



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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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

AMERICAN INVESTORS LIFE INSURANCE COMPANY

which merged into AVIVA Life & Annuity Company
611 5TH AVENUE
DES MOINES IA 50309-1603

dated FEBRUARY 1, 2008, and served upon the company on SEPTEMBER 11, 2009, 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 16TH day of MARCH, 2010.

Sean Dilweg
Commissioner of Insurance

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

MARKET CONDUCT EXAMINATION

OF

**AMERICAN INVESTORS LIFE INSURANCE COMPANY, INC
TOPEKA, KANSAS**

JANUARY 22, 2008 TO FEBRUARY 1, 2008

TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	PURPOSE AND SCOPE.....	6
III.	CURRENT EXAMINATION FINDINGS	7
	COMPANY OPERATIONS & MANAGEMENT.....	7
	MARKETING, SALES & ADVERTISING.....	8
	POLICY FORMS.....	9
	POLICYHOLDER SERVICE & COMPLAINTS.....	11
	PRODUCER LICENSING.....	14
	UNDERWRITING.....	19
	New Business.....	19
	Suitability.....	23
	Replacement.....	30
IV.	CONCLUSION	34
V.	SUMMARY OF RECOMMENDATIONS.....	37
VI.	ACKNOWLEDGEMENT	39



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February 1, 2008

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Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted January 22 to February 1, 2008 of:

AMERICAN INVESTORS LIFE INSURANCE COMPANY, INC
Topeka, Kansas

and the following report of the examination is respectfully submitted.

I. INTRODUCTION

American Investors Life Insurance Company was incorporated March 16, 1965, as a stock life insurance company and received its certificate of authority from the state of Kansas on May 4, 1965. American Investors Life Insurance Company is domiciled in the state of Kansas. In 1986, AmVestors Financial Corporation was formed as the holding company of American Investors Life Insurance Company. AmVestors Financial Corporation owns 100% of the common stock of American Investors Life Insurance Company. On December 19, 1997, AmVestors was purchased by AmerUs Group Company. On May 18, 2001, AmVestors changed its name to AmerUs Annuity Group. Effective December 31, 2002, Delta Life and Annuity Company was merged into American Investors Life Insurance Company.

American Investors Life Insurance Company is a wholly owned life insurance subsidiary of the AmerUs Annuity Group that in turn is wholly owned by the AmerUs Group Company, an insurance holding company. Other wholly owned subsidiaries of the AmerUs

Annuity Group include Financial Benefit Life Insurance Company, Senior Benefit Services of Kansas, Inc, CMIC Building Corporation, American Investors Sales Group Inc, Insurance Agency Marketing Services, Family First Advanced Estate Planning, Family First Insurance Services, and Creative Marketing International Corporation.

On November 15, 2006, AmerUs Group Company was purchased by London based Aviva plc. Aviva plc is the 5th largest insurance company in the world. American Investors Life Insurance Company is a wholly owned subsidiary of the Aviva USA. On the Aviva website, it states that plans are underway to re-brand AmerUs Group Company into a single entity, Aviva, and it is noted that American Investors Life Insurance Company merged into Aviva Life and Annuity Company effective September 30, 2009.

American Investors Life Insurance Company specializes in the sale of deferred fixed annuity products marketed through a network of independent agents. American Investors Life Insurance Company is licensed in 49 states and the District of Columbia.

The company was licensed in the District of Columbia and all states except New York in both 2005 and 2006.

The following table summarizes the total direct national premium written in 2006 and 2005 as compared to the total direct premium written in Wisconsin.

National Direct Business to Wisconsin Direct Business Summary

2006						
	Life Insurance Premiums	A&H Insurance Premiums	Annuity Considerations	Deposit Type Funds	Other Considerations	
Wisconsin	\$ 0	\$ 0	\$ 30,161,029	\$ 4,901,296	\$	0-
National	\$ 334,150	\$ 0	\$1,008,844,418	\$249,711,133	\$	0-
2005						
	Life Insurance Premiums	A&H Insurance Premiums	Annuity Considerations	Deposit Type Funds	Other Considerations	
Wisconsin	\$ 0	\$ 0	\$23,081,926	\$ 4,841,020	\$	0-
National	\$ 351,007	\$ 0	\$919,135,916	\$232,999,221	\$	0-

The only premium written by the company in Wisconsin in 2006 and 2005 was annuity business. In 2006, American Investors Life Insurance Company ranked as the 41st writer of annuities in the state of Wisconsin and held a 0.6% share of the market. In 2005, the company ranked as the 42nd writer of annuities in the state of Wisconsin and held a 0.5% share of the market.

The following tables summarize the company's Wisconsin premium written and benefits paid in 2006 and 2005 broken down by line of business.

Wisconsin Life Insurance Business

	2006	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations					
Life Insurance		\$0	-	\$0	-
Annuity Considerations		\$30,161,029	-	\$0	-
Deposit Type Funds		\$4,901,296	-	-	-
Other Considerations		-	-	-	-
Direct Claims & Benefits Paid					
Death Benefits		\$83,006	-	\$0	-
Annuity Benefits		\$6,590,449	-	\$0	-
All Others		\$29,488,572	-	\$0	-
<hr/>					
	2005	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations					
Life Insurance		\$0	-	\$0	-
Annuity Considerations		\$23,081,926	-	\$0	-
Deposit Type Funds		\$4,841,020	-	-	-
Other Considerations		-	-	-	-
Direct Claims & Benefits Paid					
Death Benefits		\$353,069	-	\$0	-
Annuity Benefits		\$8,002,474	-	\$0	-
All Others		\$25,357,141	-	\$0	-

The Office of the Commissioner of Insurance received 27 complaints against the company between January 1, 2005 through November 21, 2007. A complaint is defined as "a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent." 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. All but one of the 27 complaints involved

individual annuities. Fifteen of the annuity complaints were for issues relating to marketing and sales. Misrepresentation and unsuitability were the common complaints in fourteen of the fifteen complaints. Replacement was the reason in eight of the complaints.

Through November 21, 2007	Reason					
	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type						
Individual Life						
Group Life						
Individual Annuity	6	1	4		1	
Group Annuity						
Credit Life						
All Others						
Total	6	1	4		1	

2006	Reason					
	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type						
Individual Life	1					1
Group Life						
Individual Annuity	9	2	5		1	1
Group Annuity						
Credit Life						
All Others						
Total	10	2	5		1	2

2005	Reason					
	Total	Underwriting	Marketing & Sales	Claims	Policyholder Service	Other
Coverage Type						
Individual Life						
Group Life						
Individual Annuity	11	2	6	2	1	
Group Annuity						
Credit Life						
All Others						
Total	11	2	6	2	1	

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 1, 2006 through December 31, 2007. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

Legislation, which went into effect on November 1, 2004, pertaining to the suitability of annuity sales to senior consumers requires that the sale of an individual annuity to a person age 65 and above be suitable for the consumer based on the person's financial situation and needs. The law, s. 628.347, Wis. Stat., requires an insurer to establish and maintain a system to supervise the recommendations of its insurance agents. On October 1, 2008, s. 628.347, Wis. Stat. will be amended to require that annuity sales to consumers of all ages are appropriate and suitable for their needs. The review of the complaints received by the Office of Commissioner of Insurance against the company indicated that a majority of the complaints received pertained to individual annuity sales, many of which alleged misrepresentation and unsuitability. Since American Investors Life Insurance Company's primary market is the sale of annuities and with the recent acquisition by Aviva with the intention of becoming a major company in the sale of annuities, the Market Regulation Bureau determined that an onsite examination of the company should be conducted. The examination focused on determining whether the company has sufficient oversight and supervisory control over the company's appointed agents as required by s. 628.347, Wis. Stat.

The examination covered individual annuity business in Wisconsin and included a review of company operations & management, marketing, sales & advertising, policy forms, policyholder service & complaints, producer licensing, and underwriting which includes new business and replacement. 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

Company Operations and Management

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

The examiners reviewed six internal audits done between August, 2006 and October, 2007. Up until November, 2007, American Investors Life Insurance Company outsourced the internal audit function to KPMG. When Aviva plc acquired the AmerUs Group in November of 2006, KPMG continued to provide internal audit services to the Aviva USA operations but reported to the Group Audit function in the United Kingdom. In September of 2007, the Aviva Group Audit hired a director to oversee the internal audit operations for North America. The decision was subsequently made to in-source the internal audit function for the United States and a senior manager was hired to manage that function in November of 2007.

The company's Legal Department and Compliance Department conduct business practice reviews of certain insurance agencies contracted with the company for the purpose of evaluating potential litigation risk. Typically, these reviews are conducted with the assistance of outside counsel. The insurance agencies are selected for review and in-person meetings are conducted with key agency principals and staff. These reviews are not conducted in the ordinary course of company business and are performed at the direction of the Legal Department based on various considerations. The company stated that there are no specific guidelines used in the review process by the Legal Department or outside counsel and that none of the agencies reviewed have a principal place of business in Wisconsin.

No exceptions were noted.

Marketing, Sales & Advertising

The Sales & Distribution Department, with oversight by the Compliance and Legal Departments, is responsible for marketing, sales and advertising. The three areas in the Sales & Distribution Department are Sales & Marketing, Agent Advertising and Marketing & Agent Support. The Sales & Marketing area promotes the annuity products through independent marketing organizations (IMOs) and independent agents. The Agent Advertising area reviews IMO and agent created advertising for compliance and creates pre-approved advertising. The Marketing & Agent Support area provides agent training and oversight; advertising guidelines; corporate compliance and suitability; business lines consulting and best practice development; suitability analysis; and privacy and record retention.

All advertising material must be sent through the Agent Advertising online database for company review by the Agent Advertising review team and approval before use. The online database system for filing advertisements for approval became operational on September 25, 2006. The agent can access this online database through the Agent Portal on the company's website. If an advertisement is submitted by mail, e-mail or fax, the advertisement is uploaded to the database by the agent advertising specialist conducting the review.

The company is made aware of and communicates changes in insurance laws to the departments responsible for marketing, sales and advertising using the company's Legislative & Regulatory Tracking/ODENtrack Policy. The Legislative & Regulatory Tracking/ODENtrack Policy is in a draft form, and is currently being used as a guide for remaining current on all federal and state laws and regulations, and communicating any changes to the appropriate departments.

The examiners reviewed the company's response to the marketing, sales & advertising interrogatory, monthly and annual sales reports, the online database for advertisements, and the company's advertising files.

The examiners reviewed 50 advertising files. No exceptions were noted.

Policy Forms

The Product Compliance and Development Department is responsible for product development and regulatory form filings. The examiners reviewed the company's response to the policy forms interrogatory, commission schedules, compliance with s. Ins 6.85, Wis. Adm. Code that requires an insurer to notify its insureds of their right to file a complaint, and verified that all 85 policy forms currently in use by the company in Wisconsin have, in fact, been approved for use in Wisconsin. Although there were 28 annuity policies approved by Wisconsin Office of the Commissioner of Insurance, only 21 of those policies were actually sold in Wisconsin during the two year period of review. The examiners reviewed the top 10 policy forms (9 deferred annuity policies and 1 immediate annuity policy) issued during the period of review. All 9 deferred annuity policies are indexed annuities. The surrender period for the top 10 policy forms range from 6 years to 15 years with 6 of the 10 having a surrender period of 10 to 15 years. The company stated it ceased marketing all annuity products with surrender periods exceeding 12 years in October 2007. The examiners noted that 4 of the top 10 policies include a premium bonus in the policy; 2 of the 10 policies which are single premium policies, don't have a premium bonus included in the policy but a premium bonus can be added with an enhanced death benefit rider; and 4 of the 10 policies have neither a premium bonus included nor a premium bonus rider available to add to the policy. The top 5 policy forms issued have premium bonuses either included in the policy or added by a rider. These top 5 policy forms accounted for 1,851 (91.05%) policies issued of the 2,033 total policies issued during the period of review. The premium bonus included in the policies ranges from 5% to 7% on any payments made into the annuity during the first year. The premium bonus rider is called an Enhanced Death Benefit Rider. The Enhanced Death Benefit is the premium paid for the base contract accumulated at an interest rate of 5% from the contract date to the rider premium

completion date. The rider guarantees that the death benefit will be no less than the enhanced death benefit. On the annuity date, the base contract will be increased to an amount equal to the enhanced death benefit prior to determining the amount of the annuity payments. The annuity date for this rider is the later of the annuity date in the base contract or the term end date of the rider nearest the annuitant's 95th birthday.

The company informed the examiners that since July of 2006, it does have a fixed indexed annuity with a 10 year surrender period that starts at 10% and decreases by 1% each year available in Wisconsin. This annuity is one of many annuity products the company has available for issue in Wisconsin.

The Product Compliance and Development Department sends electronic notification when new policy forms are to be released and the effective date of the release to all appropriate personnel within the company including New Business staff, Marketing staff, IT staff and Compliance staff. This notification is not delivered to any agents. When the new policy form is approved in a state, the Product Compliance Technician adds the proper coding in the company's electronic document management system (Calligo) to print the correct policy pages as well as other documents in the policy packet. After testing the coding, the product is moved to production and released for sale in Lotus Notes, which is the database that feeds both the company's website, including the Aviva Agent Portal, and the New Business Wizard. The New Business Department uses the New BusinessWizard to determine whether or not a product is released for sale. When the new product is released for sale in a state, a start date is loaded in the AS400 by the Product Compliance Technician. The AS400 is the administration server the company uses to issue and track policies. The start date controls whether or not a product can be issued. Because the company uses the electronic data management system, Calligo, it does not maintain hard copy policy forms and therefore there are no out of date policy forms once the policy form is no longer available for sale. Each policy form's status as either active or inactive is controlled by the AS400.

No exceptions were noted.

Policyholder Service & Complaints

The American Investors Life Insurance Company's Compliance Department – Consumer Risk Management Team is responsible for the handling of complaints received from the Office of the Commissioner of Insurance and complaints made directly to the company. Prior to July 1, 2007, complaints were handled by the Legal Department. The complaint handling processes are the same for complaints received from the Office of the Commissioner of Insurance and those complaints received directly from the insured. The Complaint Handling Policy which consists of the complaint handling procedures, is a draft in the final stage of the approval process. The draft of the Complaint Handling Policy has been used to guide the complaint handling process since July 1, 2007.

The Agent and Marketing Support Division of the Compliance Department monitors complaints against agents and agents with multiple complaints. The complaint database provides tracking of agents with multiple complaints. The complaint database can be queried by agent name to identify complaints involving a particular agent. In 2007, the Agent Monitoring Policy was established with full implementation in 2008. The Agent Monitoring Policy is a draft in the final stage of the approval process. The draft of the Agent Monitoring Policy has been used to guide the complaint handling since 2007. The Agent Monitoring Policy identifies complaints as a trigger for agent review by the Agent and Marketing Support Division. If an agent receives a serious complaint or two general complaints within a year, the agent will be placed on the Agent Monitoring List. Other factors such as replacement activity or consistently failing to comply with company requirements may also initiate monitoring of the agent. The following aspects of the business of an agent, who is on the agent monitoring list, are reviewed:

- Book of business (number of policies written and still in force)
- Contracts and history (enterprise wide)
- Substance and nature of complaint(s) and relation to current trends
- Complaint ratio

Claim history
Debt and chargeback history
Replacement history
Lapse, surrender and /or not taken activity
Regulatory risk based on state
Approval and use of marketing materials
Litigation/regulatory actions history
Input from up line, Regional Vice President, Marketing Director or others as appropriate
Policy requirements such as exceptions requests, delivery history, use of illustrations, suitability forms or disclosures

Complaints received by American Investors Life Insurance Company regarding suitability are handled according to the Complaint Handling Policy. Suitability complaints are reviewed by the Consumer Risk Management Team with consideration to the agent's statement, supporting documentation provided by the agent, information provided by the owner to the agent including, but not limited to, the owner's occupation, owner's tax bracket, available liquid assets, net worth, annual income, sources of income, sources of the funds to be received, whether or not surrender charges/fees will be incurred at the previous company, whether or not the surrender charges/fees were discussed, the owner's experience with investments, whether or not investments were discussed in comparison to the fixed annuity sold, liquidity needs of the owner, the owner financial goals and objectives, and the owner's age at the time of purchase. All of these factors are included on the suitability worksheet which is signed by both the agent and the policy owner and is submitted with the application. The following exception was noted: In response to the interrogatory, The company stated that it has not documented either a separate written procedure or included a written procedure in the Complaint Handling Policy for the handling of suitability complaints.

- 1. Recommendation:** It is recommended that the company document its procedures in writing or include a written procedure in the Complaint Handling Policy for the handling of suitability complaints to further enhance the written policies and procedures implemented by the company pursuant to s. 628.347, Wis. Stat.

The examiners reviewed the company's response to the policyholder service and complaint interrogatory and all 38 complaints recorded on the company's complaint log during the period of review. Of the 38 complaints, 16 were received from the Office of the Commissioner of Insurance and 22 were complaints filed directly with the company. The examiners noted that 18 of the 38 complaints alleged the policy sold was not suitable for the individual or there was some misrepresentation of the product. After investigating the complaints, the company took action in 16 of the 38 complaints, including 13 of the 18 complaints alleging unsuitability or misrepresentation by either rescinding the policy and refunding the premiums paid, refunding surrender and settlement charges, or by extending the free-look period for two years in order to allow the policyholder to cancel the policy and receive a refund of premiums paid. Of these 16 resolved complaints, 9 were complaints filed directly with the company and 7 were Office of the Commissioner of Insurance complaints. As explained earlier in this section, the Agent and Marketing Support Division of the Compliance Department monitors complaints against agents and agents with multiple complaints using the company's Agent Monitoring Policy. In the 16 resolved complaints, the company indicated that after investigating the complaints, a compromise was offered in the interest of customer service. In 14 of the 38 complaints, the company's investigation of the complaints determined that there was no substantial evidence to support the allegations.

Producer Licensing

The Agency Services Department is responsible for the management of agent contracts, agent appointments and terminations with the state. The company markets its annuity business using independent agents. Agents are contracted as Independent Marketing Organizations (IMO's), independent agents or sub-agents.

The company informed the examiners that when an agent is appointed with the company, the Agency Services sets up the agent on FASAT system which maintains resident and non-resident license status as well as the license expiration date. The FASAT system feeds the AS400 system which issues and maintains policies. The AS400 administration system checks against the FASAT agent system to determine if the agent is appointed in the state where the business was written and for the product sold. If an agent is not set up on FASAT to do business in Wisconsin or the agent doesn't have a current license, the AS400 can't issue the policy until the agent error is resolved.

Training for new agents is not mandatory. The company requires agents to follow the policies and guidelines outlined in the Procedures and Guidelines Manual on the Agent Portal which is part of the company's website. The main areas of the manual are Marketing, Licensing and Contracting, New Business, Policy Issues and Commissions, Customer Service and Compliance Guide. The topics in the Compliance Guide section are Advertising, Agent Due Diligence, Annuity Disclosure, Code of Business Conduct, Complaint Handling, Living Trust Mills, Market Conduct Issues and Illegal Trade Practices, National Do Not Call List, Privacy Act, Replacement, State Guaranty Association, Suitability, USA Patriot Act and Violent Crime Control and Law Enforcement. Section 10 of the Independent Producer Contract requires the agents appointed with the company to meet the following contractual obligation:

"You are responsible for reviewing, understanding and complying with all of our policies, procedures and guidelines which we publish from time to time, which are located on our producer extranet website. You acknowledge and agree to review

these policies, procedures and guidelines upon confirmation of your appointment with us and to review them periodically throughout the term of your appointment.”

In addition, the company may provide supplemental in-person training but it is also not mandatory. The in-person training is provided by the Annuity Training Manager, Sales Department Managers from the Marketing Department and the Compliance Director-Marketing/Agent Support. The following areas are addressed during the training: Aviva History, Forms and Website, Product and Industry Overview, Compliance Review which includes suitability, and Deferred Compensation Program. The company spends approximately six hours training the agents. The in-person training is the same for both existing and new agents.

Agents are notified of new or changes to Wisconsin insurance laws and regulations and of new or changes in products and company procedures through the Agent Portal. The main page of the Agent Portal contains all announcements in PDF form. The company uses the Exact Target e-mail system for its newsletters and updates.

As part of the renewal process, the company's agents are responsible for completing their continuing education requirements in order to renew their license. The company does not track an agent's continuing education requirements. The company does suspend or terminate an agent if it is notified by the Office of the Commissioner of Insurance that an agent's state license is suspended or terminated due to the agent not complying with Wisconsin's continuing education requirements.

The examiners reviewed the company's response to the producer licensing interrogatory, appointment and termination procedures, and 100 agent files that included 50 active and 50 terminated producers, 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. In addition, the examiners requested that American Investors Life Insurance Company provide a list of all producers licensed and appointed in Wisconsin at any time during

the period of review. The list provided by the company was then 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 43 agents on the company's list were licensed in Wisconsin but not appointed with the company. Also, examiners found 129 agents in which there was significant time difference between the date the company entered into a contract with the agent and the date the agent was appointed with the company. In response to the discrepancies, the company stated that it follows a "just in time" procedure for processing agent appointments. Under this procedure, the company enters into a contract with an agent following the completion of the company's due diligence review. The company then processes the agent appointment soon after the first piece of business is written by the agent. The company stated that this system ensures that all agents who actually write business for the company are duly appointed. However, this procedure can result in a lengthy time difference between the date of execution of an agent contract and the date of appointment of the agent that is contrary to the requirements of s. Ins 6.57 (1), Wis. Adm. Code. The company advised the examiners that the company is in the process of immediately changing its appointment procedures in Wisconsin so that agents are appointed within 15 days following the earlier of the date the agent contract is executed or the first insurance application is submitted.

2. **Recommendation:** It is recommended that the company develop, document, and implement a 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.

The examiners noted that according to the Office of the Commissioner of Insurance data, 37 agents were listed with American Investors Life Insurance Company but the company data provided did not indicate these agents were listed with the company. American Investors Life Insurance Company explained that the agents were listed with the company but it has had

concerns with the validity of the method of pulling data for agents from its system. On October 8, 2007, the company converted to a new system called FASAT on a going forward basis. FASAT keeps more accurate records of license appointments, renewals and terminations and is an automated process rather than manual data entry. FASAT will allow a better method for filtering information and will allow the company to pull a more accurate data set.

In regard to the retention of company records, the company stated that it scans all documents into an imaging system and once entered into the imaging system, the documents are not immediately destroyed. The paper documentation is maintained onsite for 90 days and then destroyed. In response to the interrogatory, the company stated that it does not have a written procedure for the retention of company records relating to agent license appointments, renewals and terminations to ensure that the company's retention of records complies with s. Ins 6.80(5), Wis. Adm. Code.

3. **Recommendation:** It is recommended that the company develop, document, and implement a procedure to accurately maintain agent appointment and termination records in compliance with s. Ins 6.80(5), Wis. Adm. Code.

During the review of the 50 terminated agent files, the examiners found that 14 terminated agents did not receive a termination letter from the company. Of those 14 terminated agents who did not receive a termination letter, examiners found that 6 agents were terminated at the request of the agent's upline or at the agent's request, 1 agent who is still active but not in Wisconsin, and 3 agents listed as still active but had been terminated in 2006 and reappointed in 2007 and 2008. The company stated that effective immediately, the company is in the process of modifying its practices to ensure that a termination letter is sent to all agents terminated for whatever reason.

4. **Recommendation:** It is recommended that the company develop and implement a process to ensure that each terminated agent whose appointment to represent the company has been terminated, receives a written notice of termination of appointment and this notice is sent prior to or within 15 days of filing a termination notice with the Office of the Commissioner of Insurance as required by s. Ins 6.57(2), Wis. Adm. Code.

The examiners also found that in 34 of the 36 agent files that included a termination letter, the termination letter did not request the return of indicia as required by s. Ins 6.57(2), Wis. Adm. Code. The company stated that when agents are terminated immediately at the request of Marketing, Compliance or Legal, the termination letters sent to such agents include a request to return indicia of agency. However, the company stated that historically, termination letters sent to agents by the company for lack of production have not stated that the agent is no longer to be appointed as a representative of the company and that the agent may not act as its representative. In addition, the letters do not include a formal demand for the return of all indicia of agency. The company said that effective immediately, it is in the process of changing the standard termination letter for lack of production to include the statement that the agent is no longer appointed as a representative of the company and that the agent may not act as its representative and will include a formal demand for the return of all indicia of agency.

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

The examiners found that in 24 terminations, the company failed to notify the Office of the Commissioner of Insurance prior to or within 30 calendar days of the termination date as required by s. 6.57(2), Wis. Adm. Code. There were another 5 terminations that the company did not notify the Office of the Commissioner of Insurance at all of the termination of the agent.

6. **Recommendation:** It is recommended that the company develop and implement a process to ensure that the notification of termination of appointment of agents is filed prior to or within 30 days of the termination date with the Office of the Commissioner of Insurance as required by s. Ins 6.57(2), Wis. Adm. Code.

Underwriting

New Business

The Annuity New Business Department processes all annuity new business for American Investors Life Insurance Company. Applications, along with all accompanying paperwork, are received in the company's Imaging Department and scanned and indexed. New Business works with the business from the scanned images and from a worklist based on the date documents are received. Once New Business receives the scanned image of a new business application, data must be entered into company's administrative system. The New Business Department conducts a review of each application to ensure all the requirements have been met to issue a policy as well as a review of the forms received to ensure the correct forms were received. The company uses the New Business Wizard, an electronic tool that shows which policy plan code and state specific application and replacement forms are needed for a given plan and state. The table of forms is maintained by the Product Compliance and Development Department. The Agents are contacted on missing requirements. The Policy Issue Unit in the New Business Department binds the policy, prepares the policy packet for mailing to the writing agent for delivery and tracks outstanding delivery requirements. The New Business Department also handles reissues, not taken policies and other miscellaneous administrative duties related to processing new business.

The company is in the process of implementing a new server which will be one uniform administrative system for all of the AVIVA companies. The server will issue and track new business. The company's goal is to use the new administrative system for its first product by the end of June and to increase the use over the next year.

The company does not currently allow agents to submit business electronically. This is something that the company is considering in the future, but no information has been gathered and no specific timelines have been put in place.

The company does not allow consumers to apply for coverage online and submit applications electronically.

The company informed the examiners that it created and implemented a Non-Resident Information Sheet in August 2007. The Non-Resident Information Sheet was implemented to document the purpose and/or reason of a solicitation outside the state where the owner resides. The Non-Resident Information Sheet is required to be completed whenever an owner applies for an annuity in a state that is not their resident state.

The examiners reviewed the company's response to the New Business and Underwriting and the Replacement interrogatories, the company's Suitability Policy, New Customer Identification and Suitability Worksheet form, #52401(Rev 08/07), and the company's Suitability Review Procedures.

The following chart provides information on the policies issued in Wisconsin during the period of review:

	2006				2007			
# pols issued	810				1,223			
	Replace		Not		Replace		Not	
# of above that involved replacement	433		377		709		514	
	Under 65		Age 65 & Older		Under 65		Age 65 & Older	
# pols issued by age	219		591		429		794	
	Replace	Not	Replace	Not	Replace	Not	Replace	Not
# of above that involved replacement	88	131	345	246	201	228	508	286
	Under 75		Age 75 & Older		Under 75		Age 75 & Older	
# pols issued by age	581		229		855		368	
	Replace	Not	Replace	Not	Replace	Not	Replace	Not
# of above that involved replacement	296	285	137	92	451	404	258	110

According to the data provided by the company, it issued a total of 2,033 policies during the period of review. From 2006 to 2007, the company increased its business by 413 (66.23%) annuity policies issued to all ages. Of those 2,033 policies issued, 1,385 (68.12%) were issued to individuals age 65 and older. The company issued 597 of the 2,033 (29.36%) policies to individuals age 75 and older. In 2006, the company issued 810 annuity policies to individuals of all ages. The company increased the number of annuity policies issued to 1,223 to individuals of all ages which was an increase of 413 (51%) annuity policies issued. In 2006,

the company issued 591 (72.96%) policies to individuals age 65 and older. The company issued 794 policies to individuals age 65 and older in 2007 but the percentage of policies issued to those 65 and older dropped to 64.92%. However, policies issued to individuals age 75 and older increased from 28.27% in 2006 to 30.09% in 2007. This increase from 2006 to 2007 in annuity policies sold to individuals at 75 and older was 139 policies which is a 60.70% increase. Of the 794 annuity policies sold to individuals age 65 and older in 2007, 368 (46.35%) are sold to individuals age 75 and older which is an increase from 2006 with a total of 229 (38.75%) annuity policies sold to individuals age 75 and older out of a total of 591 sold to individuals age 65 and older.

The following chart shows the top five annuity policy forms sold by agents during the period of review and the number of policies issued for each of the policy forms.

Policy Form Number	Number of Contracts Issued during Period of Review	Percent of Total Contracts Issued during Period of Review
BPA12 (03/06)	539	26.51%
FPIA10P (06/06)	471	23.17%
PBPA15 (01/05)	416	20.46%
PBFELA (02/05)	293	14.41%
BPA8 (03/06)	132	6.49%

The top five policy forms accounted for 1,851 (91.05%) policies issued of the 2,033 total policies issued during the period of review. Policy forms #BPA12(03/06) and BPA8(03/06) are both single premium fixed deferred annuities with no premium bonus except by adding a rider. The premium bonus rider is called an Enhanced Death Benefit Rider. The Enhanced Death Benefit is the premium paid for the base contract accumulated at an interest rate of 5% from the contract date to the rider premium completion date. The rider guarantees that the death benefit will be no less than the enhanced death benefit. On the annuity date, the base

contract will be increased to an amount equal to the enhanced death benefit prior to determining the amount of the annuity payments. The annuity date for this rider is the later of the annuity date in the base contract or the term end date of the rider nearest the annuitant's 95th birthday. Policy forms #FPIA10P(06/06), PBPA15(01/05), and PBFELA(02/05) are indexed deferred annuities which have a premium bonus the first year. The premium bonus included in the policies range from 5% to 7% on any payments made into the annuity during the first year.

The examiners reviewed 100 random new annuity business files that included 50 new business files and 50 replacement new business files. In addition, examiners reviewed 5 new business files for each of the top 10 agent writers of new annuity business for a total of 50 new annuity business files. The examiners' findings are discussed in the following two sections of this report.

Underwriting

Suitability

American Investors Life Insurance Company has procedures that are meant to assist in complying with and preventing potential violations of s. 628.347, Wis. Stat. pertaining to the suitability of annuity sales to senior consumers. The company stated that its suitability requirements apply to all issue ages, not just 65 and older. The company developed a Suitability Evaluation Worksheet, #SEWFA (07/04), for use beginning in July of 2004. In May of 2006, the company revised this form to better clarify what information was being collected and to include information to comply with the USA Patriot Act. The form was called the Customer Identification and Suitability Confirmation Worksheet, #52401(05/06). In August of 2007, the company created a single Customer Identification and Suitability Confirmation Worksheet, #52401(Rev 08/07), that will be used for all Aviva companies. In the revised worksheet, the company expanded the question which asked if there are any settlement fees, surrender charges or penalties of any kind associated with the source(s) of the annuity's premium by including a box which requires the agent to list the actual percentage of any settlement fees,

surrender charges or penalties of any kind associated with any sources of the annuity's premium. Agents are required to complete and submit the company's Customer Identification and Suitability Confirmation Worksheet with all annuity applications.

American Investors Life Insurance Company established a Suitability Review Team to review applications to make a determination as to whether or not the agent appeared to have a reasonable basis for making the recommendation for the purchase of the annuity. The Suitability Review Team received training relative to the provisions of the NAIC's Suitability in Annuity Transactions Model Regulation, the company's Suitability Policy and Procedures, the company's various products and product features, and "Red Flag" indicators. In March 2006, the initial Suitability Review Team, made up of three staff members, began reviewing files. In April 2007, three additional staff members were added which increased the Suitability Review Team to 6 staff members and one manager. The Suitability Review Team is divided up into two sections. One section handles the suitability review for American Investors Life Insurance Company and the other does the suitability review for Aviva Life and Annuity Company.

The company's suitability policy includes "Red Flag" indicators used to aid New Business in identifying information on the application and the Customer Identification and Suitability Worksheet which could make the annuity contract unsuitable for the customer. According to the company's Suitability Policy, obvious "Red Flag" indicators include:

1. Files where the amount of the annuity applied for constitutes most, if not all, of the applicant's stated net worth.
2. Files where the owner's confirmation and the agent's confirmation do not agree.
3. Files where the question that asks if the client has sufficient liquid assets or other sources of income for living expenses and emergencies other than the funds that are being used to purchase the annuity is marked "No".

4. Any other files where new business detects something unusual or out of the ordinary and determines that assistance from the Suitability Review Team would be helpful.

If New Business determines there are obvious "Red Flag" indicators associated with any file, New Business will refer the file to the Suitability Review Team for review. The company stated that the new administrative system server has the "Red Flag" indicators built into the system, and will automatically refer the file to the Suitability Review Team for review. In addition to receiving files referred from New Business, the Suitability Review Team obtains files for review by randomly selecting files from all new applications received by the company, and by targeted selections made based on referrals from the Business Practices Review Committee, the Legal Division, an insurance department, or files that are selected by the Suitability Review Team based on criteria designed to target specific files with specific characteristics. According to the company, targeted selections could, and quite frequently do, involve the review of files where the contract has already been issued. If the contract has not already been issued at the time the review is made, the Suitability Review Team will place the contract in the Suitability Review Worklist which will make the contract unavailable for issue.

The company states that its goal is to review 50% of all annuity applications in 2008 regardless of age. American Investors Life Insurance Company stated that the Suitability Review Team will review all annuity applications with issue ages of 75 and older, and these applications are included in the company's goal of reviewing 50% of all annuity applications. The company began reviewing all annuity applications with issue age of 75 and older in September 2007.

The company stated that once a file is selected for review, regardless of the manner in which the file was selected, the Suitability Review Team reviews the entire application file. There are no predetermined criteria used or established for conducting the review. Each file is reviewed based on its own set of facts and circumstances. The objective of the review is to

determine whether the agent had a reasonable basis for making the recommendation to the applicant to purchase the annuity. During the review, if the Suitability Review Team needs to confirm information and/or to obtain additional information, the agent will be contacted first to obtain the information. However, there are times the Suitability Review Team will contact the applicant directly to confirm and/or obtain information prior to the annuity being issued. At the conclusion of the review, the Suitability Review Team will make a determination as to whether or not the agent appeared to have a reasonable basis for making the recommendation. In some cases at the conclusion of the review, the reviewer may determine that the agent did not have a reasonable basis for making the recommendation. This determination is based on the totality of the facts and circumstances which may include factors such as the percentage of premium to the applicant's net worth, replacement and/or liquidity needs of the applicant. When the Suitability Review Team concludes that the agent did not have a reasonable basis to make the recommendation to purchase the annuity, the file is referred to the General Counsel and/or Chief Compliance Officer for a final decision. If the General Counsel and/or Chief Compliance Officer agree with the decision of the Suitability Review Team a note is made in the system, the agent and the applicant are notified, and the application is cancelled or the contract rescinded with the money being returned to the applicant/policyholder, and appropriate follow up action is taken with the agent. The company stated that any agent identified by the Suitability Review Team, General Counsel and/or Chief Compliance Officer, who makes an unsuitable recommendation to an applicant to purchase an annuity, or who demonstrates a pattern of making recommendations that do not comply with the company's Suitability Policy will be referred to the Agent & Marketing Support Division of Compliance for further review as deemed necessary by the Compliance Manager.

7. Recommendation: It is recommended that the company further enhance the written policies and procedures implemented by the company pursuant to s. 628.347, Wis. Stat., by further developing and documenting guidelines for the Suitability Review Team. The guidelines should be modified to provide additional guidance to the Suitability Review Team by providing criteria to be considered when reviewing files and determining whether the agent had reasonable grounds for believing that the recommendation was suitable for the consumer on the basis of facts disclosed by the consumer..

During the ten months from March 2006 through December 2006, the Suitability Review Team reviewed 19.81% (4,163) of all annuity applications (21,017) received nationally. During 2007, the Suitability Review Team reviewed 36.72% (14,872) of all annuity applications (40,502). During April and May of 2007, the company added a total of three additional staff members to the Suitability Review Team as part of its effort to meet its goal of reviewing 50% of all annuity applications. The company stated that over the last six months of 2007, the Suitability Review Team reviewed 47.79% (9,406) of all annuity applications (19,678) received nationally. The Suitability Review Team reviewed 18.9% (153) of all annuity applications (810) from Wisconsin in 2006 and 35.7% (437) of all Wisconsin annuity applications (1223) in 2007. During the period of review, the Suitability Review Team declined a total of 134 annuity applications for various compliance related issues, including suitability. Of the 134 applications declined, 24 were declined in 2006, none in Wisconsin, and 110 were declined in 2007 with 2 declined in Wisconsin. During the period of review, 303 annuity applications selected by the Suitability Review Team were withdrawn. Withdrawn applications are applications submitted to the company but during the underwriting process, the agent or the applicant informed the company not to proceed with the issuance of the policy. Of the 303 annuity applications withdrawn, 45 were withdrawn in 2006, none in Wisconsin, and 258 were withdrawn in 2007 with 10 withdrawn in Wisconsin.

Another function of the Suitability Review Team is to make follow up phone calls to the consumer after the policy has been issued. The consumers are randomly chosen to receive the follow up phone calls from the Suitability Review Team. The company provides a script for

the Suitability Review Team to use in making the follow up calls. The examiners reviewed the script used by the Suitability Review Team when making the follow up calls. Some of the items covered in the script include whether the consumer is aware they purchased a deferred annuity, and if they are aware of the several interest crediting strategies available. The caller reviews the interest strategies allocated in the individual's annuity; asks if the consumer is familiar with the free withdrawal options, and then reviews the options; asks if the consumer knows about the surrender charges and the number of years there is a surrender charge, and then reviews the surrender charge with the consumer; and also asks if the consumer understands the minimum guarantee contract value and provides the consumer an explanation. The other questions ask whether the contract was delivered by the agent, whether the agent was courteous, and if the consumer is satisfied with the agent's explanation of the contract and its provisions. The last question asks if the consumer has any questions about their contract. The Suitability Review Team prepares monthly reports that breakdown the outcomes of the calls by no contact, no concern expressed, concern resolved, and calls referred to the Compliance Department's Consumer Risk Management Team which handles complaints. The company began making follow up calls to consumers in September 2006. From September to December 2006, the Suitability Review Team made a total of 90 calls and in 2007, the team made 364. Since the addition of staff to the Suitability Review Team, they have averaged 52 calls per month from June through December of 2007. The company stated that its goal is to make 70 to 100 calls per month.

American Investors Life Insurance Company stated that it has contracted with LIMRA International to participate in the LIMRA Customer Assurance Program (CAP) survey. The LIMRA CAP survey is a customer service survey which includes a suitability element that will provide for an additional component to the company's already established suitability monitoring. The company stated that it will survey all policyholders after the policy is issued. The company explained that the reports it receives from LIMRA will include the specific policyholder name on

each survey so if there are problems noted on the survey, the company can call the individual to follow up on the problems. The company entered into the contract in September of 2007 and new business issued in November and December of 2007 will be the first to participate in the LIMRA CAP survey.

During the review of the new business files, the examiners looked for and reviewed the following items, some of which were included on the company's suitability questionnaire that is required with each new annuity application:

- Net worth of the individual,
- Annual income,
- The length of the surrender period,
- The age of the individual at the time of issue and at the end of the surrender period,
- Surrender charges if replacement is involved,
- The amount of liquid assets the individual has available,
- The amount of the individual's liquid assets used for the annuity,
- Source of the money used to pay the premium,
- The individual's monthly income,
- What the monthly income is made up of,
- The amount of the monthly expenses.

Examiners questioned the suitability of 31 annuity policies issued by the company based on factors such as the applicant's age, length of policy's surrender charge period, or surrender charges incurred during a replacement. Of the 31 annuity policies, the Suitability Review Team had reviewed 7 of the applications. The company stated that based on the Suitability Review Team's review, the agent had a reasonable basis to make the recommendation to the individual to purchase the annuity in 6 of the 7 policies reviewed. The other annuity new business application was cancelled and not issued. The company stated that

the remaining 24 applications were not selected for review by the Suitability Review Team as the applications did not raise any red flags during the processing of the applications. However, the company stated that the suitability review team started to review all annuity applications where the applicant is age 75 and older in September 2007 (just prior to the end of the period of review), and changed its suitability confirmation worksheet to include incurred surrender and financing charges in August 2007.

The company's Suitability Guidelines and the Company Position on Suitability that includes a commentary on the obligations of the agent for determining suitability when making a recommendation to purchase an annuity to a consumer, are provided to the agents on the agent web portal on the company's website. Although the company's Independent Producer Contract states that agents must agree to review, understand, and comply with all of the company's policies, procedures and guidelines, including the Company's position on Suitability that are located on the agent web portal, as discussed previously in the Producer Licensing section on page 14 of this report, training, including suitability training for new and existing agents is not mandatory, and not all agents may actually access the agent web portal on the company's website to review the Company Position on Suitability.

8. Recommendation: It is recommended that the company develop, document, and implement a process and procedure to ensure that all of its agents are provided with the company's Position on Suitability and the Suitability Guide For Agents to ensure compliance with s. 628.347 (3) (a), Wis. Stat. with regards to suitability of annuity sales.

Underwriting

Replacement

According to data provided by the company (see chart in the New Business section on page 20 of this report) replacement was involved in a total of 1,142 (56.17%) of the 2,033 policies issued to individuals of all ages during the period of review. Of the policies issued to individuals age 65 and older, 853 (41.96%) policies involved replacement. During the period of review, the company issued 395 (19.43%) which involved replacement to individuals age 75 and

older. The number of replacements increased from 433 in 2006 to 709 in 2007 which is an increase of 276 (63.74%) for the total of policies sold to all ages. In 2006, replacement was involved in 345 (16.97%) policies issued to those 65 and older. The policies which involved replacement increased to 508 (24.99%) policies issued to those age 65 and older in 2007. The increase in replacement business from 2006 to 2007 was 163 (47.25%) annuity policies for those individuals age 65 and older. In the group age 75 and older, the policies involving replacement increased in 2007 to 258 (12.96%) from 137 (6.74%) in 2006. The increase in replacement business from 2006 to 2007 was 121 (88.32%) annuity policies for those individuals age 75 and older. Of the 591 annuity policies issued to individuals age 65 and older, 345 (58.37%) involved replacement in 2006. In 2007, the number of replacement policies increased to 508 (63.98%) out of the 794 annuity policies issued to individuals 65 and older. Replacement was involved in 137 (59.85%) of the 229 annuity policies that were issued to individuals age 75 and older in 2006. The number of replacement policies issued to individuals age 75 and older increased in 2007 to 258 (70.11%) out of a total of 368 annuity policies issued to individuals age 75 and older.

During the period of review, 43.24% of American Investors Life Insurance Company's business in Wisconsin involved external replacements. Internal replacements accounted for 12.98% of the company's business in Wisconsin during the period of review. The percentage of the company's business in Wisconsin during the period of review that involved either external or internal replacements was 56.17%. The number of replacements increased from 433 in 2006 to 709 in 2007 which is an increase of 276 (63.74%) for the total of policies sold to all ages. The number of policies issued to individuals age 65 and over that involved replacement also increased from 345 in 2006 to 508 in 2007 which is an increase of 163 (47.25%). For age 75 and over, replacements increased by 121 (88.32%) from 2006 (137) to 2007 (258). The company increased the number of annuity policies issued during the period of

review, but a large part of that increase includes replacement business, particularly involving the age 65 and older and age 75 and older age groups.

American Investors Life Insurance Company defines external replacement as any transaction in which a new policy is purchased from the company and an existing policy from another company will be lapsed, surrendered or reduced in value in order to purchase the new policy. An internal replacement is when the existing company and the replacing company are the same. The company indicated that the total number of external replacements during 2006 was 296, which is 36.54% of the company's total business in Wisconsin for that year. Of the 296 policies issued, 153 were 1035 exchanges. The total number of external replacements during 2007 was 583, which is 47.63% of the company's total business in Wisconsin for that year. Of the 583 policies issued, 290 were 1035 exchanges. Internal replacements during 2006 were 137, which is 16.91% of the company's total business in Wisconsin. 57 policies of the 137 issued involved 1035 exchanges. In 2007, the total number of internal replacements was 126, which is 10.38% of the company's total business in Wisconsin. Of the 126 policies issued, 60 were 1035 exchanges.

The company does not provide specific training relating to replacements to its agents. The company requires agents as part of the agent contract, to follow the policies and guidelines outlined in the Procedures and Guidelines Manual on the Agent Portal which is part of the company's website. The Procedures and Guidelines Manual includes information regarding replacements and the company's position on replacements. The examiners found one new business file and 3 new business replacement files in which the company issued policies based on applications written by agents who were not appointed with the company in violation of s. Ins 6.57(1), Wis. Adm. Code that requires that the agent be appointed within 15 days after the earlier of the date the agent contract is executed or the first insurance application is submitted. The company's response was that in these four instances, the policies were issued without an agent being appointed in Wisconsin due to an oversight. The proper

appointment of agents is further discussed, and a recommendation made in the Producer Licensing section on page 17 of this report.

Examiners found one new business replacement file where the Important Notice Required by Wisconsin Insurance Law was not received with the application as required by s. Ins 2.07(5)(a)4a, Wis. Adm. Code. The company requested the agent to complete a replacement form along with several other items of necessary information. The company received the other information but never received the completed replacement form. The company explained that due to an oversight, the company failed to obtain a replacement form. In another instance, examiners found one new business replacement file in which the wrong replacement form was submitted with the application. The company's response was that the New Business associate missed the fact that a specific Wisconsin replacement form is required to be used.

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

IV. CONCLUSION

This was the Office of the Commissioner of Insurance's first market conduct examination of American Investors Life Insurance Company. The examiners made a total of 9 recommendations.

Although the company indicated to examiners that it had procedures in place, formal written procedures did not exist in some areas. It is recommended that the company document its procedures in writing or include a written procedure in the Complaint Handling Policy to document the handling of suitability complaints.

The examiners found inadequacies with the company's current procedures for appointing and terminating agents that caused numerous errors to occur during the period of review, including agents who the company had contracted with but were not yet appointed in Wisconsin, significant time difference between the date that some agents were contracted with the company and the date the agents were appointed with the company, agents who did not receive a termination letter from the company, agent terminations in which the company failed to notify the Office of the Commission of Insurance within 30 days or at all, and an absence of procedures ensuring all terminated agents are provided a written notice stating that the agent is no longer a representative of the company, may not act as its representative and which includes a formal demand for the return of all indicia of agency. It is recommended that the company develop and implement a process to better comply with the appointment and termination procedures as required by Wisconsin insurance regulations.

As noted elsewhere in this report, with significant increases in the total number of annuities issued, the number of annuities issued to individuals age 75 and over, and the number of new annuities that involve replacements, it is important for the company to have sufficient oversight and supervisory control over the sales made by its appointed agents, and for the company's agents to be fully knowledgeable of the company's annuity products and when such products are suitable for a consumer's financial needs. Since the company does not require

that its appointed agents participate in training in the areas of product knowledge and suitability, there is increased responsibility on the company to monitor and supervise the sales made by its appointed agents.

The examiners found that the company has put in place measures intended to monitor the annuity sales of its agents, including the establishment of "red flag" indicators to aid the company in identifying potential unsuitable sales during the processing of new business, and the establishment of a Suitability Review Team to review applications for suitability. The Suitability Review Team reviews applications prior to issue that are identified for further review by "red flag" indicators, and also randomly selected files from all new annuity applications. The Review Team also conducts targeted reviews of new and prior sales made by specific agents. The company's goal is to review 50% of all annuity applications regardless of age, and is currently reviewing all annuity applications with issue ages of 75 and older. The company has also established a procedure to make random telephone calls to individuals who have been issued an annuity to determine their understanding of the policy that was purchased. In addition, the company has contracted with LIMRA International to conduct a LIMRA Customer Assurance Program (CAP) survey of all policyholders after a policy is issued. The survey results will provide an additional component to the company's procedures for monitoring the suitability of annuity sales made by its appointed agents.

Although the company requires agents to follow the policies and guidelines, including the Company Position on Suitability, outlined in the Procedures and Guidelines Manual on the agent web portal which is part of the company's website, the company does not require agent training, and does not monitor whether agents participate in training or review the information on the agent web portal. Since not all agents may access the agent web portal to review the Company Position on Suitability or the Suitability Guide for Agents, the company needs to better ensure that all of its agents are provided with the company's Position on Suitability and the Suitability Guide For Agents to ensure compliance with s. 628.347 (3) (a), Wis. Stat. with

regards to suitability of annuity sales. Also, the company needs to develop and document a set of established criteria and suitability standards that can provide guidance to the Suitability Review Team when reviewing files and determining whether an agent had reasonable grounds for believing that a recommendation was suitable for the consumer on the basis of facts disclosed by the consumer.

V. SUMMARY OF RECOMMENDATIONS

Policyholder Service and Complaints

- Page 12 1. It is recommended that the company document its procedures in writing or include a written procedure in the Complaint Handling Policy for the handling of suitability complaints to further enhance the written policies and procedures implemented by the company pursuant to s. 628.347, Wis. Stat.

Producer Licensing

- Page 16 2. It is recommended that the company develop, document, and implement a 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.
- Page 17 3. It is recommended that the company develop, document, and implement a procedure to accurately maintain agent appointment and termination records in compliance with s. Ins 6.80(5), Wis. Adm. Code.
- Page 17 4. It is recommended that the company develop and implement a process to ensure that each terminated agent whose appointment to represent the company has been terminated, receives a written notice of termination of appointment and this notice is sent prior to or within 15 days of filing a termination notice with the Office of the Commissioner of Insurance as required by s. Ins 6.57(2), Wis. Adm. Code.
- Page 18 5. It is recommended that the company develop and implement a process to provide all agents whose appointment to represent the company has been terminated, a written notice stating that the agent is no longer a representative of the company, that he or she may not act as its representative, and which includes a formal demand for the return of all indicia of agency as required by s. Ins 6.57(2), Wis. Adm. Code.
- Page 18 6. It is recommended that the company develop and implement a process to ensure that the notification of termination of appointment of agents is filed prior to or within 30 days of the termination date with the Office of the Commissioner of Insurance as required by s. Ins 6.57(2), Wis. Adm. Code.

Underwriting – Suitability

- Page 27 7. It is recommended that the company further enhance the written policies and procedures implemented by the company pursuant to s. 628.347, Wis. Stat. by further developing and documenting guidelines for the Suitability Review Team. The guidelines should be modified to provide additional guidance to the Suitability Review Team by providing criteria to be considered when reviewing files and determining whether the agent had reasonable grounds for believing that the recommendation was suitable for the consumer on the basis of facts disclosed by the consumer.

- Page 30 8. It is recommended that the company develop, document, and implement a process and procedure to ensure that all of its agents are provided with the company's Position on Suitability and the Suitability Guide For Agents to ensure compliance with s. 628.347 (3) (a), Wis. Stat. with regards to suitability of annuity sales.

Underwriting - Replacement

- Page 33 9. It is recommended that the company establish and implement a procedure to ensure it is in compliance with its own company procedures and s. Ins 2.07(5)(a)4a, Wis. Adm. Code which requires the company to obtain with the application a copy of the Important Notice when replacement is indicated on the application.

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>
John Pegelow	Insurance Examiner
Marcia Zimmer	Insurance Examiner

Respectfully submitted,



John Kitslaar
Examiner-in-Charge