

**REPORT OF
MARKET CONDUCT EXAMINATION
OF**

**AMERICAN GENERAL LIFE INSURANCE
COMPANY**
Houston, Texas

**AS OF
May 25, 2007**

COMMONWEALTH OF PENNSYLVANIA



**INSURANCE DEPARTMENT
MARKET CONDUCT DIVISION**

Issued: July 16, 2007

AMERICAN GENERAL LIFE INSURANCE COMPANY

TABLE OF CONTENTS

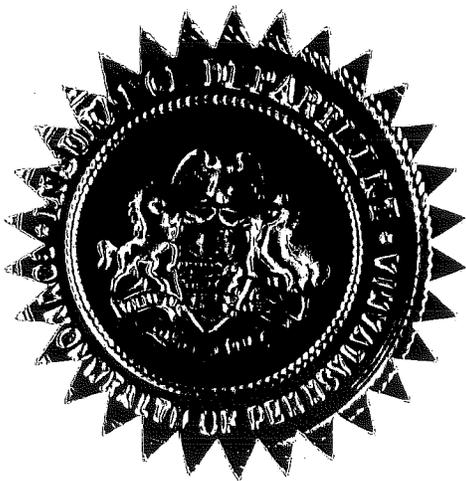
Order		
I.	Introduction	3
II.	Scope of Examination	6
III.	Company History and Licensing	7
IV.	Advertising	9
V.	Forms	10
VI.	Producer Licensing	12
VII.	Consumer Complaints	16
VIII.	Underwriting	17
A.	Underwriting Guidelines	17
B.	Individual Accident and Health Policies Issued	18
C.	Individual Annuity Contracts Issued	19
D.	Individual Disability Policies Issued	22
E.	Individual Life Policies Issued	23
F.	Individual Variable Life Policies Issued	29
G.	Individual Term Life Policies Issued	30
H.	Individual Annuity Contracts Issued as Replacements	34
I.	Individual Permanent Life Policies Issued as Replacements	35
J.	Individual Term Life Policies Issued as Replacements	41
K.	Individual Term Life Conversions	45
IX.	Internal Audit and Compliance Procedures	48

X.	Claims	50
	A. Individual Disability Claims	51
	B. Individual Life Claims	51
	C. Individual Medical Claims	53
XI.	Recommendations	55
XII.	Company Response	57

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

ORDER

AND NOW, this 6th day of July, 2007, in accordance with
Section 905(c) of the Pennsylvania Insurance Department Act, Act of May 17, 1921,
P.L. 789, as amended, P.S. § 323.5, I hereby designate Randolph L. Rohrbaugh, Deputy
Insurance Commissioner, to consider and review all documents relating to the market
conduct examination of any company and person who is the subject of a market conduct
examination and to have all powers set forth in said statute including the power to enter
an Order based on the review of said documents. This designation of authority shall
continue in effect until otherwise terminated by a later Order of the Insurance
Commissioner.





Joel S. Ario
Insurance Commissioner

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

IN RE:

AMERICAN GENERAL LIFE
INSURANCE COMPANY
2727-A Allen Parkway, 2-G7
Houston, TX 77019

VIOLATIONS:

Sections 641-A and 671-A of Act 147
of 2002 (40 P.S. §§ 310.41 and
310.71)

Section 903(a) of the Insurance
Department Act, Act of May 17,
1921, P.L. 789, No. 285 (40
P.S.323.3)

Sections 354, 404-A, 406-A,
408-A(a)(1), 408-A(e)(1)(i) and (ii),
408-A(e)(2)(i), (ii) and (iii),
408-A(e)(3)(i), 410D(a)(2),
410E(a)(2) and (3), and 410(c)(b)(2)
of the Insurance Company Law, Act
of May 17, 1921, P.L. 682, No. 284
(40 P.S. §§ 477b, 625-4, 625-6,
625-8 and 510)

Title 31, Pennsylvania Code, Sections
81.4(b)(1), 81.5(b), 81.6(a)(1),
81.6(a)(2)(ii), 81.6(c), 83.3,
83.3(a)(1), (2), (3), (4), (5), (6)
and (7), 83.3(a)(4)(i), 83.4a, 83.4b,
83.55, 83.55a, 83.55b, 88.181,
88.182, 146.3, 146.5, 146.6 and 146.7

Title 18, Pennsylvania Consolidated
Statutes, Section 4117(k)

Respondent.

Docket No. MC07-06-032

CONSENT ORDER

AND NOW, this 16th day of July, 2007, this Order is hereby issued by the Insurance Department of the Commonwealth of Pennsylvania pursuant to the statutes cited above and in disposition of the matter captioned above.

1. Respondent hereby admits and acknowledges that it has received proper notice of its rights to a formal administrative hearing pursuant to the Administrative Agency Law, 2 Pa.C.S. § 101, et seq., or other applicable law.

2. Respondent hereby waives all rights to a formal administrative hearing in this matter, and agrees that this Consent Order shall have the full force and effect of an order duly entered in accordance with the adjudicatory procedures set forth in the Administrative Agency Law, supra, or other applicable law.

FINDINGS OF FACT

3. The Insurance Department finds true and correct each of the following Findings of Fact:

- (a) Respondent is American General Life Insurance Company, and maintains its address at 2727-A Allen Parkway, Houston, Texas 77019.

- (b) A market conduct examination of Respondent was conducted by the Insurance Department covering the period from July 1, 2005 to June 30, 2006.

- (c) On May 25, 2007, the Insurance Department issued a Market Conduct Examination Report to Respondent.

- (d) A response to the Examination Report was provided by Respondent on June 22, 2007.

- (e) After consideration of the June 22, 2007 response, the Insurance Department has modified the Examination Report as attached.

- (f) The Examination Report notes violations of the following:
 - (i) Section 641.1-A of Act 147 of 2002 prohibits any entity or the appointed agent of any entity from transacting the business of insurance through anyone acting without an insurance producer license (40 P.S. § 310.41a);

 - (ii) Section 671-A of Act 147 of 2002 (40 P.S. § 310.71), which prohibits producers from transacting business within this Commonwealth without written appointment as required by the Act;

- (iii) Section 903(a) of the Insurance Department Act, No. 285 (40 P.S. § 323.3), which requires every company or person subject to examination must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the Department may require, in order that its representatives may ascertain whether the company has complied with the laws of the Commonwealth;

- (iv) Section 354 of the Insurance Company Law (40 P.S. § 477b), which prohibits issuing, selling, or disposing of any policy, contract or certificate until the forms have been submitted to, and formally approved by, the Insurance Commissioner;

- (v) Section 404-A of the Insurance Company Law, No. 284 (40 P.S. §625-4), which requires when the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand-

delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence;

- (vi) Section 406-A of the Insurance Company Law, No. 284 (40 P.S. § 625-6), which prohibits any alteration of any written application for a life insurance policy or annuity to be made by any person other than the applicant without the applicant's written consent;

- (vii) Section 408-A(a)(1) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which require each insurer marketing policies shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within 60 days of the effective date of this section. For life insurance policy forms approved by the Department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing;

(viii) Section 408-A(e)(1)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires if the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the application;

(ix) Section 408-A(e)(1)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states if the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled "Revised Illustration." The statement shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered;

(x) Section 408-A(e)(2)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which states the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy.

On the same form, the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery;

- (xi) Section 408-A(e)(2)(ii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires an insurer that uses a producer in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement and the identification information obtained, and in the case of life insurance, the disclosure statement or ledger statement containing comparable policy data on the proposed life insurance. The written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office; or the date the proposed policy or contract is issued, whichever is sooner;

- (xiii) Section 408-A(e)(2)(iii) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), states the following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered;

- (xiv) Section 408-A(e)(3)(i) of the Insurance Company Law, No. 284 (40 P.S. § 625-8), which requires a producer to certify in writing on a form provided by the insurer that the policy applied for is other than as illustrated. On the same form, the applicant shall acknowledge that the policy applied for is other than as illustrated and shall further acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall be submitted to the insurer as soon as practical after the application is signed by the applicant;
- (xv) Section 410D(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510c), which requires individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth unless they shall have prominently printed on the first page of such policy or attached thereto, a notice stating that the policyholder shall be permitted to return the policy within at least 45 days of its delivery ("free look provision");
- (xvi) Section 410-E(a)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510d), which states individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania, unless they have prominently printed on the

first page of such contract or attached thereto, a notice stating in substance that the contractholder shall be permitted to return the contract within at least 45 days of its delivery;

(xvii) Section 410E(a)(3) of the Insurance Company Law, No. 284 (40 P.S. § 510d), which states individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with an insurer or insurer group other than the one which issued the original contract or policy shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto, a notice stating in substance that the contractholder shall be permitted to return the contract within at least twenty (20) days of its delivery and to have the premium refunded if after examination of the contract, the contractholder is not satisfied with it for any reason;

(xviii) Section 410E(b)(2) of the Insurance Company Law, No. 284 (40 P.S. § 510d), which prohibits individual variable dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or group to be entered in Pennsylvania unless they have prominently printed on the first page, or attached thereto, a notice stating in substance that the contractholder shall be permitted to return the contract within at least 45 days of its delivery;

- (xix) Title 31, Pennsylvania Code, Section 81.4(b)(1), which states that if replacement is involved, the agent or broker shall present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities;
- (xx) Title 31, Pennsylvania Code, Section 81.5(b), which requires the insurer, as part of a completed application for life insurance or annuity, require a statement signed by the applicant regarding whether the proposed insurance or annuity will replace existing life insurance or annuity;
- (xxi) Title 31, Pennsylvania Code, Section 81.6(a)(1), which requires an insurer that uses an agent or broker in a life insurance or annuity sale shall require with or as part of a completed application for life insurance or annuity, a statement signed by the agent or broker regarding whether the broker knows replacement is or may be involved in the transaction;
- (xxii) Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii), which states an insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by Section 83.3, or ledger

statement containing comparable policy data on the proposed life insurance.

This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner;

- (xxiii) Title 31, Pennsylvania Code, Section 81.6(c), which requires the replacing insurer to maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities;

- (xxiv) Title 31, Pennsylvania Code, Section 83.3, which requires written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such;

- (xxv) Title 31, Pennsylvania Code, Sections 83.3(a)(1), (2), (3), (4), (5), (6), and (7), which states a disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered;

- (xxvi) Title 31, Pennsylvania Code, Section 83.3(a)(4)(i), which states a disclosure statement shall describe the name of the agent or broker, home address and the home or agency phone number of the producer making the solicitation;

- (xxvii) Title 31, Pennsylvania Code, Section 83.4a, which states the agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant;
- (xxviii) Title 31, Pennsylvania Code, Section 83.4b, which requires the insurer to maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance;
- (xxix) Title 31, Pennsylvania Code, Section 83.55, which states: (a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible; and (b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use;

(xxx) Title 31, Pennsylvania Code, Sections 83.55a and 83.55b, which (a) require the agent to submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant; and (b) the insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the prospective purchaser of life insurance;

(xxxii) Title 31, Pennsylvania Code, Section 88.181, which states no policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time the application is made;

(xxxiii) Title 31, Pennsylvania Code, Section 88.182, which states in the event that a policy or contract is issued on a basis other than that applied for, a disclosure statement properly describing the policy or contract must accompany the policy or contract when it is delivered and contain the following statement, in no less than 12-point type, immediately above the company name: "NOTICE: Read this outline of coverage carefully. It is

not identical to the outline of coverage provided upon application and the coverage originally applied for has not been issued.”

- (xxxiii) Title 31, Pennsylvania Code, Section 146.3, which requires the claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed;
- (xxxiv) Title 31, Pennsylvania Code, Section 146.5, which requires every insurer, upon receiving notification of a claim, shall within 10 working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgement shall be made in the claim file of the insurer and dated;
- (xxxv) Title 31, Pennsylvania Code, Section 146.6 states that if an investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected;
- (xxxvi) Title 31, Pennsylvania Code, Section 146.7, which requires within 15 working days after receipt by the insurer of properly executed proof of loss,

the first party claimant shall be advised of the acceptance or denial of the claim by the insurer; and

- (xxxvii) Title 18, Pennsylvania Consolidated Statutes, Section 4117(k), which requires all applications for insurance and all claim forms shall contain or have attached thereto the following notice: "Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties."

CONCLUSIONS OF LAW

4. In accord with the above Findings of Fact and applicable provisions of law, the Insurance Department makes the following Conclusions of Law:

- (a) Respondent is subject to the jurisdiction of the Pennsylvania Insurance Department.
- (b) Respondent's violations of Sections 641-A and 671-A of Act 147 of 2002 are punishable by the following, under Section 691-A of Act 147 of 2002 (40 P.S. § 310.91):

- (i) suspension, revocation or refusal to issue the certificate of qualification or license;
 - (ii) imposition of a civil penalty not to exceed five thousand dollars (\$5,000.00) for every violation of the Act;
 - (iii) an order to cease and desist; and
 - (iv) any other conditions as the Commissioner deems appropriate.
- (c) Respondent's violation of Section 354 of The Insurance Company Law is punishable by the following, under Section 354 of The Insurance Company Law (40 P.S. § 477b):
- (i) suspension or revocation of the license(s) of Respondent;
 - (ii) refusal, for a period not to exceed one year thereafter, to issue a new license to Respondent;
 - (iii) imposition of a fine of not more than one thousand dollars (\$1,000.00) for each act in violation of the Act.
- (d) Respondent's violations of Sections 404-A, 406-A, 408-A, 410D and 410E of the Insurance Company Law, No. 284 (40 P.S. §§625-4, 625-6 and 625-8) are punishable by the following, under 40 P.S. § 625-10: Upon determination by hearing that this act has been violated, the commissioner may issue a cease and

desist order, suspend, revoke or refuse to renew the license, or impose a civil penalty of not more than \$5,000 per violation.

- (e) Respondent's violations of Title 31, Pennsylvania Code, Chapter 81, are punishable under Title 31, Pennsylvania Code, Section 81.8(b) and (c), which provide failure to comply, after a hearing, may subject a company to penalties provided in 40 P.S. § 475. Failure to comply shall be considered a separate violation and may not be considered in lieu of a proceeding against the company for a violation of 40 P.S. §§472, 473 or 474. In addition, failure to make the disclosure may be considered a violation of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 to 1171.15);

- (f) Respondent's violations of Title 31, Pennsylvania Code, Chapter 83 are punishable under Title 31, Pennsylvania Code, Section 83.6:
 - (i) For failing to insure adequate disclosure of basic information, after a hearing, a company may be subject to the penalties provided under 40 P.S. § 475, for violations of 40 P.S. §§ 472 through 474. In addition, failure to make the disclosure outlined in this subchapter may be considered a violation of 40 P.S. §§ 1171.1 through 1171.15.

(g) Respondent's violations of Title 31, Pennsylvania Code, Sections 146.3, 146.5, 146.6 and 146.7 are punishable under Section 9 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.9):

- (i) cease and desist from engaging in the prohibited activity;
- (ii) suspension or revocation of the license(s) of Respondent.

(h) In addition to any penalties imposed by the Commissioner for Respondent's violations of the Unfair Insurance Practices Act (40 P.S. §§ 1171.1 – 1171.5), the Commissioner may, under Sections 10 and 11 of the Unfair Insurance Practices Act (40 P.S. §§ 1171.10, 1171.11) file an action in which the Commonwealth Court may impose the following civil penalties:

- (i) for each method of competition, act or practice which the company knew or should have known was in violation of the law, a penalty of not more than five thousand dollars (\$5,000.00);
- (ii) for each method of competition, act or practice which the company did not know nor reasonably should have known was in violation of the law, a penalty of not more than one thousand dollars (\$1,000.00).

ORDER

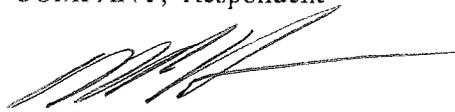
5. In accord with the above Findings of Fact and Conclusions of Law, the Insurance Department orders and Respondent consents to the following:

- (a) Respondent shall cease and desist from engaging in the activities described herein in the Findings of Fact and Conclusions of Law.
- (b) Respondent shall file an affidavit stating under oath that it will provide each of its directors, at the next scheduled directors meeting, a copy of the adopted Report and related Orders. Such affidavit shall be submitted within thirty (30) days of the date of this Order.
- (c) Respondent shall pay One Hundred and Fifty Thousand Dollars (\$150,000.00) to the Commonwealth of Pennsylvania in settlement of all violations contained in the Report.
- (d) Payment of this matter shall be made by check payable to the Commonwealth of Pennsylvania. Payment should be directed to Sharon L. Fraser, Office Manager, Bureau of Enforcement, 1227 Strawberry Square, Harrisburg, Pennsylvania 17120. Payment must be made no later than thirty (30) days after the date of this Order.

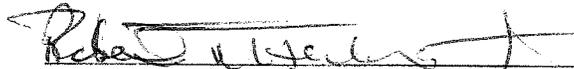
10. This Order constitutes the entire agreement of the parties with respect to the matters referred to herein, and it may not be amended or modified except by an amended order signed by all the parties hereto.

11. This Order shall be final upon execution by the Insurance Department. Only the Insurance Commissioner or a duly authorized delegee is authorized to bind the Insurance Department with respect to the settlement of the alleged violations of law contained herein, and this Consent Order is not effective until executed by the Insurance Commissioner or a duly authorized delegee.

BY: AMERICAN GENERAL LIFE INSURANCE
COMPANY, Respondent



Matthew E. Winter - President and Chief Executive Officer



Robert F. Herbert - Senior Vice President, Treasurer and
Controller



COMMONWEALTH OF PENNSYLVANIA

By: Randolph L. Rohrbaugh
Deputy Insurance Commissioner

I. INTRODUCTION

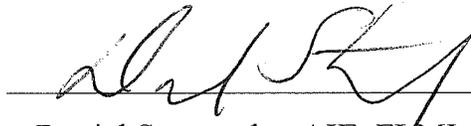
The Market Conduct Examination was conducted on American General Life Insurance Company, hereafter referred to as “Company,” at the Company’s offices located in Houston, Texas, September 25, 2006, through January 19, 2007. Subsequent review and follow-up was conducted in the office of the Pennsylvania Insurance Department.

Pennsylvania Market Conduct Examination Reports generally note only those items, to which the Department, after review, takes exception. A violation is any instance of Company activity that does not comply with an insurance statute or regulation. Violations contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referred to in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

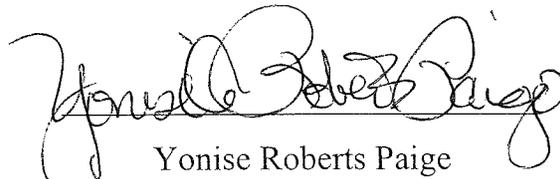
Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of violations identified during the examination and review written summaries provided on the violations found.

The courtesy and cooperation extended by the Officers and Employees of the Company during the course of the examination is acknowledged.

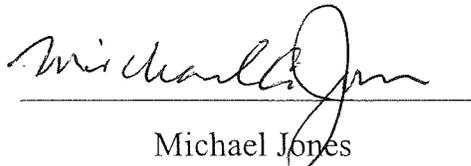
The undersigned participated in the Examination and in the preparation of this Report.



Daniel Stemcosky, AIE, FLMI
Market Conduct Division Chief



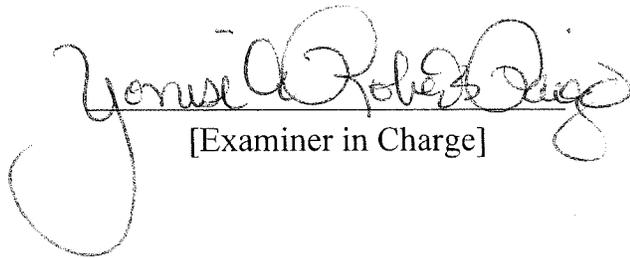
Yonise Roberts Paige
Market Conduct Examiner



Michael Jones
Market Conduct Examiner

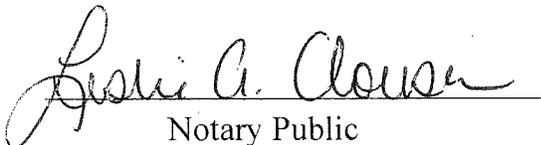
Verification

Having been duly sworn, I hereby verify that the statements made in the within document are true and correct to the best of my knowledge, information and belief. I understand that false statements made herein are subject to the penalties of 18 Pa. C.S. §4903 (relating to false swearing).


[Examiner in Charge]

Sworn to and Subscribed Before me

This 21st Day of May, 2007


Notary Public

COMMONWEALTH OF PENNSYLVANIA

NOTARIAL SEAL
LESLIE A. CLOUSER, Notary Public
City of Harrisburg, Dauphin County
My Commission Expires March 16, 2010

II. SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by Sections 903 and 904 (40 P.S. §§323.3 and 323.4) of the Insurance Department Act and covered the experience period of July 1, 2005, through June 30, 2006, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Pennsylvania insurance laws and regulations.

The examination focused on the Company's operation in areas such as: Advertising, Consumer Complaints, Forms, Producer Licensing, Underwriting Practices and Procedures, and Claim Handling Practices and Procedures.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

During the course of the examination, for control purposes, some of the review segments identified in this Report may have been broken down into various sub-categories by line of insurance or Company administration. These specific sub-categories, if not reflected individually in the Report, would be included and grouped within the respective general categories of the Examination Report.

III. COMPANY HISTORY AND LICENSING

American General Life Insurance Company was incorporated in the State of Texas on April 11, 1960, and commenced business on August 1, 1960. American General Life Insurance Company is a successor in interest to Knights Life Insurance Company of America, a Delaware company organized in 1917. In 1991, American General Life Insurance Company and California-Western States Life Insurance Company were merged into American General Life Insurance Company of Delaware. Upon the merger date, the surviving company was redomesticated to Texas and the name was changed to American General Life Insurance Company.

Due to several recent mergers of affiliated insurers into American General Life Insurance Company (“American General Life”), the Company assumed policies originally written by other companies. Effective December 31, 2002, The American Franklin Life Insurance Company (Illinois) was merged with and into The Franklin Life Insurance Company (Illinois). Concurrently, The Franklin Life Insurance Company and All American Life Insurance Company (Illinois) were merged into American General Life, with American General Life as the surviving entity. Effective March 31, 2003, The Old Line Life Insurance Company of America (Wisconsin) merged with American General Life as the surviving entity.

American General Life Insurance Company is authorized to do business in the District of Columbia, Puerto Rico, and all states except New York.

American General Life Insurance Company markets life insurance and annuity products including variable universal life, fixed universal life, whole life insurance, term life insurance, and fixed annuities as well as accident and health products.

As of their December, 2005, annual statement for Pennsylvania, American General Life Insurance Company reported direct premium for ordinary life insurance, annuities, and deposit-type contract funds in the amount of \$130,919,032; and direct premium for accident and health in the amount of \$1,006,894.

IV. ADVERTISING

The Department, in exercising its discretionary authority requested, received and reviewed the Company's Advertising Certificate of Compliance. The certification was reviewed to ensure compliance with Title 31, Pennsylvania Code, Section 51.5. Section 51.5 provides that "A company required to file an annual statement which is now or which hereafter becomes subject to this chapter shall file with the Department with its Annual Statement a Certificate of Compliance executed by an authorized officer of the company wherein it is stated that to the best of his knowledge, information and belief the advertisements which were disseminated by the company during the preceding statement year complied or were made to comply in all respects with the provisions of the insurance laws and regulations of this Commonwealth." No violations were noted.

V. FORMS

Throughout the course of the examination, all underwriting files were reviewed to identify the policy contracts, riders, endorsements and applications used in order to determine compliance with requirements of Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b), as well as provisions for various mandated benefits. Applications and claim forms were also reviewed to determine compliance with Title 18, Pa. C.S., Section 4117(k). The following violations were noted:

16 Violations - Insurance Company Law, Chapter 2, Section 354 (40 P.S. §477b)

It shall be unlawful for any insurance company, doing business in the Commonwealth of Pennsylvania, to issue, sell, or dispose of any policy, contract, or certificate, covering life insurance, or use application, riders, or endorsements, in connection therewith, until the forms have been submitted to, and formally approved by, the Insurance Commissioner.

Evidence of Department approval could not be established for the forms noted. The form type, number, the section of the exam where the violation was noted and frequency of use is listed in the table below.

Form Description	Form #	Section	Usage
Disability Application	AGLC 100348-31	Disability Policies Issued	1
Life Application	AGLC 100386-2002	Life Policies Issued	1
Term Life Application	AGLC100240 Rev0205	Term Life Policies Issued	1
Drug & Alcohol Questionnaire	AGLC0014-38	Term Life Policies Issued	1
GE Life Application Part-II	GEFA-504 PA	Term Life Policies Issued	1
Foreign Travel Questionnaire	AGLC100715	Term Life Policies Issued	1

Form Description	Form #	Section	Usage
Life Application Part-C	AGLC 8003-99	Term Life Policies Issued	1
Foreign Travel Supplemental Application	AGLC100715-MA	Individual Permanent Life Policies Issued	1
Foreign Travel Supplemental Application	AGLC100715-2005	Term Life Policies Issued as Replacements	2
Life Application	AGLC100240-39	Term Life Policies Issued as Replacements	3
GE Medical (PT B)	GEFA-504 PA	Term Life Policies Issued as Replacements	1
Life Application	AGLC100566-2003	Term Life Policies Issued as Replacements	1
Banner Medical (PT B)	LU1034 (6/02)	Term Life Policies Issued as Replacements	1

11 Violations – Title 18, Pennsylvania Consolidated Statutes, Section 4117(k)

All applications for insurance and all claim forms shall contain or have attached thereto the following notice:

“Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.” The following applications did not contain the required fraud statement at the time of application.

Form Number	Description	Section	Sample	Number of Files
AGLC 100566-PA	Life Application – Part B	4	50	1
AGLC 100566-PA	Life Application – Part B	6	100	2
AGLC 100566-PA	Life Application – Part B	8	50	1
AGLC 100566-PA	Life Application – Part B	9	50	2
AGLC 100565-PA	Life Application – Part A	10	25	5

VI. PRODUCER LICENSING

The Company was requested to provide a list of all producers active and terminated during the experience period. Section 671-A (40 P.S. §310.71) of the Insurance Department Act prohibits producers from doing business on behalf of or as a representative of any entity without a written appointment from that entity. Section 641.1-A (40 P.S. §310.41a) of the Insurance Department Act prohibits a company from accepting insurance applications or securing any insurance business through anyone acting without a license. Section 671.1-A (40 P.S. §310.71a) of the Insurance Department Act requires the Company to report all producer terminations to the Department.

The Company was requested to provide a list of all producers active and terminated during the experience period. The Company provided a list of 185 active producers and 15 terminated producers. The entire list was compared to departmental records of producers to verify appointments, terminations and licensing. In addition, a comparison was made on the agents identified as producers on applications reviewed in the policy issued sections of the exam. The following violations were noted:

28 Violations – Insurance Department Act, No. 147, Section 671-A

(40 P.S. §310.71)

- (a) Representative of the insurer. – An insurance producer shall not act on behalf of or as a representative of the insurer unless the insurance producer is appointed by the insurer. An insurance producer not acting as a representative of an insurer is not required to be appointed.
- (b) Representative of the consumer. – An insurance producer acting on behalf of or representing an insurance consumer shall execute a written agreement with the

insurance consumer prior to representing or acting on their behalf that:

- (1) Delineates the services to be provided; and
 - (2) Provides full and complete disclosure of the fee to be paid to the insurance producer by the insurance consumer.
- (c) Notification to department. – An insurer that appoints an insurance producer shall file with the department a notice of appointment. The notice shall state for which companies within the insurer’s holding company system or group the appointment is made.
- (d) Termination of appointment. – Once appointed, an insurance producer shall remain appointed by an insurer until such time as the insurer terminates the appointment in writing to the insurance producer or until the insurance producer’s license is suspended, revoked or otherwise terminated.
- (e) Appointment fee. – An appointment fee of \$12.50 will be billed annually to the insurer for each producer appointed by the insurer during the preceding calendar year regardless of the length of time the producer held the appointment with the insurer. The appointment fee may be modified by regulation.
- (f) Reporting. – An insurer shall, upon request, certify to the department the names of all licensees appointed by the insurer.

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the following 4 producers or agencies listed by the Company as active.

Agent Last	Agent First	Section
Collins	Charles J	Producer Licensing Company List
Pagovich	Ori W	Producer Licensing Company List
Martin	James A	Producer Licensing Company List
Rmin	Securities Inc	Producer Licensing Company List

The Company failed to file a notice of appointment and submit appointment fees to the Insurance Department for the following 24 producers or agencies identified as producers on applications in the underwriting sections of the exam.

Agent Last	Agent First	Section
Pike	Ken	Accident & Health Policies Issued
Speiler	Sheila	Accident & Health Policies Issued
Konczeski	Christina	Accident & Health Policies Issued
Springer	Mary	Accident & Health Policies Issued
Kearse	Sonia	Accident & Health Policies Issued
Meade	Aaron	Accident & Health Policies Issued
Kearse	Sonia	Accident & Health Policies Issued
Zuber.	Jo Carol	Accident & Health Policies Issued
Cunning	Dennis	Annuity Contracts Issued
Cobb	George	Annuity Contracts Issued
Swartz	Gary	Annuity Contracts Issued
Biege	Conrad	Annuity Contracts Issued
Zwolak	Michael T	Annuity Contracts Issued
Carman	Jeffry A.	Disability Policies Issued
Freker	Michael D	Disability Policies Issued
Hannum	David	Disability Policies Issued
Marchei	Anthony	Life Policies Issued
Papalia	Angelo M	Variable Universal Life Policies Issued
Lynch	Peter C	Variable Universal Life Policies Issued
Lynch	Peter C	Variable Universal Life Policies Issued
Seibel	David J	Term Life Policies Issued
Koresko	Lawrence M	Term Life Policies Issued
Fetzer	William R	Permanent Life Policies Issued Policies Issued
Neidrick	Robert	Term Conversions

6 Violations –Insurance Department Act, No. 147, Section 641.1-A (40 P.S. §310.41a)

(a) Any insurance entity or licensee accepting applications or orders for insurance or securing any insurance business that was sold, solicited or negotiated by any person acting without an insurance producer license shall be subject to civil penalty of no more than \$5000 per violation in accordance with this act. This section shall not prohibit an insurer from accepting an insurance application directly from a consumer or prohibit the payment or receipt of referral fees in accordance with this act.

(b) A person that violates this section commits a misdemeanor of the third degree.

The following 4 individuals/entities were listed as producers for the Company; however, Department records do not identify the individuals/entities as holding a Pennsylvania insurance license.

Agent Last	Agent First	Section
Collins	Charles J	Producer Licensing Company List
Reddinger	David L	Producer Licensing Company List
Tollin	Fred D	Producer Licensing Company List
Integrated Fin'l	Services Of P	Producer Licensing Company List

The following 2 individuals were listed as producers for the Company on application in the underwriting section of the exam; however, Department records do not identify the individuals as holding a Pennsylvania insurance license.

Agent Last	Agent First	Section
Pike	Ken	Accident & Health Policies Issued
Speiler	Sheila	Accident & Health Policies Issued

VII. CONSUMER COMPLAINTS

The Company was requested to identify all consumer complaints received during the experience period and provide copies of consumer complaint logs for 2002, 2003, 2004, and 2005. The Company identified 48 consumer complaints received during the experience period. Of the 48 complaints identified 11 were forwarded from the Department. A random sample of 25 complaint files were requested and received. Of the 25 complaint files received, one file was not within Pennsylvania's jurisdiction, one file was outside the experience period and two files were duplicates. The remaining 21 files were reviewed. The Company also provided the 2002, 2003, 2004 and 2005 complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log.

The complaint files and the 4 years of complaint logs were reviewed for compliance with the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). Section 5 (a)(11) of the Act requires maintenance of a complete record of all complaints received during the preceding four (4) years. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. Written complaint files involving claims were also reviewed for compliance with Title 31, Pennsylvania Code, Section 146.5(b) and 146.5(c), Unfair Claims Settlement Practices. No violations were noted.

VIII. UNDERWRITING

The Underwriting review was sorted and conducted in 11 general segments.

- A. Underwriting Guidelines
- B. Individual Accident and Health Policies Issued
- C. Individual Annuity Contracts Issued
- D. Individual Disability Policies Issued
- E. Individual Life Policies Issued
- F. Individual Variable Life Policies Issued
- G. Individual Term Life Policies Issued
- H. Individual Annuity Contracts Issued as Replacements
- I. Individual Permanent Life Policies Issued as Replacements
- J. Individual Term Life Policies Issued as Replacements
- K. Individual Term Life Conversions

Each segment was reviewed for compliance with underwriting practices and included forms identification and agent identification. Issues relating to forms or producer licensing appear in those respective sections of the Report and are not duplicated in the Underwriting portion of the Report.

A. Underwriting Guidelines

The Company was requested to provide all underwriting guidelines and manuals utilized during the experience period. The Company provided one manual and two guides for review. The materials were reviewed to ensure underwriting guidelines were in place and being followed in a uniform and consistent manner and no

underwriting practices or procedures were in place that could be considered discriminatory in nature, or specifically prohibited by statute or regulation. No violations were noted.

The following manuals and guides were provided and reviewed:

1. Swiss Re Life Guide Underwriting Manual (CD)
2. Underwriting Guidelines and Declination Procedures
3. Internal Control Methods for Underwriting Guidelines

B. Individual Accident and Health Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 53 individual accident and health policies issued. All 53 individual accident and health policy files were requested, received, and reviewed. Of the 53 policy files received, 3 were not-taken policies. The remaining 50 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

23 Violations - Title 31, Pennsylvania Code, Section 88.181

No policy may be delivered or issued for delivery in this Commonwealth unless an appropriate outline of coverage, as prescribed by this chapter, either accompanies the policy or contract or is delivered at the time the application is made. Verification of the date of delivery for the outline of coverage could not be established in the noted files.

C. Individual Annuity Contracts Issued

The Company identified a universe of 315 annuity contracts issued during the experience period. A random sampling of 50 annuity contracts was requested, received and reviewed. Of the 50 annuity contracts reviewed, 23 were external replacements and 5 were internal replacements. The annuity contracts were reviewed to determine compliance with issuance, and replacement statutes and regulations. The following violations were noted:

5 Violations- Title 31, Pennsylvania Code, Section 81.4 (b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. In the noted files, the replacement form was missing in three files and the replacement form was dated after the application date in two files.

2 Violations - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted files.

5 Violations - Title 31, Pennsylvania Code, Section 81.6 (a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's replacement question was not answered in the five noted files.

5 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. A surrender comparison index need not be included. In the case of an annuity, a ledger statement containing comparable data shall be provided. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. In the noted files, the ledger statement was not documented in four files, and the ledger statement was not documented with the untimely correspondence to the replaced company in one file.

3 Violations - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The noted files did not contain a copy of the required notice of replacement.

4 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be

provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of contract delivery could not be established in the noted files.

5 Violations – Insurance Company Law, Section 410E(a)(2) (40 P.S. §510d)

Individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contractholder shall be permitted to return the contract within at least forty-five (45) days of its delivery. The noted contract files did not contain the required 45 day "free look" statement.

12 Violations – Insurance Company Law, Section 410E(a)(3) (40 P.S. §510c)

Individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with an insurer or insurer group other than the one which issued the original contract or policy shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contractholder shall be permitted to return the contract within at least twenty (20) days of its delivery. The noted contract files did not contain the required 20 day "free look" statement.

D. Individual Disability Policies Issued

The Company was requested to provide a list of all policies issued during the experience period. The Company identified a list of 25 individual disability policies issued. All 25 individual disability policy files were requested, received, and reviewed. Of the 25 policy files reviewed, 4 were not within Pennsylvania's jurisdiction. The remaining 21 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The noted file did not contain a copy of the required notice of replacement.

3 Violations - Title 31, Pennsylvania Code, Section 88.182. Disclosure Statement

In the event that a policy or contract is issued on a basis other than that applied for, a disclosure statement properly describing the policy or contract must accompany the policy or contract when it is delivered and contain the following statement, in no less than 12-point type, immediately above the company name: "NOTICE: Read this outline of coverage carefully. It is not identical to the outline of coverage provided upon application and the coverage originally applied for has not been issued." The disclosure statement for a policy that was issued other than as applied for was not evident in the noted files.

E. Individual Life Policies Issued

The Company identified a universe of 745 life policies issued during the experience period. A random sampling of 50 life policy files was requested, received and reviewed. Of the 50 life policy files received, 1 policy file was a declination, 3 policy files were reviewed in the Term Conversion section of the exam, and 2 policy files were not within Pennsylvania's jurisdiction. The 44 policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation- Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The noted file did not contain a copy of the required notice of replacement.

2 Violations - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted files.

2 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not answered in the noted files.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was not documented in the noted file.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The noted file did not contain a copy of the required notice of replacement.

6 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. Evidence that a written disclosure was provided could not be established in the noted files.

5 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The required agent's certification of disclosure statement delivery was not evident in the noted files.

12 Violations – Title 31, Pennsylvania Code, Section 83.55

(a) The Surrender Comparison Index Disclosure shall be given as a separate document upon delivery of the policy or earlier if requested by the life insurance applicant. If requested earlier, the index disclosure shall be provided as soon as reasonably possible.

(b) A disclosure that is minimally satisfactory to the Insurance Department is set forth in Appendix B. If the Appendix B disclosure will be used, a letter to that effect, prior to use, is adequate notification to the Department for review prior to use. Evidence could not be established that the surrender comparison index disclosure form was delivered in the noted files.

12 Violations–Title 31, Pennsylvania Code, Sections 83.55a and 83.55b

a) The agent shall submit to the insurer a statement, signed by him, certifying that the surrender comparison index disclosure was given upon delivery of the policy or earlier at the request of the life insurance applicant.

b) The insurer shall maintain the agent's certification of surrender comparison index disclosure delivery in its appropriate files for at least 3 years or until the conclusion of the next succeeding regular examination by the insurance department of its domicile, whichever is later. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no surrender comparison index disclosure was provided to the

prospective purchaser of life insurance. The required agent's certification of the surrender comparison index disclosure delivery was not evident in the noted files.

17 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the noted files.

1 Violation– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The noted file contained alterations without the applicant's consent.

11 Violations– Insurance Company Law, Section 408-A(e)(1)(ii)

(40 P.S. §625-8)

The following applies if a basic illustration is used by a producer in the sale of a life insurance policy. If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered

with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled "Revised Illustration." The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. Evidence of the signed certification and acknowledgement of a revised illustration could not be established in the noted files.

20 Violations – Insurance Company Law, Section 408-A(e)(2)(i)

(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen is displayed. The producer shall certify in writing on a form provided by the insurer that no illustration was used in the sale of the life insurance policy. On the same form the applicant shall acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. Evidence of the signed certification and acknowledgement that no illustration was used in the sale of the life insurance policy could not be established in the noted files.

20 Violations– Insurance Company Law, Section 408-A(e)(2)(ii)

(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a computer screen illustration is displayed. Where a computer screen is used, the producer shall certify in writing on a form provided by the insurer that a computer screen illustration was displayed. Such form shall require the producer to provide, as applicable, the generic name of the policy and any riders illustrated, the guaranteed and non-guaranteed interest rates illustrated,

the number of policy years illustrated, the initial death benefit, the premium amount illustrated and the assumed number of years of premiums. On the same form, the applicant shall further acknowledge that an illustration matching that which was displayed on the computer screen will be provided no later than the time the application is provided to the insurer. A copy of this signed form shall be provided to the applicant at the time it is signed. The signed certification and acknowledgement of the use of a screen illustration in the sale of a life insurance was incomplete in the noted files.

17 Violations – Insurance Company Law, Section 408-A(e)(2)(iii)

(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer. Evidence of the signed certification and acknowledgement of the delivery of an illustration at the time of policy issuance and delivery could not be established in the noted files.

1 Violation – Insurance Company Law, Section 410D(a)(2) (40 P.S. §510c)

Individual fixed dollar life insurance or endowment policies which are offered as replacements for an existing life insurance policy or annuity contract with the same insurer or insurer group shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such policy or attached thereto a notice stating in substance that the policyholder shall be permitted to return the policy within at least forty-five (45) days of its delivery. The noted policy file did not contain the required 45 day "free look" statement.

F. Individual Variable Life Policies Issued

The Company identified a universe of 17 Variable Life Insurance Policies issued during the experience period. All 17 files were requested, received and reviewed. Of the 17 files reviewed, 3 policy files were external replacements. The policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted file.

1 Violation – Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The noted file contained alterations without the applicant's consent.

3 Violations – Insurance Company Law, Section 410D(b)(3) (40 P.S. §510c)

Individual variable life insurance policies which are offered as replacements for an existing life insurance policy or annuity contract with an insurer or insurer group other than the one which issued the original policy or contract shall not be delivered in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such policy or attached thereto a notice stating in substance that the policyholder shall be permitted to return the policy within at least twenty (20) days of its delivery. The noted policy files did not contain the required 20 day "free look" statement.

G. Individual Term Life Policies Issued

The Company identified a universe of 6,726 individual term life policies issued during the experience period. A random sample of 100 individual term life policies was requested. Of the 100 requested files, 1 policy file was determined to be not within Pennsylvania's jurisdiction. The remaining 99 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

3 Violations- Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form was missing in one noted file and the replacement form was dated after the application date in two noted files.

17 Violations - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted files.

4 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall: Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not answered in one noted file and the agent's report that contains the questions regarding replacement was not evident in three noted files.

12 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replaced company was untimely in four noted files and was not evident in eight noted files.

2 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. Evidence that a written disclosure was provided could not be established in the noted files.

10 Violations -Title 31, Pennsylvania Code, Section 83.3(a)(4)(i)

A disclosure statement shall describe the name of the agent or broker, home address or agency address and the home or agency telephone number of the insurance agent or broker making the solicitation. The disclosure statement did not contain the agent's home address, agency address, home telephone number or agency telephone number in the noted files.

69 Violations - Title 31, Pennsylvania Code, Section 83.3 (a)(5)

A disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered including information about the basic policy, rider or supplemental benefit built into the policy, such as descriptive title, as "whole life, 20 year decreasing term, endowment at age 65." and the like. The descriptive title on the disclosure statement was unclear in sixty-six noted files and three noted files contained a signed blank disclosure statement.

96 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The required agent's certification of disclosure statement delivery was not evident in the noted files.

13 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be

provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the noted files.

6 Violations– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant’s written consent. The noted files contained alterations without the applicant’s consent.

10 Violations – Insurance Company Law, Section 408-A(a)(1) (40 P.S. §625-8)

Each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those forms and whether or not an illustration will be used with them. The notification shall be provided within sixty (60) days of the effective date of this section. For life insurance policy forms approved by the department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing. One noted file contained an illustration and nine noted files contained certification of illustrations used; however, the required notification of illustration usage for the product was not filed with the Department.

H. Individual Annuity Contracts Issued as Replacements

The Company identified a universe of 102 individual annuity contracts issued as replacements during the experience period. A random sampling of 50 annuity contracts was requested, received and reviewed. Of the 50 annuity contracts reviewed, 18 were not replacements, 3 were not taken and 1 was identified as a duplicate. Of the remaining 28 annuity contracts, 5 were internal replacements and 23 were external replacements. The 28 annuity contracts were reviewed to determine compliance with issuance and replacement statutes and regulations. The following violations were noted:

3 Violations - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted files.

4 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of

establishing the date from which any applicable policy or examination period shall commence. The date of contract delivery could not be verified in the noted files.

4 Violations – Insurance Company Law, Section 410E(a)(2) (40 P.S. §510d)

Individual fixed dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contractholder shall be permitted to return the contract within at least forty-five (45) days of its delivery. The noted contract files did not contain the required 45 day "free look" statement.

1 Violation – Insurance Company Law, Section 410E(b)(2) (40 P.S. §510d)

Individual variable dollar annuity contracts which are offered as replacements for an existing annuity contract or life insurance policy with the same insurer or insurer group shall not be entered into in the Commonwealth of Pennsylvania unless they shall have prominently printed on the first page of such contract or attached thereto a notice stating in substance that the contractholder shall be permitted to return the contract within at least forty-five (45) days of its delivery. The noted contract file did not contain the required 45 day "free look" statement.

I. Individual Permanent Life Policies Issued as Replacements

The Company identified a universe of 202 individual permanent life policies issued as replacements during the experience period. A random sample of 50 individual permanent life replacement files was requested and received. Of the 50 files received, 25 files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

1 Violation - Insurance Department Act, Section 903 (40 P.S. §323.3)

(a) Every Company or person subject to examination in accordance with this act must keep all books, records, accounts, papers, documents and any or all computer or other recordings relating to its property, assets, business and affairs in such manner and for such time periods as the department, at its discretion, may require in order that its authorized representatives may readily ascertain whether the Company or person has complied with the laws of this Commonwealth. The noted file was missing part 2 of the application.

2 Violations - Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities described in Appendix A (relating to notice regarding replacement of life insurance and annuities), or other substantially similar form filed and accepted prior to use by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and left with the applicant. The replacement form was missing in one noted file and the agent's signature was missing in one noted file.

1 Violation - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted file.

3 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall:
Require with or as part of a completed application for life insurance or annuity a

statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not answered in the noted files.

25 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by § 83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replacement company was untimely in 15 files noted, the ledger statement was not evident in 8 files noted and 2 files did not contain the replacement letter and ledger statement.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The noted file did not contain a copy of the required notice of replacement.

9 Violations – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. Evidence that a written disclosure was provided could not be established in the noted files.

9 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of life insurance. The required agent's certification of disclosure statement delivery was not evident in the noted files.

1 Violation -Title 31, Pennsylvania Code, Section 83.3 (a)(1)(2)(3)(4)(5)(6)(7)

A disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered. The disclosure statement in the noted file was incomplete.

1 Violation -Title 31, Pennsylvania Code, Section 90c.5(m)(1)(2)

Underwriting questions.

(m) Medical exam report. When using another company's medical exam report the following apply: (1) The report is provided to the new company only by the applicant or with specific authorization in writing from the applicant. (2) The new application that incorporates the other company's medical exam report provides for the applicant to state that the medical condition as stated in the medical exam report is unchanged only if the applicant has a copy of the report. The applicant's statement, "the medical condition as stated in the medical exam report is

unchanged” was not evident in the noted file. And, evidence could not be established that the applicant presented the Guardian medical exam report to the Company in the noted file.

2 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the noted files.

4 Violations— Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant’s written consent. The noted files contained alterations without the applicant’s consent.

4 Violations – Insurance Company Law, Section 408-A(e)(1)(i)

(40 P.S. §625-8)

If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. Evidence of the signed certification and acknowledgement of the illustration as applied for could not be established in the noted files.

9 Violations– Insurance Company Law, Section 408-A(e)(1)(ii)

(40 P.S. §625-8)

If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. Evidence of the signed certification and acknowledgement of a revised illustration could not be established in the noted files.

3 Violations – Insurance Company Law, Section 408A(e)(3)(i) (40 P.S. §625-8)

The producer shall certify in writing on a form provided by the insurer that the policy applied for is other than as illustrated. On the same form the applicant shall acknowledge that the policy applied for is other than as illustrated and shall further acknowledge an understanding that an illustration conforming to the policy as issued will be provided no later than at the time of policy delivery. This form shall

be submitted to the insurer as soon as practical after the application is signed by the applicant. Evidence of the signed certification and acknowledgement of the policy applied for as other than as illustrated could not be established in the noted files.

J. Individual Term Life Policies Issued as Replacements

The Company identified a universe of 2,029 individual term life policies issued as replacements during the experience period. A random sampling of 50 individual term life replacement files was requested, received and reviewed. Of the 50 life replacement policy files reviewed, 1 was not a replacement policy file. The remaining 49 replacement policy files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations. The following violations were noted:

6 Violations- Title 31, Pennsylvania Code, Section 81.4(b)(1)

If replacement is involved, the agent or broker shall: present to the applicant, not later than at the time of taking the application, a Notice Regarding Replacement of Life Insurance and Annuities. The replacement form was missing in three noted files and the replace form was dated after the application date in three noted files.

4 Violations - Title 31, Pennsylvania Code, Section 81.5(b)

The insurer shall require as part of a completed application for life insurance or annuity a statement signed by the applicant as to whether the proposed insurance or annuity will replace existing life insurance or annuity. The applicant's replacement question was not answered in the noted files.

4 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(1)

An insurer that uses an agent or broker in a life insurance or annuity sale shall:
Require with or as part of a completed application for life insurance or annuity a statement signed by the agent or broker as to whether the broker knows replacement is or may be involved in the transaction. The agent's question on replacement was not answered in the noted files.

30 Violations - Title 31, Pennsylvania Code, Section 81.6(a)(2)(ii)

An insurer that uses an agent or broker in a life insurance or annuity sale shall, if replacement is involved: Send to each existing insurer a written communication advising of the replacement or proposed replacement and the identification information obtained under subparagraph (I) and in the case of life insurance, the disclosure statement as required by §83.3 (relating to disclosure statement) or ledger statement containing comparable policy data on the proposed life insurance. This written communication shall be made within 5 working days of the date the application is received in the replacing insurer's home or regional office, or the date the proposed policy or contract is issued, whichever is sooner. The replacement letter to the replacement company was untimely in twelve noted files and eighteen noted files did not contain the replacement letter.

1 Violation - Title 31, Pennsylvania Code, Section 81.6(c)

The replacing insurer shall maintain evidence of the Notice Regarding Replacement of Life Insurance and Annuities. The noted file did not contain a copy of the required notice of replacement.

1 Violation – Title 31, Pennsylvania Code, Section 83.3 Disclosure Statement

(a) Required written disclosure. A life insurance agent, broker or insurer soliciting the type of business to which this subchapter applies shall provide a prospective

purchaser with a written disclosure statement clearly labeled as such. An acceptable disclosure statement is attached as Appendix A. Evidence that a written disclosure was provided could not be established in the noted file.

6 Violations - Title 31, Pennsylvania Code, Section 83.3(a)(4)(i)

A disclosure statement shall describe the name of the agent or broker, home address or agency address and the home or agency telephone number of the insurance agent or broker making the solicitation. The disclosure statement did not contain the agent's home address, agency address, home telephone number or agency telephone number in the noted files.

34 Violations - Title 31, Pennsylvania Code, Section 83.3 (a)(5)

A disclosure statement shall be a document which shall describe the purpose and importance of the disclosure and describe the significant elements of the policy and riders being offered including information about the basic policy, rider or supplemental benefit built into the policy, such as descriptive title, as "whole life, 20 year decreasing term, endowment at age 65." and the like. The descriptive title on the disclosure statement was unclear in the noted files.

49 Violations - Title 31, Pennsylvania Code, Section 83.4a and Section 83.4b

(a) The agent shall submit to the insurer with or as a part of the application for life insurance a statement, signed by him, certifying that the written disclosure statement was given no later than the time that the application was signed by the applicant.

(b) The insurer shall maintain the agent's certification of disclosure statement delivery in its appropriate files for at least three years. The absence of the agent's certification from the appropriate files of the insurer shall constitute prima facie evidence that no disclosure statement was provided to the prospective purchaser of

life insurance. The required agent's certification of disclosure statement delivery was not evident in the noted files.

15 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the individual policy or annuity is delivered to the policyholder by the producer by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer. When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the noted files.

7 Violations– Insurance Company Law, Section 406-A (40 P.S. §625-6)

No alteration of any written application for a life insurance policy or annuity shall be made by any person other than the applicant without the applicant's written consent. The noted files contained alterations without the applicant's consent.

16 Violations – Insurance Company Law, Section 408-A(a)(1) (40 P.S. §625-8)

Each insurer marketing policies to which this act is applicable shall notify the commissioner whether a life insurance policy form is to be marketed with or without an illustration. For all life insurance policy forms being actively marketed on the effective date of this section, the insurer shall identify in writing those

forms and whether or not an illustration will be used with them. The notification shall be provided within sixty (60) days of the effective date of this section. For life insurance policy forms approved by the department but not being actively marketed on the effective date of this section, the identification shall be made on or before the time the life insurance policy form is actively marketed. For life insurance policy forms filed with the commissioner after the effective date of this section, the identification shall be made at the time of filing. The required notification of illustration usage for the product was not filed with the Department.

K. Individual Term Life Conversions

The Company identified a universe of 65 individual term life conversion policies issued during the experience period. A random sampling of 25 term life conversion files was requested. All 25 files were requested, received and reviewed. Additionally, 3 term conversion files were added to this section from Section 4, Individual Life Policies Issued. The 28 files were reviewed to determine compliance to issuance and underwriting statutes and regulations. The following violations were noted:

7 Violations - Insurance Company Law, Section 404-A (40 P.S. §625-4)

When the producer delivers the individual policy or annuity to the policyholder by hand, a delivery receipt shall be used. This receipt must be in at least a duplicate set and state the date the policy or annuity was received by the policyholder. The receipt date shall be the date on which the policyholder and producer sign the delivery receipt, and such date shall commence any applicable policy or annuity examination period. Copies of the delivery receipt must be provided to the policyholder on the date of policy or annuity delivery and to the issuing insurer.

When the individual policy or annuity is delivered by a means other than by hand delivery by the producer, the insurer shall establish appropriate means of verifying delivery by the producer of the policy or annuity and of establishing the date from which any applicable policy or examination period shall commence. Verification of the date of policy delivery could not be established in the noted files.

2 Violations – Insurance Company Law, Section 408-A (e)(1)(i)

(40 P.S. §625-8)

If the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this section, shall be submitted to the insurer no later than the time the policy application is sent to the insurer. A copy shall also be provided to the applicant no later than the time the application is signed by the applicant. Evidence of the signed certification and acknowledgement of the illustration could not be established in the noted files.

3 Violations– Insurance Company Law, Section 408-A (e)(1)(ii)

(40 P.S. §625-8)

If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be mailed or delivered with the policy. The revised illustration shall conform to the requirements for basic illustrations contained in this act and shall be labeled “Revised Illustration.” The statement required by subsection (c)(4) shall be signed and dated by the policy owner and producer no later than the time the policy is delivered. A copy shall be provided to the policy owner no later than the time the policy is delivered and to the insurer as soon as practical after the policy is delivered. Evidence of the signed certification and acknowledgement of a revised illustration could not be established in the noted files.

1 Violation – Insurance Company Law, Section 408-A(e)(2)(iii)

(40 P.S. §625-8)

The following applies if no illustration is used by a producer in the sale of a life insurance policy or if a screen illustration is displayed. If the policy is issued, a basic illustration conforming to the policy as issued shall be sent with the policy and signed by the policy owner no later than the time the policy is delivered. A copy shall be provided to the policy owner at the time the policy is delivered and to the insurer. Evidence of the signed certification and acknowledgement that no illustration was used in the sale of a life insurance could not be established in the noted files.

IX. INTERNAL AUDIT AND COMPLIANCE PROCEDURES

The Company was requested to provide copies of their internal audit and compliance procedures. The audits and procedures were reviewed to ensure compliance with Insurance Company Law, Section 405-A (40 P.S. §625-5). Section 405-A provides for the establishment and maintenance of internal audit and compliance procedures, which provides for the evaluation of compliance with all statutes and regulations dealing with sales methods, advertising, and filing and approval requirements for life insurance and annuities. The procedures shall also provide for the following:

- (1) Periodic reviews of consumer complaints in order to determine patterns of improper practices.
- (2) Regular reporting to senior officers and the board of directors or an appropriate committee thereof with respect to any significant findings.
- (3) The establishment of lines of communication, control and responsibility over the dissemination of advertising and promotional materials, including illustrations and illustration explanations, with the requirement that such materials shall not be used without the approval by company employees whose compensation, other than generally applicable company bonus or incentive plans, is not directly linked to marketing or sales.

No violations were noted.

Below is a list of items presented by the Company:

1. 2004 IMSA Independent Assessment Supplemental Report
2. Complaint Handling Procedures for Consumer Affairs Individual Life Complaints
3. Business Policy 6266 – Approval of Advertising and Sales Material

4. Field Bulletins – “Reminder of Company Policy: Approval and Use of Producer Generated Sales Material”
5. American General Compliance Manual
6. AIG - Internal Audit Division Global Methodology Manual
7. Fourteen (14) Internal Audit Report Memos representing areas of examination

X. CLAIMS

The claims review consisted of a review of the Company's claim manuals and a review of the claim files. The Company was requested to provide copies of all procedural guidelines including all manuals, memorandums, directives and any correspondence or instructions used for processing claims during the experience period. The Company provided the following claim manual:

1. Manual (Unnamed) containing Claims Processing Procedures

The claim manuals and procedures were reviewed for any inconsistencies, which could be considered discriminatory, specifically prohibited by statute or regulation, or unusual in nature. No violations were noted.

The Claim file review consisted of 3 areas:

- A. Individual Disability Claims
- B. Individual Life Claims
- C. Individual Medical Claims

All claim files sampled were reviewed for compliance with requirements of the Unfair Insurance Practices Act, No. 205 (40 P.S. §1171). The insured submitted claims were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices and the provider submitted claims were reviewed for compliance with Insurance Company Law, Section 2166 (40 P.S. §991.2166), Prompt Payment of Provider Claims. The life claims were additionally reviewed for compliance with Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b).

A. Individual Disability Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 4 individual disability claims. All 4 claim files were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

3 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 3 claims noted.

3 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the insurer shall advise the first-party claimant of the acceptance or denial of the claim. The Company failed to provide notice of acceptance or denial within 15 working days for the 3 claims noted.

B. Individual Life Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified 546 individual life claims received. A random sample of 100 individual life claims were requested, received and

reviewed. Of the 100 life claim files requested, 1 file was determined to be a group life claim file. Of the remaining 99 claim files, 21 claim files were determined to contain multiple beneficiaries. The 99 life claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146 and Insurance Company Law, Section 411B, Payment of Interest (40 P.S. §511b). The following violations were noted:

8 Violations – Title 31, Pennsylvania Code, Section 146.3

The claim files of the insurer shall be subject to examination by the Commissioner or by his appointed designees. The files shall contain notes and work papers pertaining to the claim in the detail that pertinent events and the dates of the events can be reconstructed. One noted claim file was missing the claim report date and seven noted claim files were missing both claim report date and an acknowledgement letter.

5 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period of time. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 5 claims noted within 10 working days.

51 Violations - Title 31, Pennsylvania Code, Section 146.6

Every insurer shall complete investigation of a claim within 30 days after notification of a claim, unless the investigation cannot reasonably be completed within the time. If the investigation cannot be completed within 30 days, and every 45 days thereafter, the insurer shall provide the claimant with a reasonable

written explanation for the delay and state when a decision on the claim may be expected. The Company failed to provide timely status letters for the 51 claims noted.

8 Violations- Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the first- party claimant shall be advised of the acceptance or denial of the claim by the insurer. The Company failed to provide notice of acceptance or denial with 15 working days for the 8 claims noted.

C. Individual Medical Claims

The Company was requested to provide a list of claims received during the experience period. The Company identified a universe of 4 medical claims. All 4 medical claims were requested, received and reviewed. The claim files were reviewed for compliance with Title 31, Pennsylvania Code, Chapter 146. The following violations were noted:

2 Violations - Title 31, Pennsylvania Code, Section 146.5

Every insurer, upon receiving notification of a claim, shall within ten working days, acknowledge the receipt of such notice unless payment is made within such period. If an acknowledgement is made by means other than writing, an appropriate notation of such acknowledgment shall be made in the claim file of the insurer and dated. The Company failed to acknowledge the 2 claims noted within 10 working days.

3 Violations - Title 31, Pennsylvania Code, Section 146.7

Within 15 working days after receipt by the insurer of properly executed proofs of loss, the insurer shall advise the first-party claimant of the acceptance or denial of the claim. The Company failed to provide notice of acceptance or denial within 15 working days for the 3 claims noted.

XI. RECOMMENDATIONS

The recommendations made below identify corrective measures the Department finds necessary as a result of the number of some violations, or the nature and severity of other violations, noted in the Report.

1. The Company must implement procedures to ensure compliance with the fraud statement notice requirements of Title 18, Pennsylvania Consolidated Statutes Section 4117(k).
2. The Company must review and revise internal control procedures to ensure compliance with requirements of Title 31, Pennsylvania Code, Chapter 146, Unfair Claims Settlement Practices.
3. The Company must review and revise Licensing procedures to ensure compliance with Sections 641.1-A, Section 671-A and Section 671.1-A of the Insurance Department Act of 1921 (40 P.S. §§310.41a, 310.71 and 310.71a).
4. The Company must review and revise procedures to ensure all books, records, accounts, papers, documents and any or all computer or other recordings relating to the property, assets, business and affairs of the Company are maintained in such manner and for such period of time to ensure compliance with Section 903(a) of the Insurance Department Act of 1921 (40 P.S. §323.3).
5. The Company must review and revise internal control procedures to ensure compliance with the replacement requirements of Title 31, Pennsylvania Code, Chapter 81.
6. Deleted
7. The Company must review internal control procedures to ensure compliance with disclosure requirements of Title 31, Pennsylvania Code, Chapter 83.

8. The Company must review internal control procedures to ensure compliance with application and outline of coverage requirements of Title 31, Pennsylvania Code, Chapter 88.
9. The Company must review internal control procedures to ensure compliance with forms filing and approval requirements of Section 354 of the Insurance Company Law of 1921 (40 P.S. §477b).
10. The Company must implement procedures to ensure compliance with the policy delivery receipt requirements of Section 404-A of the Insurance Company Law of 1921 (40 P.S. §625-4).
11. The Company must review internal control procedures to ensure compliance with application alteration requirements of Section 406-A of the Insurance Company Law of 1921 (40 P.S. §625-6).
12. The Company must review internal control procedures to ensure compliance with illustration certification and delivery requirements of Section 408-A of the Insurance Company Law of 1921 (40 P.S. §625-8).
13. Deleted
14. The Company must review internal control procedures to ensure compliance with Section 410D of the Insurance Company Law of 1921 (40 P.S. §510c) pertaining to the “Free Look” provision requirements for life insurance and endowment insurance.
15. The Company must review internal control procedures to ensure compliance with Section 410E of the Insurance Company Law of 1921 (40 P.S. §510d) pertaining to the “Free Look” provision requirements for annuity and pure endowment contracts.
16. The Company must review underwriting procedures to insure compliance with application requirements of Title 31, Pennsylvania Code, Chapter 90c.5(m)(1)(2) when using a Medical Exam Report from another Company.

XII. COMPANY RESPONSE



AMERICAN GENERAL

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June 22, 2007

Daniel A. Stemcosky, AIE, FLMI
Market Conduct Division Chief
Commonwealth of Pennsylvania Insurance Department
Bureau of Enforcement
1321 Strawberry Square
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RE: Report of Examination of American General Life Insurance Company covering a period of July 1, 2005 through June 30, 2006, as of the close of business on May 24, 2007. Examination Warrant # 06-M26-016

Dear Mr. Stemcosky:

American General Life Insurance Company (AGL) accepts the above-referenced Report, except with regard to items 6 and 13 mentioned in the Recommendations section on page 55, to which we respectfully disagree.

Our responses to all of the Department's recommendations, including our corrective action plans (CAP), are presented below. It is our belief that the fulfillment of each CAP appropriately addresses and provides resolution to the issues raised by the examination and demonstrates our desire to be fully compliant with the Commonwealth's regulatory requirements.

Prior to your review of our responses and CAPs, we would like to remind the Department that during the examination AGL provided the examiner with its procedures relative to fraud notification, claim practices, replacement, policy delivery receipt, outline of coverage, illustration certification and delivery requirements, forms filing and approval, and underwriting practices. Our procedures were found to be in compliance with Pennsylvania regulations; however, inattention to procedures by employees contributed, in large part, to the violations discovered during the examination.

AGL's RESPONSES TO THE DEPARTMENT'S RECOMMENDATIONS

1. Fraud Statement Notice requirement, Title 18, PA Consolidated Statutes Section 4117(k)

Corrective Action Plan: The Company (1) reviewed its internal procedures and external (field) requirements, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who accepted the submission of Life Application Part A without Life Application Part B. [Note: These two forms were filed with and approved by the Commonwealth to be used together. Only Part B contains the Fraud Statement.] To correct the deficiency the Company is executing, documenting and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

2. Unfair Claim Settlement Practices, Title 31, PA Code, Chapter 146

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who process individual claims. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process individual claims to ensure compliance with these procedures.

3. Licensing and Contracting Practices requirement, Sections 641.1-A, 671-A, and 671.1-A of the Insurance Department Act of 1921 (40 P.S. 310.41a, 310.71, and 310.71a)

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees, including employees and enrollers working in the Employee Benefit Solutions (EBS) Individual Worksite Division who process agent licensing and contracting. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for employees and enrollers who process agent licensing and contracting to ensure compliance with these procedures.

4. Record Maintenance requirement, Section 903(a) of Insurance Department Act of 1921 (40 P.S. 323.3)

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of various required forms.

Consequently, the absence of these forms resulted in non-compliance with record retention requirements. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

5. Replacement requirement, Title 31, PA Code, Chapter 81.

Corrective Action Plan: The Company (1) reviewed its internal procedures and external (field) requirements, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of correctly completed replacement applications and/or notices. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process replacement applications to ensure compliance with these procedures.

6. Variable Life Insurance Suitability requirement, Title 31, PA Code, Chapter 82.

The Company respectfully (1) submits that no violations of this regulation were reported to the Company during the performance of the examination, and (2) requests that the Department review its examination findings and provide the Company confirmation as to whether such violations were discovered and reported to the Company.

7. Disclosure Statement requirement, Title 31, PA Code, Chapter 83.

Corrective Action Plan: The Company reviewed its internal procedures and external (field) requirements and discovered that its Disclosure Statements used in the Commonwealth were not compliant with Disclosure Statement (Appendix A) set forth in Chapter 83.3, or with Surrender Comparison Index Disclosure Statement (Appendix B) set forth in Chapter 83.55. The Company also determined that it was not in compliance with Section 83.3 which defines acceptable product descriptions written on Disclosure Statements. To correct the deficiency the Company is producing new, compliant Disclosure Statements, and executing, documenting, and monitoring employee training on Disclosure Statement processing. Additionally, the Company is publishing a Field Bulletin notifying its agents of their responsibility concerning Disclosure Statements.

8. Outline of Coverage requirement, Title 31, PA Code, and Chapter 88.

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the

violations occurred largely as a result of inattention by Company employees and enrollers working with the Employee Benefit Solutions (EBS) Individual Worksite Division who did not obtain or follow up on the receipt of outlines of coverage. To correct the deficiency the Company is executing, documenting and monitoring employee and enroller training to ensure compliance with these procedures.

9. Forms Filing and Approval requirement, Section 354 of the Insurance Company Law of 1921 (40 P.S. 477b).

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of current, Pennsylvania-specific forms. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

10. Policy Delivery Receipt requirement, Section 404-A of the Insurance Company Law of 1921 (40 P.S. 625-4).

Corrective Action Plan: The Company (1) reviewed its internal procedures, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of correctly completed Policy Delivery Receipts, especially on mail-delivered policies. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

11. Application Alteration requirement, Section 406-A of the Insurance Company Law of 1921 (40 P.S. 625-6).

Corrective Action Plan: The Company (1) reviewed its internal procedures and external (field) requirements, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of the applicant's initials and date on application alterations. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

12. Illustration Certification and Delivery requirements, Section 408-A of the Insurance Company Law of 1921 (40 P.S. 625-8).

Corrective Action Plan: The Company (1) reviewed its internal procedures and external (field) requirements, (2) found that its procedural controls conform to these requirements, and (3) determined that the violations occurred largely as a result of inattention by Company employees who did not obtain or follow up on the receipt of correctly completed Illustration Acknowledgement forms. To correct the deficiency the Company is executing, documenting, and monitoring remedial training for its employees who process applications to ensure compliance with these procedures.

13. Replacement requirement, Section 409-A of the Insurance Company Law of 1921 (40 P.S. 625-9)

The Company respectfully (1) submits that no violations of this regulation were reported to the Company during the performance of the examination, and (2) requests that the Department review its examination findings and provide the Company confirmation as to whether such violations were discovered and reported to the Company.

14. & 15 Free Look Provision requirements, Sections 410D and 410E of the Insurance Company Law of 1921 (40 P.S. 510c and 510d).

Corrective Action Plan: The Company reviewed its internal procedures and found that although its procedural controls conforming to these requirements were in place, they had not been completely implemented through Company automated systems. To correct the deficiency the Company is implementing and monitoring Free Look Provision requirements to ensure compliance with these procedures.

16. Underwriting Application Procedure requirement, Title 31, PA Code, Chapter 90c.5 (m) (1) (2), when using Medical Exam Report from another Company.

Corrective Action Plan: The Company (1) reviewed its internal procedures (2) found that its procedural controls conform to these requirements, and (3) determined that this violation occurred as a result of inattention by Company employees who accepted one Medical Exam Report from another company. To correct the deficiency the Company is executing, documenting and monitoring remedial training for its employees who process medical exam reports to ensure compliance with these procedures.

At the end of this year, the Compliance Department's Operational Audit Unit will assess the proper execution and maintenance of each CAP to ensure continued compliance with procedures.

Please contact me should you have any questions about this letter.

Sincerely,

A handwritten signature in black ink that reads "Wilma J. Heineman". The signature is fluid and cursive, with a large initial 'W' and 'H'.

Wilma J. Heineman, F.L.M., ACS, AIRC
Market Conduct Examination Coordinator
AIG American General Domestic Life Operations

Cc:

Lizbeth Aaron-DiGiovanni

Timothy Bolden

Julie Cotton-Hearne

Kim DeGennaro

Kyle Jennings

Ron Karas

Elisa Lam

Sally Murphy

Deanna Osmonson