State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Sean Dilweg, Commissioner

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Notice of Adoption and Filing of Examination Report

Take notice that the proposed report of the market conduct examination of the

ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
5701 GOLDEN HILLS DRIVE
GOLDEN VALLEY MN 55416-1297

dated July 26, 2005, and served upon the company on November 13, 2007, has been adopted as the final report, and has been placed on file as an official public record of this Office.

Dated at Madison, Wisconsin, this 28th day of April, 2008.

Sean Dilweg
Commissioner of Insurance

STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE

MARKET CONDUCT EXAMINATION

OF

ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
MINNEAPOLIS, MINNESOTA

JULY 18 – 26, 2005

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July 26, 2005

Honorable Sean Dilweg
Commissioner of Insurance
Madison, WI 53702

Commissioner:

Pursuant to your instructions and authorization, a targeted market conduct examination was conducted July 5 to July 26, 2005 of:

ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
Minneapolis, Minnesota

and the following report of the examination is respectfully submitted.

I.INTRODUCTION

Allianz Life Insurance Company of North America (Allianz Life) was incorporated August 10, 1979 and commenced business on December 27, 1979. The company was originally incorporated as Allianz Minnesota Life Insurance Company. The name was changed to North American Life and Casualty Insurance Company in 1981. The company adopted the current title in 1993. The predecessor organization was incorporated on April 17, 1896 and commenced operations on May 8, 1896. On October 1, 1999, Allianz Life Insurance Company of North America acquired the remaining outstanding shares of LifeUSA Holding, Inc. which it did not already own. In July 2002, LifeUSA Insurance Inc. was merged and liquidated into Allianz Life Insurance Company of North America. Additionally, the company merged with Allianz Minnesota Life Insurance Company in 1981, and Fidelity Union Life Insurance Company, Texas in 1993.

Allianz Life Insurance Company of North America is a wholly owned subsidiary of Allianz AG. Allianz Life Insurance Company of North America is domiciled in Minneapolis, Minnesota. The company has subsidiaries which include Allianz Life Insurance Company of New York, USAllianz investor Services, USAllianz Securities, and Delaware Valley Financial Services, Inc. Allianz Life offers wealth management products, including fixed and variable annuities, universal life insurance, and long term care insurance for individuals. The company offers individual insurance products through over 240,000 independent agents, registered representatives and financial planners nationwide. Allianz Life leads the industry in the sale of fixed annuities through independent agents in North America. Allianz Life is also a major provider of health excess of loss services to Health Maintenance Organizations, businesses with self-insured employee benefit plans, and Preferred Provider Organizations. In 2004, Allianz Life recorded gross premiums of $13.9 billion.

The company was licensed in all 50 states except for New York, including the District of Columbia in 2003. In addition, the company was licensed in all 50 states except for New York, including the District of Columbia in 2004.

National Direct Business to Wisconsin Direct Business Summary

2004	Life Insurance Premiums	Annuity Considerations	A&H Insurance Premiums	Deposit Type Funds	Other Considerations
Wisconsin	$2,980,455	$334,788,501	$17,698,390	$ -	$ -
National	$181,526,508	$12,444,673,070	$293,053,636	$ -	$ -

2003	Life Insurance Premiums	Annuity Considerations	A&H Insurance Premiums	Deposit Type Funds	Other Considerations
Wisconsin	$2,829,842	$256,350,925	$18,266,841	$ -	$ -
National	$175,304,372	$8,550,902,054	$282,005,345	$ -	$ -

The majority of the premium written by the company in 2004 and 2003 was annuity business. In 2003, Allianz Life Insurance Company of North America ranked as the 4th largest writer of annuities in the state of Wisconsin and held a 5.5% share of the market. In 2004, the company ranked as the 2nd largest writer of annuities in Wisconsin and held a 7.6% share of the market.

The following tables summarize the company's Wisconsin premium written and benefits paid in for 2004 and 2003 broken down by line of business.

Wisconsin Life Insurance Business

2004	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations				
Life Insurance	2,871,206	-	109,249	-
Annuity Considerations	334,788,501	-	-	-
Deposit Type Funds	-	-	-	-
Other Considerations	-	-	-	-
Direct Claims & Benefits Paid				
Death Benefits	1,830,123	-	61,000	-
Annuity Benefits	30,935,968	-	117,544	-
All Others	50,145,670	-	65,644	-

2003	Ordinary	Credit Life	Group	Industrial
Direct Premiums & Annuity Considerations				
Life Insurance	2,640,060	-	189,782	-
Annuity Considerations	256,350,925	-	-	-
Deposit Type Funds	-	-	-	-
Other Considerations				
Direct Claims & Benefits Paid				
Death Benefits	-	-	-	-
Annuity Benefits	15,707	-	-	-
All Others	(11,142)	-	-	-

The Office of the Commissioner of Insurance (OCI) received 52 complaints against the company between January 1, 2003 through May 31, 2005. A complaint is defined as 'a written communication received by the Commissioner's Office that indicates dissatisfaction with an insurance company or agent.'

During 2003, OCI received 16 complaints against the company. During 2004, OCI received 23 complaints against the company. As of the date of this report, 12 complaints have been received against the company for 2005.

The company received the majority of its complaints in individual annuity business. The majority, 75%, of the complaints received by OCI involved the marketing and sales of individual annuity policies by agents. Misrepresentation and unsuitability were common complaints. The complaint pattern indicates that this examination should focus on determining whether Allianz Life maintains procedures, and a satisfactory and effective supervisory program to ensure that the company and its appointed agents comply with Wisconsin insurance laws and regulations, particularly those pertaining to the suitability of annuity sales to senior consumers.

The following table summarizes the complaints received broken down by coverage type and reason type:

Complaints Received

Through May 26, 2005												
Reason Type	**Total**		**Underwriting**		**Marketing & Sales**		**Claims**		**Plcyhldr Service**		**Other**	
Coverage Type	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**
Life		%		%		%		%		%		%
Individual Life	2	17%		%		%		%	1	50%	1	100%
Group Life		%		%		%		%		%		%
Individual Annuity	10	83%		%	9	100%		%	1	50%		%
Group Annuity		%		%		%		%		%		%
Credit Life		%		%		%		%		%		%
All Others		%		%		%		%		%		%
Total	12				9				2		1	

2004												
Reason Type	**Total**		**Underwriting**		**Marketing & Sales**		**Claims**		**Plcyhldr Service**		**Other**	
Coverage Type	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**
Life		%		%		%		%		%		%
Individual Life	6	26%		%	3	18%	1	100%	1	100%	1	25%
Group Life		%		%		%		%		%		%
Individual Annuity	16	69%		%	13	76%		%		%	3	75%
Group Annuity		%		%		%		%		%		%
Credit Life		%		%		%		%		%		%
All Others	1	5%		%	1	6%		%		%		%
Total	23				17		1		1		4	

2003												
Reason Type	**Total**		**Underwriting**		**Marketing & Sales**		**Claims**		**Plcyhldr Service**		**Other**	
Coverage Type	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**	**No.**	**% of Total**
Life		%		%		%		%		%		%
Individual Life	4	25%		%	3	23%	1	50%		%		%
Group Life		%		%		%		%		%		%
Individual Annuity	11	69%		%	10	77%	1	50%		%		%
Group Annuity		%		%		%		%		%		%
Credit Life		%		%		%		%		%		%
All Others	1	6%		%		%		%		%	1	100%
Total	16				13		2				1	

II. PURPOSE AND SCOPE

This examination focused on the following lines of business:

Line of Business
Individual Annuity

The following functional areas were reviewed during the examination:

Functional Area
Policy Forms and Rates
Company Operations/Management
New Business/Replacements
Marketing Sales and Advertising
Producer Licensing
Consumer Complaints

A targeted examination was conducted to determine whether the company's practices and procedures comply with the Wisconsin insurance statutes and rules. The examination focused on the period from January 1, 2003 through May 31, 2005. In addition, the examination included a review of any subsequent events deemed important by the examiner-in-charge during the examination.

The examination was limited to a review of company operations, new business processing, policy replacement activity, marketing sales and advertising, consumer complaints, policy forms, and producer licensing.

New legislation pertaining to the suitability of annuity sales to senior consumers requires that the sale of an individual annuity to a person age 65 and above be suitable for the consumer based on the person's financial situation and needs. The new law, s. 628.347, Wis. Stat. requires an insurer to establish and maintain a system to supervise the recommendations of its insurance producers. Prior to the law's effective date of November 1, 2004, OCI sent a survey to insurers writing annuities in Wisconsin to obtain information concerning the number

and type of annuities issued by each company. Based in part on the information Allianz Life provided to OCI in response to the survey, OCI requested detailed policy data and further information regarding the company's in-force annuity business and contracts issued during a three-year period, 2000-2002.

Based on OCI's analysis of the policy data and information provided by the company pertaining to individual annuity sales, and since the majority of complaints received by OCI against the company involved individual annuity sales by its agents, many of which alleged misrepresentation and unsuitability, it was determined that an onsite examination of the company should be conducted. The examination focused on determining whether the company has sufficient oversight and supervisory control over the company's appointed agents, as required by s. 628.347, Wis. Stat. to ensure that annuity sales to consumers age 65 and above are appropriate and suitable for their needs.

The examination report is prepared on an exception basis, and comments on those areas of the company's operations where adverse findings were noted.

III. CURRENT EXAMINATION FINDINGS

- **Policy Forms and Rates**

The company's Corporate Product Filing Compliance department creates and maintains annuity policy forms that are filed with OCI. The examiners reviewed the company's response to the Policy Forms and Rates Interrogatory, and a sample of 13 policy forms that were deemed approved by OCI. All forms appeared to be in compliance with Wisconsin insurance law. The examiners also chose a sample of 92 policy forms from the list of policy forms the company indicated were used during the review period, and compared the form numbers to the list of approved forms in OCI's database. The examiners found one policy endorsement form which the company had used without it first being submitted to and approved by OCI, in violation of s. 631.20, Wis. Stat. The company indicated that it had inadvertently neglected to file the form with OCI for use by Allianz Life when it submitted the identical form to OCI for use by another insurer. The use of the form was discontinued in August, 2003.

- **Company Operations and Management**

The examiners reviewed the company's response to the Company Operations and Management interrogatory and the company's current business plan, marketing plan, and long-range strategic plan.

Allianz Life Insurance Company of North America is not a member of the Insurance Marketplace Standards Association (IMSA). The company is currently evaluating the IMSA process to determine possible future membership. The company's Audit and Investigations Division is responsible for all internal audits performed at the company. The division conducted an internal audit on internal replacements in 2003, and soon plans to conduct an internal audit on company compliance with s. 628.347, Wis. Stat., relating to the suitability of annuity sales to senior consumers.

- **Marketing Sales and Advertising**

The examiners reviewed the Company's response to the Marketing, Sales and Advertising interrogatory, sales reports, and copies of marketing bulletins and agent notices. Allianz Individual Insurance Group (IIG) Marketing is ultimately responsible for the marketing and sales of the company's individual fixed-annuities, while USAllianz Investor Services, a wholesale broker/dealer and subsidiary of Allianz Life, is responsible for marketing and sales of variable annuities. The Company's Corporate Marketing Communications Division (CMC) is responsible for the development and production of company sponsored advertising. The Corporate Compliance Department is responsible for review of internally and externally generated (i.e. agent prepared) fixed-annuity and internally generated variable annuity advertising for state regulatory compliance. The advertising files for fixed-annuities are located in the Corporate Marketing Communications Department. The company uses an electronic tracking system to store the history of the review and the final version of each advertisement. Advertising files for variable annuities are located in the USAllianz Broker/Dealer Compliance Department. The history of the review and a copy of all agent-prepared marketing materials for individual fixed-annuities are also stored in the electronic tracking system. The Company currently keeps all marketing files while in use and for a period of more than 3 years after an advertisement's authorized use.

Allianz Life does not maintain a list of or monitor agents who have their own website. However, the company does maintain marketing materials in its advertising file that are submitted to the company for review by independent agents. Those marketing materials include website content from time to time. Independent agents who are registered representatives are not permitted to maintain individual websites.

Allianz Life does not generate leads for its appointed agents and registered representatives. The company distributes its annuity products solely through licensed agents. Agents writing fixed-annuities must first contract with a Field Marketing Organization (FMO). In

this distribution structure, the insurer does not maintain direct control over the agents. The agents often represent multiple carriers. The relationships are controlled by a contractual arrangement, with the FMO being responsible for the supervision and training of independent agents. The FMO supplies any leads to the agents in this capacity.

The company states that there is a variety of resources for agents to receive product-specific training, including company sponsored workshops, brochures, agent guide, and training sessions given by the company's Internal Sales Team. Attendance at such sessions is encouraged but not required by the company. The company also states that it does not monitor whether agents receive any specific training through the agent's FMO.

The examiners met with the Director of Sales Development and the Senior Sales Trainer who explained the company's training methods for agents and Field Marketing Organizations (FMOs). There are currently 107 FMOs. The primary responsibility of an FMO is to recruit and train agents and Associate Field Marketing Organizations (AFMOs) whose primary responsibility is to assist an FMO in its operations, training, and recruiting functions. An FMO may act as an agent in his/her own right, in addition to acting as an FMO. The FMO is responsible for supervision of the agents/general agents and AFMOs that it recruits. When the FMO is in the role of an agent, the FMO is supervised by Allianz.

The company also established a calling center within the company, named the "Fast Team" that agents can use to obtain policy specific information. The "Fast Team" consists of between sixty and seventy members. Each member is required to complete an eight week training course and a two week mentor period before they are allowed to train agents and answer their questions. The Fast Team has an online script that is updated daily with state specific guidelines as well as policy information. Every call Fast Team receives from an agent is entered into an online log named "Gold Mine". Gold Mine keeps track of phone calls and other agent inquiries so that the company can determine trends and what agent training might be helpful in the future.

The company's "Fast Team" also conducts agent training seminars. The company states that agents who attend these seminars will see their commissions rise by up to 25%. These seminars are not mandatory, but an agent will receive a CD with sales tips as a reward for attending. Members of the "Fast Team" train agents concerning the respective provisions and benefits of various annuity products offered by the company. Only the company's best selling products are reviewed with the agents because of time constraints. For each product, the trainer will start with explaining the interest rates, then the liquidity, and finally take the agents through the specifics of each product. These seminars generally take three hours each.

The company indicated that although it does not generate any annuity sales reports specifically for the State of Wisconsin, such reports can be run on an ad hoc basis. Sales reports normally focus on the sale results of the Field Marketing Organizations (FMOs) and broker dealers by region or by individual product, and are reviewed by management. Other types of sales and marketing reports can be generated on an ad hoc basis, and are reviewed by the person requesting the report.

The examiners reviewed a sample consisting of 50 of the 106 advertisements in the company's advertising file. During the review of individual advertisements, the examiners found that annuity advertisement forms FLA 195, FLA 270, FLA 531, FLA 119, FLA 202, and FLA 467 did not show the guaranteed interest rate in close proximity and with equal prominence to the non-guaranteed interest rates quoted as required by s. Ins 2.16(24) Wis. Adm. Code.

1. **Recommendation:** It is recommended that the Company's advertisements, numbers FLA 195, FLA 270, FLA 531, FLA 119, AND FLA 467, and all of the Company's other advertisements which show a specific rate of return on premiums or cash values shall also show, in close proximity thereto and with equal prominence, the guaranteed rate of interest paid on the cash value in order to comply with s. Ins 2.16(24), Wis. Adm. Code.

2. **Recommendation:** It is recommended that the company develop and implement a process to communicate to its agents, the company's desire that agents participate in the company's suitability training, and track those agents who do not complete the training so that the company can again encourage completion. It is further recommended that the company maintain records of those agents who have and have not completed the company's suitability

training, and make such records, including the total number of agents who have and have not completed such training, available to the Commissioner upon request, in order to comply with s. 628.347 (3), Wis. Stat.

- **Consumer Complaints**

All fixed-annuity complaints that the company receives via OCI and other state insurance departments, the Better Business Bureau, or similar organizations are considered high-level complaints, and are handled by the company's Corporate Compliance Department. Complaints received directly from consumers are handled by the appropriate Business Unit within the company. Variable annuity complaints pertaining to the sale of a policy are handled by the Broker/Dealer associated with that policy. All other complaints involving variable annuities are handled by the Operations area of the company business unit responsible for variable annuity products (i.e. USAllianz Investor Services).

Allianz Life Insurance Company of North America defines a complaint as "any written communication primarily expressing a grievance received by mail from outside counsel, state insurance departments, or from (or on behalf of) an insured, policyowner or beneficiary". The Complaint Coordinator within the Corporate Compliance Department is responsible for recording complaints that are received, and ensuring that each complaint is assigned appropriately for response. Although verbal complaints from consumers are not recorded (except for residents of Minnesota), the company indicated that any time an allegation of agent misrepresentation is made, the company requests documentation from the consumer in writing to ensure the issue is fully and consistently documented.

The examiners reviewed the company's response to the Consumer Complaints interrogatory, the company's complaint handling guidelines, and a random sample of 62 complaints from the Company complaint log, including 40 of the 51 OCI complaints received during the period of review. The examiners noted that Allianz Life responded to all the OCI complaints within the time requirements in OCI form 51-11. As noted earlier in this report, 75% of all the company's OCI complaints received during the period of review involved the marketing

and sales of policies by agents. Allegations of misrepresentation and unsuitability were common complaints. The examiners noted that 47 or 76% of the 62 complaints in the complaint sample involved allegations of misrepresentation (17), misappropriation/forgery (3), unsuitability (12), and inadequate or improper service by the agent (15). Despite the allegations made in these complaints, the persons in the company business units who handled these complaints referred only 5 of these complaints to the Corporate Compliance Department's Special Investigation Unit (SIU) for further review and disposition. These complaints involved 3 of the 7 agents who the company stated were referred to the SIU during the period of review. The examiners further noted that 15 of the 47 complaints involved a total of 6 agents with multiple complaints, including 3 agents with 3 complaints each. However, none of the agents or complaints were referred to the SIU for further investigation. According to the company's written complaint handling guidelines, only complaints involving such offenses as forgery, misappropriation of funds, bogus applications, and theft are to be referred to the SIU by the complaint handler for further review and disposition. The company's complaint guidelines instruct complaint handlers to refer an agent with 3 or more "justified" complaints to Agency Review but not the SIU, although a company staff person may request that an agent's business and actions be reviewed at any time. The company defines a "justified" complaint as a significant complaint made against an agent for misrepresentation or other actions that the agent may have taken in the sale or servicing of a policy. Currently, a complaint handler must manually check the complaint database to determine how many previous complaints there have been against an agent. The company indicated that it was working on upgrading its database to automatically identify when 2 or more justified complaints occur within a 12 month period with respect to any agent. The company stated that for all complaints received prior to October 1, 2004 that involved allegations of unsuitability, the company's complaint handler would routinely have requested a statement from the selling agent relative to his or her assessment of the suitability of the sale at the time the sale was made. After October 1, 2004, the routine handling

of the complaint would also involve review of the data collected on the Company's Product Suitability Form, NB 3051 that is required to be completed at the time of sale. The form is used to collect information on the applicant's financial status, federal tax status, and financial objectives.

The company's Complaint Handling Guidelines assign the responsibility of reviewing complaints and determining the appropriate action to resolve complaints to a designated complaint handler in each of the company's business units. Each complaint is reviewed on a case by case basis by the complaint handler to determine if further investigation of the complaint is warranted and should be referred to Agency Review or the SIU. Only in cases where a complaint was addressed specifically to a company executive, is the complaint handler's response reviewed by the complaint handler's manager before being released, or in cases where a complaint threatens suit, is the complaint also reviewed by the company's legal department. Consumer complaints threatening to contact a state insurance department are also reviewed by the Corporate Compliance Support manager.

The company's Complaint Handling Guidelines state that complaint trend analysis using the corporate complaint tracking database is completed by each complaint handler on a quarterly basis, and any trends are noted in the Corporate Quarterly Trends and Analysis report. Trends that are tracked include an increase in the number of complaints received, justified complaints that resulted in refunds, or more than an average number of complaints which have similar reason codes that are received in a quarter or year. The report is intended to help identify any potential concerns related to sales practices or product performance. The complaint handler's recommendations based on any identified trend and any corrective action that was taken by the complaint handler are to be noted in the report which is submitted to the complaint handler's manager, and in turn forwarded to Corporate Compliance Department senior management for review. The examiners reviewed a sample Trend and Analysis Report, and noted that the report summarized complaint data including the total number of home office

and insurance department complaints, the number of complaints received involving alleged misrepresentation, suitability, and inadequate service by agents, as well as refunds given as a result of such complaint reasons. The report did not provide information concerning specific complaints or the names of agents that were the subject of the complaints. The company states that the most common complaints that Allianz Life receives deal with agents not disclosing surrender charges; agent service such as the agent did not deliver the contract within the company standard time period; and suitability. The company states that 48% of these complaints are received within the first policy year.

Based on their review, the examiners concluded that not all agent complaints involving misrepresentation, unsuitability, and improper service by agents are reviewed on a higher level than the designated complaint handler in each business unit who makes the sole determination as to the appropriate action that should be taken with respect to the complaint. Although agents with three or more complaints are referred for Agency Review, only "justified" complaints are counted. Therefore, not all agents who have multiple complaints against them are further reviewed and investigated by someone other than the complaint handler, and identified to the Special Investigations Unit within the Corporate Compliance Department.

3. **Recommendation:** It is recommended that the company develop and implement a more consistent and thorough internal review process of all complaints against appointed agents involving misrepresentation, misappropriation/forgery and unsuitability of sale, and that a systematic and documented process be established by the Corporate Compliance Department to oversee complaint handling to assess the competence and trustworthiness of the company's agents as required in s. Ins. 6.59(5), Wis. Adm. Code and in order to comply with s. 628.347(3), Wis. Stat.

4. **Recommendation:** It is recommended that the company amend its complaint handling procedures so that three or more complaints of any kind against an agent will be reviewed by the Corporate Compliance Department for appropriate disposition, in order to comply, in part, with s. 628.347 (3), Wis. Stat.

- **New Business**

The New Business Annuity Department is responsible for processing all new fixed-annuity applications from submission through issue. This includes:

- Key an imaged copy of the application to the administrative system.
- Review each application to ensure all the requirements have been met to issue a policy.
- Contact agents on missing requirements.
- Issue the policies when all requirements have been met including the receipt of the premium.
- Send all appropriate paperwork to financial institutions to transfer funds as requested by the client.
- Send the new policy to the agent for delivery.
- Follow-up on the transfer of funds from other companies until the funds are received and placed in the policy.

The company does not allow agents to submit fixed annuity business to the company electronically, and currently has no plans to do so. Individual variable annuity business can be submitted electronically through broker/dealers with whom the company has a selling agreement.

The examiners reviewed the company's response to the New Business interrogatory, the company's Product Suitability form, NB 3051, the Company's *Compliance Guide to Successful Business,* and the company's procedure guidelines for processing an annuity application with regards to suitability for compliance with s. 628.347, Wis. Stat. The examiners reviewed 300 new business files that included 100 random files and 200 files written by six specific agents. The new business file sample was limited to applications for fixed-annuity

products. The examiners also heard a presentation by the company's "First Team" regarding the company's practices relating to determining the suitability of individual annuity sales, and the company's compliance with the new senior suitability law. The "First Team" is composed of the company's Vice President and Chief Compliance Officer, the Senior Vice President and Divisional Actuary, the Vice President and Chief Securities Compliance Officer, and the Vice President and Deputy General Counsel. The role of the "First Team" is to provide integrated leadership to effectively and efficiently support Allianz Life and its business units' objectives within its regulatory environment.

- Suitability

Allianz Life states that it has taken several steps to comply with s. 628.347, Wis. Stat. pertaining to the suitability of annuity sales to senior consumers. These include:

- Effective October 1, 2004, the Company developed a Product Suitability Form, NB3051 to collect information required by s. 628.347, Wis. Stat. The Company modified this form in May of 2005 to better clarify what information was being collected. While the form requests information that is valuable in determining whether the annuity being applied for is suitable for the applicant's needs, the examiners concluded that additional information could be asked, such as whether the applicant will incur a substantial surrender charge if an existing life or annuity policy is being surrendered to fund the new policy, or whether the applicant will incur other early withdrawal or tax penalties as a result of the transaction.
- The company developed a "red flag grid" to identify information on the Product Suitability Form that may make a product unsuitable for the client. The company indicated that if the annuity policy being applied for is suspected of being unsuitable for the applicant's needs based on a red flag involving a particular response on the Product Suitability

Form, rather than rejecting the application, the agent is contacted and asked to recommend an annuity that is more suitable.

- Some examples of red flags include:
    - If the premium is greater than or equal to 50% of the applicant's liquid net worth..
    - If the client's federal tax status is 10% and investment objective is tax deferral.
    - If the client expects to receive immediate income on a 10 year annuity.
    - If the client expects to pass on money to beneficiaries with an immediate annuity.
- The company established and implemented written procedures to review and to supervise agent recommendations

Effective August 1, 2005, the company plans to automate the collection of product suitability form responses and compile the data electronically. This will allow the company to more easily analyze data by age, writing agent, and reason for red flags, and determine trends. The company states it will also be able to validate actuarial lapse assumptions compared to policyholders' responses to withdrawal and income questions. The company is also considering having LIMRA International (fka, Life Insurance Marketing and Research Association) conduct random surveys of its annuity policyholders to validate original responses on applications and product suitability forms. Effective July 1, 2005, the company applied the senior suitability law requirements, as defined in s. 628.347, Wis. Stat., to annuity sales to all ages and not just to applicants who are age 65 and older, and also applied the requirements to annuity sales in all states the company is licensed in.

During the new business sample file review, the examiners found that in 4 instances the product name on the Product Suitability Form, NB3051, did not match the form name indicated on the application and/or Statement of Understanding. The company indicated that

the new business representative processing each application should have called the agent to clarify the missing information, and document the file history journal with the correct answer. The examiners also noted the following instances in which the agent did not obtain the necessary information on the product suitability form as required by the company and s. 628.347, Wis. Stat. The company indicated that the new business representative processing each application should have called the agent to clarify the missing information, and document the file history journal with the correct answer. In 2 of the files, the agent did not obtain the annual income of the client. In 10 instances, the financial net worth was not obtained by the agent on the product suitability form. In 2 of the files, the agent did not obtain the tax status information from the client. The examiners found 5 other instances where the product suitability form did not contain the applicant's name, age, product name, and premium amount. The company indicated that the new business processor obtained the information from the policy application, but did not note this action in the file history journal as required by company procedure. In 7 other instances, the examiners noted the agent did not obtain the client's withdrawal needs and/or expectations as company procedure indicates. The company indicated that the new business processor in these instances did not follow company procedure and should have called the applicant to clarify which annuity was explained on the product suitability form. The company advised examiners that effective August 1, 2005, the agent will be contacted in such instances, and a new suitability form will be needed to process the application. In another instance, the company received a Product Suitability Form and application for a MasterDex 5 annuity which does not allow funds to be taken out prior to the five year anniversary of the policy. In answer to a question on the Product Suitability Form asking when the consumer expected to take money out of the product, the form stated that the consumer expected to take money out of the product between one and five years. The company states that according to its suitability review procedures, this answer should have alerted the new business representative to obtain clarification from the agent concerning the

suitability of the product, and record the findings in the company's OnBase policy history journal. In this instance, the representative failed to follow established company policy with regard to suitability processing. The company indicated that it will contact the agent and make a determination if a different product is more suitable or if a refund of premiums should be offered. As noted earlier, the company states that effective August 1, 2005, the company plans to automate the collection of product suitability form responses, and compile the data electronically to ensure that all questions have been answered and reviewed for inconsistencies.

5. **Recommendation:** It is recommended that the company amend the Product Suitability Form, NB3051 to include a question disclosing the amount of the surrender charge, if any, the applicant will incur if an existing life or annuity policy is surrendered to fund the new annuity, to better comply with the requirements of s. 628.347 (2)(b), Wis. Stat .

6. **Recommendation:** It is recommended that the company develop and implement a process to ensure that all questions on the Product Suitability Form, NB3051 are answered and complete, and that they are reviewed for inconsistencies as required by its own company procedures and the requirements of s. 628.347, Wis. Stat.

- Replacements

The examiners reviewed the company's response to the Replacement interrogatory. Allianz Life Insurance Company of North America defines a replacement as any transaction in which new life insurance or a new annuity is to be purchased from another carrier and an existing life insurance or annuity will be lapsed, surrendered or reduced in value in order to purchase a new insurance or annuity (external replacement is where the existing carrier and replacing carrier are different companies). The company indicated that 45.3% of new individual fixed-annuity business in Wisconsin during the period of review involved external replacement, and 19.5% of individual variable annuity business involved external replacement. The company indicated that .019% of the Wisconsin business during the period of review involved an internal replacement for individual fixed annuities and .002% for individual variable annuities.

The company indicated that it does not provide specific training relating to replacements to its independent agents other than providing every appointed agent with a "Compliance Guide to Successful Business." The company also has a state specific application packet that instructs agents on what forms need to be completed if a replacement is involved. It is the company's expectation that its appointed agents are experienced professionals with the basic knowledge to identify a replacement sale.

During the new business sample review, the examiners found one instance where the Important Notice Required by Wisconsin Insurance Law was not received along with the application as required by s. Ins 2.07 (5)(a)4.a., Wis. Adm. Code. The company explained that the missing form was overlooked by the new business representative. In another instance, the application did not indicate that replacement was involved and a replacement notice was not completed even though the funds to purchase the annuity came from an existing Allianz Life policy. The company indicated that it did not consider it a replacement at the time. In 4 instances, the company did not log the sales as replacements in its replacement database but did notify the prior carriers of the replacements. In 3 other instances, the sales were logged in as replacements in the company's replacement database, but the company could not confirm that the prior carriers were notified of the replacements as required by s. Ins 2.07 (5)(a) 4. b., Wis. Adm. Code. The company attributed these mistakes to human error.

7. **Recommendation:** It is recommended that the company establish and implement a procedure to ensure it is in compliance with its own company procedures and s. Ins 2.07(5)(a) 4. a., Wis. Adm. Code which requires the company to obtain with the application a copy of the Important Notice when replacement is indicated on the application.

8. **Recommendation:** It is recommended that the company establish and implement a procedure to ensure it is in compliance with its own company procedures and s. Ins 2.07(5)(a) 4. b., Wis. Adm. Code which requires the company to mail a notice of possible replacement to the company being replaced within 5 days of receipt of the application.

- **Producer Licensing**

The company's Corporate Compliance Licensing Team is responsible for coordination and regulatory oversight of agent appointments, and the renewal and termination process on a company-wide level. The Individual Insurance Group's (IIG) Field Compensation team is responsible for the management of the agent contracts, agent appointments and terminations for the fixed annuity business. The USAllianz Investor Services (USA Allianz) Variable Licensing team is responsible for the management of the agent contracts, and agent appointments and terminations for the individual variable annuity business. The Corporate Compliance Licensing team's primary responsibility is to coordinate agent appointment renewal activity, and provide oversight and regulatory guidance to the IIG and USAllianz teams. This team also reconciles renewal listings received from OCI with the company's internal records.

The examiners reviewed the company's response to the Producer Licensing interrogatory, the company's General Agency Agreement and General Agency Agreement Commission Schedule, the company's Application for Agent Agreement, the Agent Agreement, appointment and termination procedures, as well as 100 producer files that included 50 active and 50 terminated producers.

As part of the license renewal process, the company's independent agents are responsible for completing their continuing education requirements in order to renew their license. Allianz Life Insurance Company of North America distributes its products solely through the licensed independent agents and registered representatives. The agents/registered representatives appointed to sell for the company must first contract with a Field Marketing Organization (FMO) or Broker/Dealer. The FMO/Broker Dealer is responsible for the supervision and training of their independent agents/registered representatives.

The examiners requested from Allianz Life a list of all producers licensed and appointed in Wisconsin at any time during the period of review. The list provided by the company was compared to the records maintained by OCI. The examiners found 71 instances where the company's database listed the agents as active, but OCI's records listed the agents

as terminated. The company's response indicated two reasons for these errors. First, some agents were included on the list given to examiners because the query of the company's administrative system incorrectly included agents that only held an active "contract" status with the company during the period of review. The agents were not representing the company for the state of Wisconsin during the period of review, and subsequently should not have been included on the list. Another reason for the errors was that some agents were included on the company's list because their inactivation date did not reflect their actual appointment termination date. During a reconciliation process performed in 2003, the company used the current date when inactivating the agent in the administration system record. As a result, the query of the company's administrative system performed for the data call incorrectly identified these agents as having been actively appointed for some portion of the period of review. No business in Wisconsin was written by any of the inactive agents.

The examiners identified a total of 363 agents on the company's list of active agents during the period of review that were never appointed by the company according the OCI's records. The company indicated that 9 of the agents were activated in the company's administrative business support system, and a request for appointment should have been submitted to OCI. The company indicated that the submissions were not completed due to human error. These 9 agents wrote 35 policies, including 21 annuities, 12 long-term care policies and 2 life insurance policies. After being informed of the error, the company took immediate action to appoint these agents with OCI. The company indicated that 7 other agents were included on the company's list because they were new agents entered into the company's business administration system with a "hold" status during the period of review. Procedurally, if all necessary paperwork is not submitted with a request to appoint through a Broker-Dealer, the company inserts available information into its administration system, but the appointment is put in a "hold" status until the company receives the paperwork. When the paperwork is received, an appointment is submitted to OCI. Subsequently, if the requested paperwork is never

submitted, the company's only method of removing the agents from the "hold" status is to change the status to a "terminated" status. There is no differentiation between being terminated only in the company's system and actually recording that a termination record was submitted to OCI. Thus, the company's administration system query that was used to produce the list was unable to make such a differentiation. These 7 agents did not sell any business in the state of Wisconsin.

The remaining 347 agents were incorrectly included on the company's list due to one of the following reasons:

- The query of the company's administration system incorrectly included agents that held an active "contract status" with the company during the period of review, but were not representing the company for the state of Wisconsin during the period of review, and subsequently should not have been included on the list.
- The query of the company's administration system incorrectly included agents who simply had Wisconsin licensing information coded in the system, but were not listed to represent the company. This occurred due to a business rule, no longer in place, that allowed basic licensing information to be added to the administration system at the time the agent was initially entered into the system, without an appointment being submitted to OCI. This was done because the company required agents to submit payment for their non-resident appointments. By entering the basic information into the system at the time the contracting and licensing information was received, the appointment could be quickly expedited once the fees were received from the agent. If, however, the agent did not submit the payment, the appointment was never submitted. Business could not be accepted from these agents because there were no applicable appointment dates in the administration system.

The examiners also identified 191 policies issued during the period of the exam by a total of 25 agents where the agents did not have a valid appointment with the company in

accordance with s. Ins 6.57 (1), Wis. Adm. Code as of the effective date of the policy. The company indicated that the appointments of the 25 agents were not submitted to OCI due to human error, but all appointments were immediately submitted to OCI when the errors were discovered by the company at different times during the period of review.

During the review of the 50 terminated producer files, examiners found 33 files that did not include a termination letter requesting that the agent return all indicia of agency as required by s. Ins 6.57 (2), Wis. Adm. Code. The company stated that it believes that in 16 cases where the agent termination was initiated by OCI, such as when the agent has not completed continuing education requirements, the rule does not require the company to send the agent a termination letter. The company also stated that under its current procedures involving the fixed-annuity sales force, agent termination letters are only generated for Wisconsin residents. The company informed the examiners that its procedures will be modified to include sending a termination letter to non-resident agents as well. The company stated that the variable annuity business unit has had a termination letter in place for many years, but its use was suspended between 9/1/2002 and 4/21/2004 due to errors in the processing of the letters. Currently all terminated Wisconsin agents writing variable business are notified of appointment terminations either by letter or email. The examiners also found that the agent termination letter used by the variable annuity business unit did not request that the agent return all indicia of agency as required by s. Ins 6.57 (2), Wis. Adm. Code. The company informed the examiners that it will modify the termination letters to request the return of company indicia, and have them in production by 9/1/2005.

During the review of 50 active producer files, the examiners found 44 agent files that did not include appointment letters. The company stated that it is not their standard operating procedure to generate appointment letters for fixed annuity business, but appointment letters are currently generated for the variable annuity sales force. However, the process of sending agent appointment letters for variable business was suspended between 9/1/2002-4/21/2004

due to errors in the processing of the letters. The examiners were informed that newly contracted agents in the fixed annuity sales force do receive a welcome packet informing them they may begin soliciting for the company, and they are unable to access Wisconsin annuity applications via the Allianz web site until they are actually appointed by the company. Due to the number of appointment errors noted by the examiners, it would be to the company's benefit to amend its procedures to notify agents of their effective appointment date in order to ensure compliance with s. Ins. 6.57(5) and (6), Wis. Adm. Code.

9. **Recommendation:** It is recommended that the company develop and implement a process to ensure that it has submitted an application for agent appointment to OCI for each agent who it intends to have represent the company, and before the company accepts any business from the agent as required by ss. Ins. 6.57(1) and (5), Wis. Adm. Code.

10. **Recommendation:** It is recommended that the company develop and implement a process to provide all agents whose appointment to represent the company has been terminated, a written notice stating that the agent is no longer a representative of the company, and requesting that the agent return to the company all indicia of agency as required by s. Ins. 6.57(2), Wis. Adm. Code.

IV. CONCLUSION

This was OCI's first market conduct examination of Allianz Life Insurance Company of North America. A total of 11 recommendations were made relating to the company's need to implement new marketing, sales and advertising, new business, producer licensing, and consumer complaints procedures, or more consistently follow its current procedures in these areas.

The company must ensure that all company and agent advertisements that show a specific rate of return on premiums or cash values, also show, in close proximity thereto and with equal prominence, the guaranteed interest rate.

Although the company has a variety of resources available for its appointed agents to receive product-specific and suitability of sales training, the company does not require the training, and does not monitor whether agents receive specific training through the agent's Field Marketing Organization. Rather than maintain direct control over its agents, the company requires agents to contract with Field Marketing Organizations that the company states are responsible for the supervision and training of the company's independent agents. The company should require and monitor that agents receive sufficient training to ensure that agents better understand the company's annuity products, and when an annuity sale is suitable for the needs of an applicant.

The company currently has a procedure that only requires complaints involving serious agent offenses such as forgery or misappropriation of funds to be referred to the Corporate Compliance Department's Special Investigations Unit for further review and disposition, although the company states that an agent's business practices may be reviewed at any time. Current procedures only require that an agent's business practices be further reviewed when the company receives three or more "justified" complaints involving the agent. The company also assigns the responsibility of reviewing most complaints and determining the appropriate action to resolve the complaints to a designated complaint handler in each of the

company's business units. The examiners believe these limitations create the potential that agents with questionable business practices or with multiple complaints alleging unsuitability of sales will not be identified and reviewed by appropriate staff in the company's Corporate Compliance Department. The company needs to amend its procedures to ensure a more consistent and thorough review process for all complaints, and to have more of the agent complaints that are received by the company, particularly complaints alleging unsuitability, reviewed by the Corporate Compliance Department.

The company took steps to comply with s. 628.347, Wis. Stat. pertaining to the suitability of annuity sales to senior consumers, by developing a Product Suitability Form to collect information concerning an individual's financial goals and situation, and by identifying certain "red flags" (i.e. inconsistent or problematic responses to questions on the Product Suitabilty Form) to alert the individuals processing applications to a product's possible unsuitability. Although the form does request valuable information, the examiners believe the company could request additional information that would be helpful in determining whether an annuity was suitable for the applicant's needs. Also, since the company's new business suitability review is currently a manual process, there exists the potential that information will be missed or overlooked. The examiners noted a number of instances where the individuals processing applications failed to identify missing or inconsistent information on the Product Suitability Form. The company needs to develop and implement a process to more consistently and thoroughly review the information that is collected so it can establish the suitability of a sale. The company stated that it plans to automate the collection of Product Suitability Form responses and compile the data electronically, effective 8/1/2005.

The company must establish and implement procedures to ensure it is more consistently in compliance with its own procedures and Wisconsin policy replacement regulations.

The examiners found inadequacies with the company's current procedures for appointing and terminating agents that caused numerous errors to occur during the period of review, including 226 policies issued during the period of review that were written by 34 agents who were not correctly appointed with OCI to represent the company at the time of sale, and an absence of procedures requiring that all terminated agents to be provided written notice of their appointment termination. The company must develop and implement a process to better comply with the appointment and termination procedures as required by Wisconsin insurance regulations.

The company stated that it had complied with a number of the examiners' recommendations prior to receiving the completed examination report.

V. SUMMARY OF RECOMMENDATIONS

Marketing, Sales and Advertising

Page 14 1. It is recommended that the Company's advertisements, numbers FLA 195, FLA 270, FLA 531, FLA 119, AND FLA 467, and all of the Company's other advertisements which show a specific rate of return on premiums or cash values shall also show, in close proximity thereto and with equal prominence, the guaranteed rate of interest paid on the cash value in order to comply with s. Ins 2.16(24), Wis. Adm. Code.

Page 14 2. It is recommended that the company develop and implement a process to communicate to its agents, the company's desire that agents participate in the company's suitability training, and track those agents who do not complete the training so that the company can again encourage completion. It is further recommended that the company maintain records of those agents who have and have not completed the company's suitability training, and make such records, including the total number of agents who have and have not completed such training, available to the Commissioner upon request, in order to comply with s. 628.347 (3), Wis. Stat.

Consumer Complaints

Page 18 3. It is recommended that the company develop and implement a more consistent and thorough internal review process of all complaints against appointed agents involving misrepresentation, misappropriation/forgery and unsuitability of sale, and that a systematic and documented process be established by the Corporate Compliance Department to oversee complaint handling to assess the competence and trustworthiness of the company's agents as required in s. Ins. 6.59(5), Wis. Adm. Code and in order to comply with s. 628.347(3), Wis. Stat.

Page 18 4. It is recommended that the company amend its complaint handling procedures so that three or more complaints of any kind against an agent will be reviewed by the Corporate Compliance Department for appropriate disposition, in order to comply, in part, with s. 628.347 (3), Wis. Stat.

New Business

Page 23 5. It is recommended that the company amend the Product Suitability Form, NB 3051, to include a question disclosing the amount of the surrender charge, if any, the applicant will incur if an existing life or annuity policy is surrendered to fund the new annuity, to better comply with the requirements of s. 628.347 (2)(b), Wis. Stat .

Page 23 6. It is recommended that the company develop and implement a process to ensure that all questions on the Product Suitability Form, NB3051 are answered and complete, and that they are reviewed for inconsistencies as

required by its own company procedures and the requirements of s. 628.347, Wis. Stat.

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Producer Licensing

Page 29 9. It is recommended that the company develop and implement a process to ensure that it has submitted an application for agent appointment to OCI for each agent who it intends to have represent the company, and before the company accepts any business from the agent as required by ss. Ins. 6.57(1) and (5), Wis. Adm. Code.

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VI. ACKNOWLEDGEMENT

The courtesy and cooperation extended to the examiners during the course of the examination by the officers and employees of the company is acknowledged.

In addition, to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination.

Name	Title
John Kitslaar	Insurance Examiner
Renee Fabry	Insurance Examiner
Ashley Natysin	Advanced Insurance Examiner
Jo A. LeDuc, CIE, CPCU	Advanced Insurance Examiner
Jamie Key	Advanced Insurance Examiner
Mike Honeck	Chief, Health & Life

Respectfully submitted,

Matt Syens
Examiner-in-Charge

OFFICE OF THE COMMISSIONER 0F INSURANCE (OCI) STATE OF WISCONSIN

In the Matter of
ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA,

Respondent.

COMPLIANCE ORDER

FINDINGS OF FACT

WHEREAS, an examination of ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA, 5701 GOLDEN HILLS DRIVE, GOLDEN VALLEY MN 55416-1297, (the Respondent), was made and a report dated July 26, 2005, has been adopted as the final report by OCI; and

WHEREAS, the report of examination made certain recommendations which are attached to this Order and incorporated by reference; and

WHEREAS, the report of examination has been placed on file as an official public record of OCI.

ORDER

Pursuant to s. 601.41 (4), Wis. Stat., it is ordered that the Respondent shall comply with the recommendations contained in the report of examination and attached to this Order within 90 days from the date of this Order. Compliance with any one or more of the recommendations may be waived in writing by OCI after receiving justifiable written reasons for a waiver.

Dated at Madison, Wisconsin, this 28th day of April, 2008.

Sean Dilweg
Commissioner of Insurance

V. SUMMARY OF RECOMMENDATIONS

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Name	Title
John Kitslaar	Insurance Examiner
Renee Fabry	Insurance Examiner
Ashley Natysin	Advanced Insurance Examiner
Jo A. LeDuc, CIE, CPCU	Advanced Insurance Examiner
Jamie Key	Advanced Insurance Examiner
Mike Honeck	Chief, Health & Life

Respectfully submitted,

Matt Syens

Matt Syens
Examiner-in-Charge