

# **FINANCIAL SERVICES COMMISSION**

**OFFICE OF INSURANCE REGULATION  
MARKET INVESTIGATIONS**

**TARGET MARKET CONDUCT FINAL EXAMINATION REPORT**

**OF**

**THE VARIABLE ANNUITY LIFE INSURANCE COMPANY**

**AS OF**

**JULY 29, 2006**

**NAIC COMPANY CODE: 70238**

---



## TABLE OF CONTENTS

<b>PURPOSE AND SCOPE OF EXAMINATION.....</b>	<b>1</b>
<b>COMPANY OPERATIONS .....</b>	<b>1</b>
<b>SUITABILITY DETERMINATION PROCESS REVIEW .....</b>	<b>2</b>
<b>COMPLAINT ANALYSIS .....</b>	<b>3</b>
<b>REPORT SUMMARIZATION .....</b>	<b>3</b>
<b>EXAMINATION FINAL REPORT.....</b>	<b>3</b>

## 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 The Variable Annuity 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 July 24, 2006 and ended July 29, 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 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

The Variable Annuity Life Insurance Company is a foreign Life and Health insurer licensed to conduct business in the State of Florida on June 7, 1961. 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	\$536,325,666
2005	\$696,547,183

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	17	45%	453	20%	470
Other Consumers	21	55%	1,760	80%	1,781
Totals	38	100%	2,213	100%	2,251

## **SUITABILITY DETERMINATION PROCESS REVIEW**

### **Supervisory System of Annuity Recommendations**

The Company's primary products are group and individual variable annuities used to fund employer sponsored retirement plans. These are marketed through a captive agent force of registered representatives of the Company's affiliated broker-dealer firm.

The Company's standardized application and disclosure forms are utilized to obtain, review, and consider information regarding the senior consumer's occupation, marital status, previous investment experience, liquid net worth, other investments and savings, and annual income in compliance with NASD suitability rules. The application form also includes questions relative to risk profile, amount of life insurance owned, and tax bracket. If a policy is a replacement, the senior consumer is required to complete the *Annuity Transaction Disclosure Form*, which analyzes the advantages of the proposed product and the disadvantages of giving up the product being replaced.

The supervisory review process requires a Home Office Principal to review and endorse in writing all fixed annuity transactions. A field compliance analyst, as a registered principal, is responsible for the review and approval of all replacement/exchange transactions. Written procedures for review of fixed annuities are in place.

All variable annuity purchases are routed initially through an automated electronic suitability review program. This includes group variable annuity enrollments and individual variable annuity applications. Written procedures for the automated electronic suitability review program for group variable annuities are in place. The Company is currently drafting written procedures for the submission of individual variable annuities through the automated electronic suitability review program, which will be in place for implementation soon.

The automated electronic suitability review program was developed to more accurately and consistently determine whether a product is suitable for the senior consumer. Each senior consumer's financial and investment information is input into the program, which then determines if the investment allocation options chosen within the variable annuity meet the suitability parameters established in the program using the senior consumer's age, investment experience and investment objectives. This information is derived from responses to the Investor Profile questions contained on the variable annuity application, and subsequently input into the database program at the Company offices. If the information falls within the program's

suitability parameters, the program indicates an electronic registered principal approval on the account documentation.

If, based on the information provided, the program is unable to determine suitability, the senior consumer's paperwork is sent to the agent's manager, a registered principal, for review and approval.

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 or its agents were complying with the suitability determination requirements of Section 627.4554(4)(a) and (b), and 627.4554(8), Florida Statutes. No exceptions were noted.

### COMPLAINT ANALYSIS

There were 43 complaints requested for review. All of the complaints were filed directly with the Company. There were no complaints filed with the Florida Department of Financial Services (DFS). One (1) suitability complaint fell within the scope period of the exam; all other complaints related to matters outside the examination scope. No exceptions were noted.

### REPORT SUMMARIZATION

A review was made of the Company's supervisory system over annuity suitability recommendations, in addition to a sample of 51 files. No exceptions were noted. The following represents general findings; however, specific details are found in each section of the report.

#### Sample Files Reviewed – 51 Files

- Policies – 50 files
- Suitability Related Complaints – 1 file

#### Findings

- No errors.

### EXAMINATION FINAL REPORT

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.