

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

AIG SUNAMERICA LIFE ASSURANCE COMPANY

AS OF

AUGUST 11, 2006

NAIC COMPANY CODE: 60941



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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 SunAmerica Life Assurance 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 extended to March 1, 2006. The examination began July 31, 2006 and ended August 11, 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 compliance with Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes.
- Review the Company's system to supervise recommendations to determine compliance with Section 627.4554(4)(d), Florida Statutes.
- Verify the Company maintains or is able to make available, records of information collected from the senior consumer in compliance with Section 627.4554(6)(a), Florida Statutes.
- Review a sample of files for policies sold to senior consumers to verify the Company's compliance with the suitability determination process as required by Sections 627.4554(4)(a) and (b), and 627.4554(8), 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 SunAmerica Life Assurance Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on March 13, 1969. The Company provides life insurance and annuities in the State of Florida.

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

Year	Total Written Annuity Premium In Florida (Per Schedule T of the Annual Statement)
2004	\$359,324,725
2005	\$232,379,171

The number of annuities sold by the Company during the period of July 1, 2004 through June 30, 2005 is as follows:

	Number of Fixed Annuities	% of Fixed Annuities	Number of Variable Annuities	% of Variable Annuities	Totals
Senior Consumers	0	0%	935	36%	935
Other Consumers	0	0%	1696	64%	1696
Totals	0	0%	2631	100%	2631

SUITABILITY DETERMINATION PROCESS REVIEW

Supervisory System of Annuity Recommendations

The Company enters into selling agreements with third party registered broker-dealers. The third party sales agreements do not specify the information required to be collected, but require the registered representatives to comply with all applicable state and federal laws and regulations. The Company also performs random audits of third parties.

The Company began the process of complying with the requirements of the NAIC model suitability regulation in June 2005 when certification requests were mailed to 1,392 third party broker-dealers (third parties) that market products in all 50 states. As of December 31, 2005, 163 third parties responded to the initial mailing and provided signed certifications. The signed certifications received from the Florida third parties represented approximately 85% of the Company's annuity contracts sold in Florida to senior consumers.

The Company's supervisory system appears to comply with the requirements of Section 627.4554(4)(d), Florida Statutes. No violations were noted.

Policy Review

A sample of 100 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 Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes. The findings are as follows:

- 5 files for policies sold to senior consumers did not include evidence that the agent made reasonable efforts to obtain the suitability related information at the time of the sale as required by Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes.

Corrective Action: The Company should ensure its records provide evidence that a reasonable effort was made to obtain suitability related information from the senior consumer at the time of sale.

It was also noted that 3 replacement policies in the sample were not included in the Company's replacement register.

COMPLAINT ANALYSIS

There were 14 complaints requested for review. All complaints were filed directly with the Company and 6 of those complaints were also filed with the Florida Department of Financial Services, Division of Consumer Services (DFS). One (1) complaint fell within the scope period of the exam. No violations were noted.

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 101 files. Five (5) errors were found. The following represents general findings; however, specific details are found in each section of the report.

Sample Files Reviewed – 101 Files

- Policies – 100 files
- Suitability Related Complaints – 1 file

Findings

- Supervisory System of Annuity Recommendations – 0 errors – page 2 of the report
- Policy Review – 5 errors – page 2 of the report
 - Failure to provide evidence that a reasonable effort was made to obtain the suitability related information from the senior consumers at the time of the sale.
- Complaint Review – 0 errors – page 3 of the report

EXAMINATION FINAL REPORT

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