

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

MARKET CONDUCT FINAL EXAMINATION REPORT

OF

LINCOLN NATIONAL LIFE INSURANCE COMPANY

AS OF

May 26, 2006

NAIC COMPANY CODE: 65676



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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 National Life 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 extended to March 1, 2006. The examination began May 22, 2006 and ended May 26, 2006.

The purpose of this examination was to verify the Company's compliance with suitability documentation 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 compliance with Sections 627.4554, Florida Statutes.
- Review the Company's system to supervise recommendations to determine compliance with Section 627.4554, 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, Florida Statutes.
- Review a sample of annuity contracts sold to senior consumers during the exam period to verify the Company's compliance with suitability documentation as required by Sections 627.4554, 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 National Insurance Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on July 3, 1939. The Company provides life insurance and annuities to consumers 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	\$671,380,089
2005	\$700,303,073

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	490	56%	2133	52%	2623
Other Consumers	378	44%	1988	48%	2366
Totals	868	100%	4121	100%	4989

SUITABILITY DETERMINATION PROCESS REVIEW

Supervisory System of Annuity Recommendations

The Company has a supervisory system in place in which its third party producers maintain the supervisory system for both fixed and variable annuity recommendations. The producers' responsibility to supervise annuity recommendations is specified in an amendment to their contract with the Company. The Company maintains written procedures of its oversight functions of the producers.

Individual sales agents are responsible for determining suitability at the time of sale and all agents submit new applications to a producing firm. The producing firms perform a periodic review function by reviewing the suitability documentation for each application that the writing agent submits and determine at that point whether suitability requirements have been met. As the Company delegates the supervisory system function to third parties, it requests that the producer firms submit an annual suitability certification. For 2005, the Company received 74 certifications, out of 110 active producer firms. The producer firms that did not submit annual certification were issued a letter that specified the suitability mandates that they were expected to follow. The Company also annually audits the suitability performance on a sample basis of all of its producer firms. Producer firms that received a customer complaint regarding suitability are included in the firms selected for review. For the year 2005, seven producer firms received an audit. The examination was conducted at the Company's home office and, consisted of reviewing a random sample of policies to determine if suitability documentation was obtained and if the information was consistent with the product sold. The examination did not address the producing firms written procedures. The policies audited included policies issued in Florida as well as states that had similar suitability documentation requirements as Florida.

Policy Review

A sample of 100 files for annuity contracts sold to senior consumers during the scope period was reviewed to determine the Company's compliance with the suitability documentation requirements of Sections 627.4554, Florida Statutes. The findings are as follows:

Five (5) files for annuity contracts sold to senior consumers did not include evidence that the agent made reasonable efforts to obtain any suitability related information from the senior consumer 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 it is able to produce records that include suitability documentation that was obtained from the consumers prior to the time of the sale.

COMPLAINT ANALYSIS

There were 8 complaints requested for review. One (1) complaint was filed with the Florida Department of Financial Services (DFS) and 7 were filed directly with the Company. Seven (7) complaints related to matters outside the examination scope. The 1 remaining complaint involved a senior consumer claiming the policy was not suitable. The Company refunded the senior consumer's premium under the "free-look" provision. No violations were noted.

EXAMINATION FINAL REPORT SUBMISSION

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.