

# **FINANCIAL SERVICES COMMISSION**

**OFFICE OF INSURANCE REGULATION  
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION REPORT**

**OF**

**AIG ANNUITY INSURANCE COMPANY**

**AS OF**

**JULY 22, 2006**

**NAIC COMPANY CODE: 70432**

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## PURPOSE AND SCOPE OF EXAMINATION

Under authorization of the Financial Services Commission, Office of Insurance Regulation (Office), Market Investigations, pursuant to Section 624.3161, Florida Statutes, a target market conduct examination of AIG Annuity Insurance Company (Company) was performed by Examination Resources, LLC. The scope of this examination was July 1, 2004 through June 30, 2005, however, the complaint review was expanded to March 1, 2006. The examination began July 16, 2006 and ended July 22, 2006.

The purpose of this examination was to verify the Company's compliance with suitability determination requirements in marketing annuities to senior consumers, persons 65 years of age and older, as required by Section 627.4554, Florida Statutes. The examination included the following procedures:

- Verify the documents utilized by the Company or its agents to determine suitability comply with Sections 627.4554(4)(a) and (b) and 627.4554(8), Florida Statutes.
- Review the Company's system to supervise recommendations to determine its compliance with Section 627.4554(4)(d), Florida Statutes.
- Verify the Company maintains or makes available records of information collected from the senior consumer in compliance with Section 627.4554(6)(a), Florida Statutes.
- Review a sample of 50 files for policies sold to senior consumers during the scope period to verify the Company is complying with the suitability determination process required by Section 627.4554(4)(a) and (b), Florida Statutes.

This Final Report is based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company. Procedures and conduct of the examination were in accordance with the Market Regulation Handbook produced by the National Association of Insurance Commissioners.

## COMPANY OPERATIONS

AIG Annuity Insurance Company is a foreign Life and Health insurer licensed to conduct business in Florida on May 12, 1972. The Company provides life insurance and annuities in the State of Florida.

Total Direct Premiums Written in Florida for annuities was as follows:

Year	Total Written Annuity Premium In Florida (Per Schedule T of the Annual Statement)
2004	\$857,052,643
2005	\$583,701,855

The number of annuities sold by the Company during the period of July 1, 2004 through June 30, 2005 is shown in the following table:

	Number of Fixed Annuities	% of Fixed Annuities	Number of Variable Annuities	% of Variable Annuities	Totals
Senior Consumers	8589	65%	0	0%	8589
Other Consumers	4605	35%	0	0%	4605
Totals	13,194	100%	0	0%	13,194

## **SUITABILITY DETERMINATION PROCESS REVIEW**

### **Supervisory System of Annuity Recommendations**

The Company maintains written guidelines of procedures and forms to be utilized by agents for making recommendations to senior consumers to purchase or exchange an annuity product.

The Company utilizes a Client Profile form to capture the pertinent information for making suitability recommendations. All brokers and agents are required to complete the form before making a recommendation. The Company does allow entities to utilize their own individual forms, if they submit them for review. Not all suitability forms utilized by the third parties request information relative to other insurance products the applicants might own. The Company's application does include a yes/no question relating to other insurance products owned.

The Company provides producers with current information on applicable regulatory requirements that impact their business. If a producer fails to comply with these standards and requirements, it could result in disciplinary action imposed on the producer. The Company monitors the business activity of its producers through scrutiny of written customer complaints, policy terminations and replacements.

The Company relies on the registered representative's broker-dealer for supervising recommendations of the annuities sold to senior consumers. There are 98 contracted financial institution agencies, 96 contracted broker-dealers agencies, and 1,880 contracted general agents. Although the number of general agents is larger, they represent only 3% of all annuities issued to seniors during the scope of the examination. There is no review of files for suitability at the Company level other than the previously mentioned monitoring of complaints. The sales agreements between the Company and the third party broker-dealers include the requirements for use of a client suitability profile form and for the periodic compliance audits.

The Company does not obtain annual certifications from the third parties senior manager who has responsibility for the delegated functions that the manager has a reasonable basis to represent, and does represent, that the third party is performing the required functions as required by Section 627.4554(4)(d)4.a., Florida Statutes.

The Company does perform onsite quarterly reviews of selected third parties to verify that the third parties are performing the functions required under Section 627.4554, Florida Statutes. These quarterly third party audits do not include a review of any annuity files.

**Corrective Action:** The Company should implement an annual certification process to certify the third parties are performing the required functions.

#### Policy Review

A sample of 50 files for policies sold to senior consumers during the scope period was reviewed to determine that the Company or its agents were complying with the suitability determination requirements of Section 627.4554(4)(a) and (b), Florida Statutes. The findings were as follows:

The Company failed to provide any evidence of the suitability documentation from third parties for 14 of the 50 files sampled for policies sold to senior consumers, as required by Section 627.4554(6)(a), Florida Statutes. The sample size was not expanded as the severity of the issue was already established.

**Corrective Action:** The Company should ensure its records are available for review upon request by the Florida Office of Insurance Regulation.

### COMPLAINT ANALYSIS

There were 51 complaints requested for review. The Department of Financial Services, Division of Consumer Services (DFS), received 16 complaints and 35 complaints were filed with the Company. Forty-five (45) of the 51 complaints were for policies issued prior to the scope of the exam. Of the six (6) complaints involving policies issued during the examination scope, four (4) complaints were for suitability issues. The findings were as follows:

One (1) file did not include evidence that the agent had made reasonable efforts to obtain the suitability related information from the senior consumer at the time of the sale as required by Section 627.4554(4)(a) and (b), Florida Statutes.

**Corrective Action:** The Company should ensure its records provide proof that the suitability recommendation process was performed at the time of sale.

All complaints filed with DFS were included in the Company's complaint register.

### REPORT SUMMARIZATION

A review was conducted of the Company's supervisory system over annuity suitability recommendations, in addition to a sample of 54 files. Sixteen (16) errors were found. The following represents general findings, however, specific details are found in each section of the report.

### **Sample Files Reviewed – 54 Files**

- Policies – 50 files
- Suitability Related Complaints – 4 files

### **Findings**

- Supervisory System of Annuity Recommendations – one (1) error – pages 2 and 3 of the report
  - Failure to have an annual certification process of third party broker-dealers
- Policy Review – fourteen (14) errors – page 3 of the report
  - Failure to provide documentation on suitability related information collected by third party broker-dealers from the senior consumer at the time of the sale
- Complaint Review – one (1) error – page 3 of the report
  - Failure to provide proof that a reasonable effort was made to obtain the suitability related information from the senior consumer at the time of the sale

### **EXAMINATION FINAL REPORT**

The Office hereby issues this report as the Final Report, based upon information from the examiner's draft report, additional research conducted by the Office, and additional information provided by the Company in response to the draft report.