

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

PRUCO LIFE INSURANCE COMPANY

AS OF

June 24, 2006

NAIC COMPANY CODE: 79227



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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 Pruco 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 23, 2006 and ended June 24, 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 its 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 50 files for policies sold to senior consumers during the scope period to verify the Company is complying 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

Pruco Life Insurance Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on April 14, 1982. 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	\$106,086,209
2005	\$137,420,628

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	0	0%	404	41%	404
Other Consumers	0	0%	576	59%	576
Totals	0	0%	980	100%	980

SUITABILITY DETERMINATION PROCESS REVIEW

Supervisory System of Annuity Recommendations

The Company maintains written guidelines for the sale of insurance and investment products, and has an extensive supervisory review process in place for the sale of fixed and variable annuities to senior consumers through its captive agent force. As guidance for determining senior suitability, agents are provided a *Suitability Field Guide* and a Customer Information Form. The Customer Information form collects the information required by Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes. The *Suitability Field Guide* identifies the review points that coincide with the review points identified by the Enterprise Suitability System (ESS). The Company developed the ESS as an automated system for the review and approval of each transaction. The ESS highlights various review points to be considered during the review, prior to approving or disapproving the sale. In addition, the Company produces a Business Quality Snapshot report, which is used by management to monitor an agent's business activity, replacements, and financing cases, suitability, discipline activity, and consumer complaints. The Company's Compliance Department Field Office Exam Unit examines agency offices annually.

The Company also utilizes a survey program referred to as the LIMRA Customer Assurance Program. The surveys, sent to all senior consumer annuity customers, are returned to LIMRA International, a statistical research firm, which compiles the senior consumer responses to several questions regarding their purchase. The survey is designed to evaluate the senior consumer's responses and determine what actions are necessary to address any concerns.

With respect to its captive agent force, the Company is in compliance with Section 627.4554, Florida Statutes.

The Company has 227 active selling agreements with NASD registered broker-dealer agencies. These third party broker-dealers are responsible for the supervisory function of the suitability review process for annuity sales to senior consumers. The Company implemented procedures to obtain annual certifications from the broker-dealers in an effort to comply with suitability laws pursuant to Section 627.4554(4)(d)4.a., Florida Statutes, effective September 2005. The

procedures require letters be sent to all third party broker-dealers with a compliance certification form attached, which is to be signed and returned. Monthly trend reports, produced by the Company, identify any areas of concern relating to the sale of annuities by third party broker-dealers to senior consumers. There were no exceptions noted regarding the Company's review process of its third party broker-dealers or its collection of annual certifications from its third party broker-dealers.

Policy Review

An original 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 Sections 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes. The findings are as follows:

Two (2) files for policies sold to senior consumers did not include evidence that the agent had made reasonable efforts to obtain the tax status of 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 its records provide evidence that a reasonable effort was made to obtain all suitability related information from the senior consumer at the time of the sale.

COMPLAINT ANALYSIS

There were 15 complaints requested for review. Fifteen (15) were filed directly with the Company, including 1 complaint that was also filed with the Florida Department of Financial Services (DFS). Ten (10) complaints related to matters outside the examination scope. The remaining 5 complaints filed were relative to suitability, but were for policies written prior to the scope of the examination.

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 50 files. Two (2) errors were found. The following represents general findings; however, specific details are found in each section of the report.

Sample Files Reviewed – 50 Files

- Policies – 50 files
- Suitability Related Complaints – 0 files

Findings

- Policy Review – 2 errors – page three (3) of the report
 - Failure to provide evidence that a reasonable effort was made to obtain all 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.