

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

AMERICAN INVESTORS LIFE INSURANCE COMPANY, INC.

AS OF

April 28, 2006

NAIC COMPANY CODE: 60631



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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 American Investors Life Insurance Company, Inc. (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 April 17, 2006 and ended April 28, 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 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

American Investors Life Insurance Company, Inc. is a foreign Life and Health insurer licensed to conduct business in the State of Florida on March 28, 1980. 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	\$67,882,487
2005	\$85,188,295

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	1,411	82%	0	0%	1,411
Other Consumers	313	18%	0	0%	313
Totals	1,724	100%	0	0%	1,724

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 provides its agents a suitability worksheet and a confirmation form to be used in the sale of annuities. The suitability worksheet is used by agents to obtain the annuitant's information for determining whether to make a suitability recommendation. The confirmation form requires signatures by both the agent and applicant, and is used to certify that a suitability review was either performed or declined by the applicant.

The Company's supervisory system for reviewing recommendations made by its agents is performed internally. The supervisory system consist of reviewing each application file submitted by its agents, which until November 17, 2005, contained the confirmation form, but not any type of suitability worksheet. The Company stated, as of November 17, 2005, it now requires one of three pre-approved suitability worksheets to be submitted by the agent as part of the application file. The supervisory system, as revised on November 17, 2005, includes verifying that the suitability worksheet was completed for every policy application, and a sample of applications are selected to verify the appropriateness of the suitability recommendation. The revised system was not reviewed for compliance based on the examination scope.

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

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 agent were complying with the suitability determination

requirements of Sections 627.4554(4)(a) and (b), Florida Statutes. However, due to the number of noted exceptions, the sample size was increased to 100. The findings are as follows:

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

COMPLAINT ANALYSIS

There were 89 complaints provided for review. The Department of Financial Services, Division of Consumer Services (DFS), received 33 complaints and 56 complaints were filed directly with the Company. All complaints filed with DFS were included in the Company's complaint register. Fifty-two (52) complaints related to matters outside the examination scope. A review was performed on the remaining 37 complaints involving suitability issues for policies issued during the examination scope. The findings were as follows:

- 5 complaints 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 Sections 627.4554(4)(a) and (b), 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.

REPORT SUMMARIZATION

A review was conducted of the Company's supervisory system over annuity suitability recommendations, in addition to a sample of 137 files. Eighteen (18) errors were found. The following represents general findings, however, specific details are found in each section of the report.

Sample Files Reviewed – 137 Files

- Policies – 100 files
- Suitability Related Complaints – 37 files

Findings

- Policy Review – 13 errors – page 3 of the report
 - Failure to provide evidence that a reasonable effort was made to obtain the suitability related information from the senior consumer at the time of the sale.
- Complaint Review – 5 errors – page 3 of the report
 - Failure to provide evidence 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.