

FINANCIAL SERVICES COMMISSION

**OFFICE OF INSURANCE REGULATION
MARKET INVESTIGATIONS**

TARGET MARKET CONDUCT FINAL EXAMINATION REPORT

OF

RELIASTAR LIFE INSURANCE COMPANY

AS OF

July 21, 2006

NAIC COMPANY CODE: 67105



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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 Reliastar 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 expanded to March 1, 2006. The examination began July 17, 2006 and ended July 21, 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 Section 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

Reliastar Life Insurance Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on November 7, 1961. 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	\$154,298,394
2005	\$155,369,656

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	112	28%	51	32%	163
Other Consumers	288	72%	106	68%	394
Totals	400	100%	157	100%	557

SUITABILITY DETERMINATION PROCESS REVIEW

Supervisory System of Annuity Recommendations

The Company maintains written guidelines of procedures and forms to be utilized by its agents for making recommendations to senior consumers to purchase or exchange a fixed or variable annuity product.

With regard to fixed annuities, the Company provides its agents with a Suitability Acknowledgement form, a Fixed Annuity Needs Analysis form, and a Suitability Considerations Guidelines sheet. The Suitability Acknowledgement form is required to be submitted by the agent to the Company with every fixed annuity policy application. This form contains a general statement regarding suitability, and it provides for the agent's signature certifying that a proper suitability review was offered or performed. When the offer is declined, the applicant certifies that fact by his signature on the form. The Fixed Needs Analysis form was made available, as an option, for agents' use in obtaining information for determining whether to make a suitability recommendation, as required by Section 627.4554(4)(a) and (b), Florida Statutes. The Suitability Considerations Guidelines sheet provides the agent with guidelines for the suitability issues to address with the client.

With regard to its sales of variable annuities, the Company's agents determine suitability at the time of sale, and the applicable third party broker-dealer firms evaluate the suitability documentation prior to submitting the policy application for the senior consumer to the Company. Only those applications for which a favorable suitability determination has been made are submitted to the insurer. The Company does not require that any suitability documentation be submitted to them with the policy application for the senior consumer. The Company's third party broker-dealer firms are required by their Company selling agreements to comply with all solicitation requirements, including suitability related mandates.

The Company internally performs a review of both fixed and variable annuity recommendations by its survey process. All new insureds nationwide, of all ages, receive a survey that includes, among other issues, a question as to whether the agent reviewed the insured's financial situation, investments, and other insurance holdings at the time of sale. Surveys are returned by approximately 20% of policy owners. Survey results are reviewed and entered into the

Company's computer system by the Compliance Department. Monthly reports are produced which describe any trends in the survey answers. These reports include data pertaining to specific agents whenever 10 or more completed surveys are received for the agent. Any negative trends are then reviewed with the appropriate agent. These activities are described in the written procedures.

Subsequent to the exam, the Company advised it has modified its supervisory system to ensure that it will periodically review the suitability of recommendations made to senior consumers in Florida. It will require all third parties reviewing sales to senior consumers to annually certify that they have a supervisory system in place and utilize reasonable selection criteria to evaluate annuity recommendations. The Company will also periodically select third parties for review in order to determine whether the third parties are performing the required supervisory functions in conducting reviews of suitability recommendations for senior consumers in Florida.

Policy Review

A sample of 100 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. 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 any of the 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 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 6 complaints requested for review. The Department of Financial Services, Division of Consumer Services (DFS) received 2 complaints and 4 complaints were filed with the Company. All 6 complaints related to matters outside the examination scope.

REPORT SUMMARIZATION

A review was conducted of the Company's supervisory system over annuity suitability recommendations, in addition to a sample of 100 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 – 100 Files

- Policies – 100 files

Findings

- Policy Review – 2 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 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.