

Market Conduct Examination

American General Life
Insurance Company

Houston, Texas

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND
INSURANCE
Division of Enforcement and Consumer Protection

Market Conduct Examination Section

Report Adopted: June 18, 2008

MARKET CONDUCT EXAMINATION
of the
American General Life Insurance Company

located in
Houston, Texas
as of
January 11, 2008

BY EXAMINERS
of the
STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF ENFORCEMENT AND CONSUMER PROTECTION
MARKET CONDUCT EXAMINATION AND ANTI-FRAUD COMPLIANCE SECTION

REPORT FILED: June 18, 2008

Table of Contents

I. INTRODUCTION	1
A. SCOPE OF EXAMINATION	1
B. COMPANY PROFILE	1
II. REPLACEMENT FILE REVIEW	3
A. INTRODUCTION	3
B. EXAMINER'S FINDINGS	4
C. DATABASE ANALYSIS	5
D. SUMMARY	7
VERIFICATION PAGE	8

I. INTRODUCTION

A. SCOPE OF EXAMINATION

This is a report of the Market Conduct activities of the American General Life Insurance Company (hereinafter referred to as American General or the Company). In this report, an examiner of the New Jersey Department of Banking and Insurance (NJDOBI) presents findings and conclusions as a result of the examination. The Market Conduct Examiner was Marleen J. Sheridan.

This examination was a follow-up to the American General examination of 2004. The scope of the examination included life insurance sold by the Company in New Jersey. The examiner evaluated American General's compliance with the regulations and statutes pertaining to replacement of life insurance policies. The review period for the examination was January 1, 2006 to the present. The examiner conducted the review at the Trenton, New Jersey office between October 26, 2007 and January 10, 2008.

The examiner reviewed records from computer listings and documents provided by the Company. The examiner used the National Association of Insurance Commissioner's (NAIC) Market Conduct Handbook, Chapter XV– Conducting the Life and Annuity Examination as a guide to examine the Company and write this report.

B. COMPANY PROFILE

American General Life Insurance Company is an indirect, wholly owned subsidiary of American International Group, Inc. American International Group, Inc.'s operating subsidiaries provide life and property/casualty insurance, retirement services, investment management, and financial products to institutional, corporate and retail customers.

The 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 re-domesticated to Texas and the name was changed to American General Life Insurance Company.

American General Life is licensed in all states except New York. Approximately 33,000 independent agents distribute its products, which mainly include variable, universal and term life, corporate-owned life insurance, structured settlements, and both variable and fixed annuities. In addition to its independent agents, the company also distributes its products through mass marketing efforts.

II. REPLACEMENT FILE REVIEW

A. INTRODUCTION

N.J.A.C. 11:4-2 et seq. addresses the actions of replacing insurers, their agents and existing insurers with respect to the replacement of existing insurance, both within the same company and between two different companies. In addition, it protects the interests of life insurance policyholders by establishing minimum standards of conduct governing agents and insurers. Compliance with this regulation reduces the opportunity for agent misrepresentation by assuring that the policyholder receives information to make informed decisions.

N.J.A.C. 11:4-2.2 defines Replacement “as a transaction in which a new policy or contract is to be purchased, and is known or should be known to the proposing producer, or to the proposing insurer if there is no producer, that by reason of the transaction, an existing policy has been or is to be:

1. Lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated;
2. Converted to reduced paid-up insurance, continued on extended term insurance, or otherwise reduced in value by the use of non-forfeiture benefits or other policy values;
3. Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;
4. Reissued with any reduction in cash value; or
5. Used in a financed purchase.

N.J.A.C. 11:4-2.2 defines Financed Purchase as the purchase of a new policy involving the use of funds obtained by the withdrawal or surrender of, or by borrowing from values of an existing policy to pay premiums on a new policy owned by the same policyholder and issued by the same company four months before and 13 months after the effective date of the new policy.

The primary focus of this examination was a population review of the replacement activities of American General Life Insurance Company. The examiner placed emphasis on the Company’s ability to recognize and identify as replacements, all policy loans defined as a financed purchase.

The Company provided the examiner with a database that contained 2,784 replacement policies that the Company wrote between January 1, 2006 and September 30, 2007. In addition, the Company provided the examiner with a policy disbursement database. This database indicated the nature of each disbursement. It included the following transactions: combination loan and dividends, policy surrenders, surrender of paid up additions, withdrawal of dividends, policy loans and withdrawal from universal or variable life policies. The examiner reviewed the disbursement and replacement databases to verify that American General implemented systematic measures to detect which replacement policies are financed purchases.

B. EXAMINER'S FINDINGS

During the 2004 examination, American General's replacement detection system did not include a method for monitoring or detecting replacements that occur as a result of a financed purchase. The examiner cited the Company for failure to identify policy loans which the insured used to finance a new policy. At that time American General did not have the technical ability to comply with the examiner's recommendation to implement systematic measures to recognize policy loans defined as financed purchases.

The examiner's current review indicates American General now has systems in place that recognize disbursements from existing policies that the insured will use to finance another policy. If an insured requests a disbursement from an existing policy, the Company documents the transaction in an automatic work distributor imaging system. Processors of new applications can refer to this information when an insured submits an application.

American General has another computer system where the processing unit enters new application information. This unit verifies that consumers answered all questions regarding existing coverage on their application for insurance. This unit also confirms that the agent's report is completed and consistent with answers on the application regarding replacement questions. Additionally, the information on the replacement form must be consistent with the application and the replacement form must include the applicant's and agent's signatures. The new application processors can crosscheck this information with the automatic work distributor imaging system. The application for life insurance cannot continue in the underwriting process if there is an inconsistency in the answers to the replacement questions.

If an applicant has an existing policy and the agent does not disclose that the existing policy will be replaced or used to finance a new policy, the New Business Department contacts the agent to verify if a

financed purchase is involved. If the transaction is a financed purchase the Company requires the agent to submit a new application and replacement notice. The Company documents the systems to indicate that a revised completed application and a replacement form are required before continuing with the underwriting process.

After American General issues a policy, the Company sends a survey to the insured. The survey includes questions designed to reveal previously undisclosed replacement activity. The consumer is required to disclose the source of funds they are using to pay premiums on the new policy and whether they reduced, discontinued or took a loan from existing policies. When the Company's Compliance Quality Assurance department receives survey responses, the unit conducts additional research and policy review to verify if a replacement occurred.

C. DATABASE ANALYSIS

The examiner requested from American General a policy transaction database for the period January 1, 2006 through September 30, 2007. The examiner requested specific information regarding new business that occurred in households with existing American General policies as well as households without any existing American General products. In addition, the Company provided the examiner with databases that included disbursement records from households with multiple American General policies and the Company's replacement records.

For all policies the Company provided the following information: the insured's name, policy number, premium, face amount, billing mode, effective date, name of agent, marketing information and the current status of any policies in the household. The examiner was particularly interested in the Company's systems for monitoring replacement transactions and the Company's ability to identify funds from existing policies to finance a new policy.

The examiner developed a series of computer queries to obtain certain information from the aforementioned databases. These queries provided the examiner with the following information:

1. Total New Jersey policies in force during review period is 118,534 as follows:

<u>In Force Category</u>	<u>Number of Policies</u>	<u>Percent of Total</u>
Unmatched (one policy per household)	112,596	95%
Matched (more than one per household)	<u>5,938</u>	5%
Total in force	118,534	100%

2. New policies issued in New Jersey during the review period is 16,947 as follows:

<u>In Force Category</u>	<u>Number of Policies</u>	<u>Percent of Total</u>
Unmatched (one policy per household)	15,530	92%
Matched (more than one per household)	<u>1,417</u>	8%
Total New	16,947	100%

3. Matched policies with disbursements is 417 as follows:

<u>Type of Transaction</u>	<u>Number of Policies</u>	<u>Percent of Total</u>
Policy Surrender	126	30%
Policy Loan	92	22%
Dividend Withdrawal	77	19%
Withdrawal Univ/Var Life	101	24%
Surrender of Paid up Add'l	<u>21</u>	<u>5%</u>
Total Disbursements	417	100%

4. Total policy replacements is 2,784 as follows:

<u>Type of Replacement</u>	<u>Number of Policies</u>	<u>Percent of Total</u>
External replacements	2,518	90%
Internal replacements	<u>266</u>	10%
Total	2,784	100%

Based on the statistics presented above, 95% of American General's book of business is comprised of one policy households (unmatched business), and only 5% of its book of business consists of two or more policies per household (matched business). The examiner noted that the distribution of American General's matched and unmatched new business for the review period is similar to that of the overall in-force book of business: 92% of the company's new business was unmatched, while 8%

of the new business was matched.

The examiner also noted that replacements accounted for 16% ($2,784/16,947=16\%$) of all new business written during the review period. Of these, internal replacements accounted for only <2% ($266/16,947=1.5\%$) of all new policies, and external replacements accounted for only 15% ($2,518/16,947=15\%$). Based on the databases provided by the company, the examiner found no indication of excessive internal or external replacement activity.

D. SUMMARY

Based on information provide by the Company, American General has computer systems that attempt to verify if a new policy is a replacement, including financed purchases, for an existing policy. Employees can cross-reference these systems so that all indicators that a replacement has taken place are detected. The Company's applications for life insurance ask pertinent questions regarding existing policies and the funding of new policies. If the applicant does not answer these questions, the Company sends the application back to the agent for completion. Additionally, the follow-up survey that the Company sends the insureds of newly issued policies asks relevant questions regarding the funding of new policies.

VERIFICATION PAGE

I, Marleen Sheridan, am the Examiner-in-Charge of the Market Conduct Examination of American General Life Insurance Company conducted by examiners of the New Jersey Department of Banking and Insurance. This verification is based on my personal knowledge as acquired in my official capacity.

The findings, conclusions and recommendations contained in the foregoing report represent, to the best of my knowledge, a full and true statement of the Market Conduct examination of American General Life Insurance Company as of January 11, 2008.

I certify that the foregoing statements are true. I am aware that if any of the foregoing statements made by me is willfully false, I am subject to punishment.

Date

Marleen Sheridan
Examiner-In-Charge
New Jersey Department
of Banking and Insurance