengthy time difference between the date of execution of an agent contract with the company and the date of appointment of the agent in violation of s. Ins 6.57 (1), Wis. Adm. Code, and the recommendation made in the previous examination report, resulting in the first repeat recommendation.

The examiners determined that three agents were appointed with Jackson National Life Insurance Company per the Office of the Commissioner of Insurance records but the company's data did not indicate the agents were appointed with the company. The examiners also determined that the company failed to follow its established procedures for ensuring that notice of termination of an agent is filed with the Office of the Commissioner of Insurance prior to or within 30 days of the agent's termination, resulting in the examiners making a new recommendation.

The examiners also determined that seven agents did not receive a termination letter from the company or the letter was not included in the agent's file as required by s. Ins 6.57 (2), Wis. Adm. Code, and the company's own established procedures, resulting in a new recommendation.

On the basis of these findings, the examiners determined that the company did not accurately maintain its agent appointment and termination records as recommended in the prior examination report, resulting in the second repeat recommendation.

The examiners also found that one agent was appointed with Jackson National Life Insurance Company but was not appointed with the company for the variable line of authority. The agent sold three variable annuity policies without being appointed with the company for the variable line of authority. During the review of new business, the examiners also determined that the company had accepted business from another agent who was not appointed with the company in violation of s. Ins 6.57 (5), Wis. Adm. Code, and the company's own procedures. This resulted in the examiners making a new recommendation that the company follow its established procedures for not accepting business from an agent until the agent has been properly appointed with the company as required by s. Ins 6.57 (5), Wis. Adm. Code.

VI. SUMMARY OF RECOMMENDATIONS

Producer Licensing

- Page 22 1. **Recommendation:** It is again recommended that the company develop, document, and implement a procedure to ensure it submits agent applications for appointments 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.
- Page 22 2. **Recommendation:** It is recommended that the company follow its established procedures to ensure that notice of an agent's termination is filed with the Office of the Commissioner of Insurance prior to or within 30 days of the termination as required by s. Ins 6.57 (2), Wis. Adm. Code.
- Page 23 3. **Recommendation:** It is recommended that the company follow its established procedures to provide all agents whose appointment to represent the company has been terminated with a written notice stating that the agent is no longer a representative of the company, that he or she may not act as its representative, and which indicates the specific termination date and a formal demand for the return of all indicia of agency as required by s. Ins 6.57 (2), Wis. Adm. Code.
- Page 23 4. **Recommendation:** It is again recommended that the company develop, document and implement a process and procedure to accurately maintain its agent appointment and termination records as required by s. 628.11, Wis. Stat., and s. Ins 6.57, Wis. Adm. Code.

New Business—Replacement

- Page 32 5. **Recommendation:** It is recommended that the company follow its established procedures for not accepting any business from an agent until the agent has been properly appointed with the company as required by s. Ins 6.57 (5), Wis. Adm. Code.

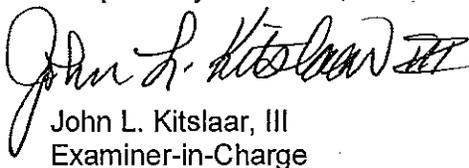
VII. ACKNOWLEDGMENT

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

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

Name	Title
Lisa Brandt	Insurance Examiner
Janelle Dvorak	Insurance Examiner
Nathan Gasser	Insurance Examiner

Respectfully submitted,



John L. Kitslaar, III
Examiner-in-Charge