

# **FINANCIAL SERVICES COMMISSION**

**OFFICE OF INSURANCE REGULATION  
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION REPORT**

**OF**

**LINCOLN BENEFIT LIFE COMPANY**

**AS OF**

**June 16, 2006**

**NAIC COMPANY CODE: 65595**



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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 Lincoln Benefit Life 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 June 12, 2006 and ended June 16, 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

Lincoln Benefit Life Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on December 18, 1984. 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	\$239,829,067
2005	\$221,687,690

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	1,670	50%	51	11%	1,721
Other Consumers	1,667	50%	407	89%	2,074
Totals	3,337	100%	458	100%	3,795

### **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 a fixed annuity product.

With regard to its sales of fixed annuities, the Company provided its agents with a Senior Protection in Annuity Transactions form (SPAT) that provides for the collection of suitability related information. The Company procedure, which started on November 15, 2004, requires that the SPAT form be submitted with every policy application. The Company's cross-functional suitability team reviews 15% of all fixed annuity applications submitted. The SPAT form is reviewed for completeness and to evaluate suitability, and the agent and insured are at times contacted with questions or to obtain clarification of any outstanding issues. The sample reviewed is drawn from all states having a suitability law similar to Florida's.

With regard to its sales of variable annuities, the Company delegates to its third party broker-dealers the responsibility to maintain a system of supervision over the Florida suitability-related requirements. The Company's third parties are required by their selling agreements with the Company to comply with all suitability related requirements. The Company's sales agents offer a suitability review at the time of sale, and their respective managers evaluate the suitability documentation prior to submitting the policy application to the Company. The Company does not request or require that any suitability documentation be submitted to them with the policy application. The Company also issues customer surveys to new policyowners that include a general question as to whether the agent discussed with the insured their financial situation to determine if the policy meets their needs. The survey was provided to all new policyowners during the period under examination, and it is currently provided to 50% of new policyowners.

The Company's supervisory system appears to comply with the requirements of Section 627.4554(4)(d), Florida Statutes.

## Policy Review

A sample of 50 files for policies sold to senior consumers during the scope period was reviewed to determine that the Company was complying with the suitability determination requirements of Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes. However, due to the number of noted exceptions, the sample size was increased to 100. The findings are as follows:

- 24 files for policies sold to senior consumers did not include evidence that the agent had made reasonable efforts to obtain 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 the sale.

## COMPLAINT ANALYSIS

There were 14 complaints requested for review. The Department of Financial Services, Division of Consumer Services (DFS), received 7 complaints and 7 complaints were filed directly with the Company. All complaints filed with DFS were included in the Company's complaint register. Eleven (11) complaints related to matters outside the examination scope. The review of the remaining 3 complaints revealed the following:

- 2 files 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 the sale.

## REPORT SUMMARIZATION

A review was conducted of the Company's supervisory system over annuity suitability recommendations, in addition to a sample 103 files. Twenty-six (26) errors were found. The following represents general findings, however, specific details are found in each section of the report.

### Sample Files Reviewed – 103 Files

- Policies – 100 files
- Suitability Related Complaints – 3 files

## **Findings**

- Supervisory System of Annuity Recommendations – 0 errors – page 2 of the report
- Policy Review – 24 errors – 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
- Complaint Review – 2 errors – 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.