

**FLORIDA DEPARTMENT
OF
INSURANCE**

TARGET MARKET CONDUCT EXAMINATION REPORT

OF

JACKSON NATIONAL LIFE INSURANCE COMPANY

AS OF

JUNE 30, 2001

**DIVISION OF INSURER SERVICES
BUREAU OF MARKET CONDUCT
LIFE AND HEALTH SECTION**

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October 25, 2001

Honorable Tom Gallagher
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, Florida 32390-0300

Commissioner Gallagher:

Pursuant to the provisions of Section 624.3161, Florida Statutes, and in accordance with the Agreement for Market Conduct Services dated July 26, 2001 a Target Market Conduct Examination has been performed on:

Jackson National Life Insurance Company
1 Corporate Way
Lansing, Michigan 48951

NAIC COMPANY CODE 65056

The examination was conducted at the offices of the Company at 1 Corporate Way, Lansing, Michigan. The report of such examination is herein respectfully submitted.

Sincerely,

Boyd A. Higgins, CIE, FLMI, CLU, ALHC
Independent Contract Analyst

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Executive Summary

Introduction

The Department selected Jackson National Life (Henceforth, “JNL” or “The Company”) for a targeted market conduct examination due to the large number of annuities their agents write in Florida. Jackson National sold annuities in Florida during the period under examination with premiums in excess of five hundred million dollars (\$500,000,000).

The Jackson National Target Market

The Company’s marketing strategy is to sell annuities through direct agents, brokerage houses and financial institutions such as banks. The age distribution indicates that no particular age group is being targeted. It appears that stock brokers are placing annuities as part of their clients' investment portfolios, banks are placing annuities as alternatives to certificates of deposit and agents are marketing to the general public for retirement planning and wealth accumulation. One of the examiner's concerns is that JNL could be becoming overly dependent on the business written by a few large brokerage houses and banking institutions.

It does appear that JNL is focusing on deferred annuities rather than immediate annuities. During the scope of the examination, JNL sold ten thousand five hundred twenty three (10,523) deferred annuities while it only sold three hundred fifty one (351) immediate annuities. This strategy may be encouraged through the commission structure the company has established. The average commission paid on a deferred annuity is six percent (6%), while an immediate annuity would only earn the agent four percent (4%).

Although §626.99(4)(a), Florida Statutes, only requires a ten (10) day “free-look,” Jackson National’s policy forms used for products sold by financial institutions have a one (1) year "Free Look" provision and are in the process of being changed to provide a three (3) year "Free Look" provision. While this is beneficial to the annuitant, the examiner is concerned with the long-term potential for adverse solvency implications for the Company, especially in a sustained period of stock market decline.

Suitability of Products

During the survey period, JNL sold ten thousand eight hundred seventy four (10,874) annuities in the State of Florida. The average issue age for deferred annuities was sixty three and four tenths (63.4) years of age. Almost seven percent were people over the age of eighty (80). More than sixty percent of the annuitants were age seventy (70) and under.

The Company sends a "Policyowner Questionnaire" directly to every new policyowner ninety (90) days after every annuity or life insurance policy is issued. Any response indicating a lack of understanding of the policy or its purpose, or any dissatisfaction with the product or the sales process, is investigated for resolution. Suitability issues were addressed in the files reviewed.

The Funding Source – Replacing Existing Annuities

During the scope period, seven hundred sixty one (761) policyholders replaced existing JNL annuities with new JNL annuities. The value of the surrendered annuities totaled \$35.9 million. A review of a sampling of fifty (50) surrendered files and the corresponding new annuity files shows that more than seventy five percent (75%) of the new annuities were purchased to replace matured fixed annuity contracts with variable or equity-indexed annuities, and thus no surrender fees would be paid. For the 25% that were not matured, this transaction could be disadvantageous to the annuitant because replacing existing annuities may expose annuitants to a new surrender charge period. An additional two thousand two hundred sixty six (2,266) annuities issued by Jackson National were replacements of annuities from other companies. A review shows that variable and equity indexed annuities also made up more than seventy five percent (75%) of these replacement annuities.

However, the majority of the annuity surrenders [nine thousand five hundred seventy nine (9,579) policies] were in the other direction – annuitants surrendered JNL policies and purchased annuities from other companies. Although the company may have less control over these types of surrenders, JNL did earn over \$7.5 million in surrender fees. JNL's typical surrender fee schedule requires an annuitant to pay surrender fees if the policy is surrendered within nine (9) years after it was purchased. Many of these agents who sold these replacements to other companies are also appointed by JNL. JNL did not discipline any agents during the scope of the examination for improperly replacing (churning) annuities.

Conclusion

Jackson National appears to be issuing annuities appropriately without targeting specific age groups. JNL solicits responses from new clients to determine suitability. JNL is responsive to consumer complaints and frequently sends complainants monetary “thank you” awards (in the form of American Express certificates for \$10 to \$20) when they identify inadequate customer service.

SCOPE OF EXAMINATION

The Florida Department of Insurance (Department) conducted a limited scope target market conduct examination of Jackson National Life Insurance Company, hereinafter referred to as JNL or the Company. Independent contract analyst, Boyd A. Higgins, CIE, FLMI, CLU, ALHC conducted the examination pursuant to §624.3161, Florida Statutes.

This examination covers the period from January 1, 1999 through June 30, 2001 and was conducted at the offices of the Company at 1 Corporate Way, Lansing, Michigan 48951. The on-site examination commenced on August 6, 2001 and was completed October 19, 2001. The examination preparation and wrap up in the Tallahassee office of the Florida Department of Insurance took an additional two (2) days.

The purposes of this Target Market Conduct Examination were to:

1. Examine the annuity marketing practices, especially as they relate to targeting Florida citizens above age seventy (70);
2. Identify potential trends indicative of questionable practices, deficient procedures and inappropriate decisions in conducting the business of insurance, and;
3. Determine if specifically reviewed JNL’s insurance business practices and procedures conform to the Florida Statutes and the Florida Administrative Code.

Procedures and conduct of the examination were in accordance with the Department’s Field Examination Guidelines and the Market Conduct Examiner’s Handbook produced by the National Association of Insurance Commissioners (NAIC), except that (electronic) studies of the total population of Florida annuity holders were performed when possible and sampling was mainly used to

verify that electronic records reflected true and complete contract activity. The examination report is a report by test/process, with compliance exceptions noted when identified.

The examination was limited to assessing overall practices and procedures used by JNL between January 1, 1999 and June 30, 2001. The primary areas reviewed were as follows:

1. Producer Licensing
2. Marketing and Sales
3. Annuity Policy Issue
4. Annuity Surrenders
5. Death Claims
6. Consumer Complaint Handling

JNL has not assumed policies from other companies in the lines of business subject to this examination. Records and files were examined on the basis of content at the time of examination. Comments and recommendations were made in those areas in need of correction and improvement.

COMPANY PROFILE

Jackson National Life was incorporated as a Michigan domiciled stock life insurance company on June 19, 1961, and commenced business on August 30, 1961. The Company is licensed in the District of Columbia and in all states except New York. Jackson National Life Insurance Company of New York, a wholly owned subsidiary, is licensed in New York, Michigan and Delaware. The Company's ultimate parent is Prudential Plc of London, England (not affiliated with Prudential of America Group), who purchased one hundred percent (100%) of the outstanding stock in 1986.

PRODUCER LICENSING

The Company filed eleven thousand two hundred thirty seven (11,237) appointments during the period under examination covering eight thousand four hundred twenty six (8,426) agents. In the review of files for one hundred twenty six annuities issued during the scope period, one (1) agent, Daniel A. Chao, was not properly licensed and appointed. This is a violation of § 626.112, Florida Statutes.

MARKETING, SALES AND POLICY ISSUE

Ten thousand eight hundred seventy four (10,874) annuity policies were issued during the period under examination.

ANNUITIES SOLD

AGE AT ISSUE	IMMEDIATE ANNUITIES	FIXED ANNUITIES	INDEXED ANNUITIES	VARIABLE ANNUITIES
91-100	15			1
85-90	34	103	11	112
75-84	101	1,105	219	982
65-74	114	1,324	419	1,364
55-64	47	789	438	988
<55	40	752	704	1,212
TOTAL	351	4,073	1,791	4,659

The table below indicates that the Company, through its agents, sold more than ten thousand five hundred (10,500) new deferred annuities with the average age being 63.4 years old. Moreover, 36.5% of the policies were sold to people over the age of 70, and 6.8% were sold to people over the age of 80. The oldest annuitant sold a deferred annuity policy by JNL during the scope period was 90 years old.

DEFERRED ANNUITY POLICIES ISSUED

AGE	NUMBER	% (Number)	REPLACEMENTS	DEPOSITS	% (Deposits)
91-98	0		0	0	
86-90	115	1.1	26	9,160,646	1.9
81-85	604	5.7	119	36,164,299	7.5
76-80	1,501	14.2	358	79,956,179	16.6
71-75	1,632	15.5	431	84,240,784	17.6
66-70	1,519	14.4	446	72,011,089	14.9
61-65	1,355	12.6	243	56,417,798	11.7
56-60	1,134	10.6	190	52,272,942	10.8
51-55	932	8.7	157	41,377,137	8.6
46-50	720	6.8	110	22,649,752	4.7
0-45	1,112	10.4	146	27,697,650	5.7
TOTAL	10,523	100.0%	2,226	\$481,948,276	100.0%

Company policy forms for some fixed annuities indicate that "in no event will the maturity date be extended beyond the annuitant's age 85"; others define "Latest Annuity Date" as: "The first day of the month following the 85th birthday of the annuitant." However, during the scope period, the examiner found one hundred (100) fixed annuities that were issued to annuitants age eighty five (85) and above. An additional two hundred fifty six (256) annuities, with annuity dates five (5) years after issue date, were issued to annuitants age eighty one (81) through age eighty four (84).

Variable annuity forms define "Latest Annuity Date" as: "The date on which the Owner attains age 90." One (1) variable annuity contract was issued to a ninety (90) year old.

These represent three hundred fifty seven (357) instances of issuing policies outside the range of the approved forms, and each policy constitutes non-compliance with §626.9541(1)(a), Florida Statutes.

The Company indicates that they are in the process of filing amended forms to change the definition of "Latest Annuity Date" to age ninety (90) on all annuity policies.

The average deferral period for the annuities cited above was sixteen (16) years, with an average pay-out of seven (7) years certain beyond that. This means that if the average annuitant is sixty three (63) at the age of purchase, they would start to receive a payment at age seventy nine (79), and it would pay until they are age eighty six (86). This seems reasonable for the “average” annuitant. This may not be as reasonable for people over the age of 80. JNL did sell 719 policies to people over the age of 80 – but this represents less than 7% of their business.

Replacements

Two thousand two hundred and twenty six (2,226) policies were issued as documented replacements of existing annuities, and represent twenty one percent (21%) of the total number of deferred annuities issued. More than one thousand six hundred (1,600) of the new policies issued were either variable annuities or equity-indexed annuities replacing fixed annuities, and were sold through brokerage houses and banks. Recent volatility in the stock market could result in increased complaints in the future.

No pattern of extraordinary replacements of a particular company's business or by a particular agent or group of agents was evident.

Agents

As part of this examination, the examiner tried to develop a profile of the JNL marketing force. The following table shows six (6) marketing groups who, combined, produced one third (1/3) of the total annuities written by JNL during the scope period.

MARKETING ENTITY	NUMBER ISSUED	AMOUNT	AVERAGE AGE
Raymond James & Associates	1,266	\$82,155,461	67.2
Washington Mutual Bank	1,267	\$44,832,574	68.4
FNB Brokerage	423	\$13,939,329	65.5
National Planning Corporation	197	\$ 9,770,514	59.1
Legacy Group	249	\$ 8,713,483	59.6
Schlitt Investors Services	166	\$ 7,329,866	59.3
TOTALS	3,568	\$159,418,690	

More than ninety percent (90%) of the contracts written by these six (6) marketing entities were variable annuities.

SURRENDERS

	NUMBER	AMOUNT TRANSFERRED	SURRENDER CHARGES	AVERAGE SURRENDER CHARGE
TO OTHERS	9,579	\$288,500,000	\$7,516,881	\$784
TO JNL	761	\$36,900,000	\$593,593	\$780
TOTALS	10,340	\$325,400,000	\$8,110,474	

During the scope of the examination, consumers paid over \$8 million in surrender charges. However, only 7% or \$593,000 of the surrender charges were paid when an annuitant surrendered a JNL policy and bought a new JNL policy. The remaining \$7.5 million in surrender charges were paid to JNL when the annuitant surrendered a JNL policy to move to another company's annuity. This is a significant amount of money for consumers to pay, and it is not clear that in every instance the consumers are receiving an equitable purchase. "New" annuities with "new" surrender charge and deferral periods may not be financially favorable enough to offset the upfront surrender charges. This could indicate churning by agents.

In the Company's defense, if churning is occurring, the data indicates it would most likely be agents transferring policies from JNL, not to JNL. The Company has less control over these types of transfers, although JNL did earn a considerable amount of money from surrender fees during the scope of the examination. The examiner has forwarded surrender charge data associated with specific agents to the Department's Division of Agent and Agency Services for further investigation.

JNL's average commission for deferred annuities is six percent (6%) while it is only four percent (4%) for immediate annuities. Other companies may offer even better inducements to replace annuities which would explain why more people leave JNL's products than buy JNL's products in terms of annuity replacements. The commission rate for annuities issued to clients over age eighty (80) is one half (1/2) the rate for those issued to clients age eighty (80) and below. This would seem to discourage JNL agents from writing annuities for this age group.

JNL could do more to discipline agents, even ones that churn products away from JNL. During the scope of the examination, JNL did not discipline or rescind any appointments of agents based on irresponsibly replacing annuities.

DEATH CLAIMS

The Company paid death claims in a timely manner. Some policy forms indicate that the death benefit will equal cash surrender value, or accumulation value reduced by surrender charges. However, JNL pays full accumulation values as the death benefit. In addition, prior to April 2001, JNL paid interest on all death claims from date of death until the date the claim was paid, a procedure that was more generous than required by statute. Adjustments were made in April to pay interest from the date proof of loss is received until date the claim is paid, as required by statute.

COMPLAINT HANDLING

The examiner reviewed the Company's complaint handling and determined that the Company had maintained complaint-handling procedures in accordance with §626.9541(1)(j), Florida Statutes.

The examiner reviewed the written correspondence received on complaints filed through the Florida Insurance Department and on those filed directly with JNL during the scope period.

The examination procedures included calculating the processing time between the date the correspondence was received and the date the file was closed. The examiner reviewed all complaint files to determine the nature of the correspondence and to determine if the Company responded appropriately. All complaints were handled in a timely manner.

JNL is responsive to complaints and does not hesitate to rescind contracts and make full refunds to dissatisfied policyowners if it appears that there has been an unsuitable or misleading sale. The Company frequently sends monetary awards to complainants to apologize for inadequate customer service. These factors probably account for the relatively small number of annuity complaints sent to the Florida Department of Insurance. Complaints on life insurance policies resulted from the decreases in credited interest rates in recent years.

FORM FILINGS

The Company provided copies of all policy forms used during the period under examination and listings indicating which plans were issued on which forms. Every form presented had official stamps affixed by the Florida Insurance Department marked “Filed” with the date shown. In the course of the review, the examiner discovered four (4) policies that had been issued on two (2) unapproved policy forms. The unapproved forms were associated with policy numbers 0039593100 (Plan Code 9E401), 0040085350 (Plan Code 9P201), 00396942210 (Plan Code 9P201), and 0040065260 (Plan Code 9P201). This represents two (2) violations of § 627.410(1), Florida Statutes.

CONCLUSION

The target conduct examination report on Jackson National Life Insurance Company is respectfully submitted to the Honorable Tom Gallagher, Insurance Commissioner of the State of Florida.

The customary practices and procedures promulgated by the National Association of Insurance Commissioners were followed when possible. Some processes that are normally done using sampling techniques were completed instead by performing electronic sorting, filtering and calculating on the total population of annuities issued, annuities surrendered, annuities matured and claims paid.

The examiner wishes to express his appreciation for the courteous cooperation and assistance given by the Company's designees.

Sincerely,

Boyd A. Higgins, CIE, FLMI, CLU, ALHC
Independent Contract Analyst

FINDINGS AND RECOMMENDATIONS

The following findings were made in the preceding pages of this report. The Company is directed to:

Page 7	Comply with §626.112, Florida Statutes, by assuring that agents are licensed and appointed before issuing policies for applications submitted.
Page 9	Comply with §626.9541(1)(a), Florida Statutes, by assuring that annuity maturity dates are within the ages specified in the approved policy forms.
Page 13	Comply with §627.410(1), Florida Statutes by ensuring that all policy forms are approved.