

**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

In Re:)
)
AMERICAN GENERAL LIFE) **Market Conduct Exam No. 1012-18-TGT**
INSURANCE COMPANY)
(NAIC # 60488))
)

ORDER OF THE DIRECTOR

NOW, on this 22 day of October, 2014, Director John M. Huff, after consideration and review of the market conduct examination report of American General Life Insurance Company (NAIC #60488) (hereafter referred to as “American General”), report number 1012-18-TGT, prepared and submitted by the Division of Insurance Market Regulation pursuant to §374.205.3(3) (a)¹ and the Stipulation of Settlement and Voluntary Forfeiture (“Stipulation”), does hereby adopt such report as filed. After consideration and review of the Stipulation, report, relevant work papers, and any written submissions or rebuttals, the findings and conclusions of such report are deemed to be the Director’s findings and conclusions accompanying this order pursuant to §374.205.3(4).

This order, issued pursuant to §374.205.3(4), §374.280, and §374.046.15. RSMo (Cum. Supp. 2012), is in the public interest.

IT IS THEREFORE ORDERED that American General and the Division of Insurance Market Regulation having agreed to the Stipulation, the Director does hereby approve and agree to the Stipulation.

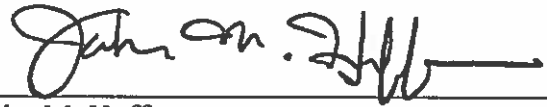
IT IS FURTHER ORDERED that American General shall not engage in any of the violations of law and regulations set forth in the Stipulation and shall implement procedures to place Entitle in full compliance with the requirements in the Stipulation and the statutes and regulations of the State of Missouri and to maintain those corrective actions at all times.

¹ All references, unless otherwise noted, are to Missouri Revised Statutes 2000 as amended.

IT IS FURTHER ORDERED that American General shall pay, and the Department of Insurance, Financial Institutions and Professional Registration, State of Missouri, shall accept, the Voluntary Forfeiture of \$4,000 payable to the Missouri State School Fund.

IT IS SO ORDERED.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of my office in Jefferson City, Missouri, this 22 day of October, 2014.



John M. Huff
Director



**IN THE DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION
STATE OF MISSOURI**

In Re:)
)
American General Life Insurance) **Market Conduct Exam No. 1012-18-TGT**
Company (NAIC #60488))
)
)
)

**STIPULATION OF SETTLEMENT
AND VOLUNTARY FORFEITURE**

It is hereby stipulated and agreed by the Division of Insurance Market Regulation (hereinafter "the Division") and American General Life Insurance Company (NAIC #60488) (hereinafter "American General Life"), as follows:

WHEREAS, the Division is a unit of the Missouri Department of Insurance, Financial Institutions and Professional Registration (hereinafter, "the Department"), an agency of the State of Missouri, created and established for administering and enforcing all laws in relation to insurance companies doing business in the State in Missouri; and

WHEREAS, American General Life has been granted a certificate of authority to transact the business of insurance in the State of Missouri; and

WHEREAS, American General Life is the successor in interest to American General Life and Accident Insurance Company (NAIC # 66672) (hereinafter "American General Life and Accident");

WHEREAS, the Division conducted a Market Conduct Examination of American General Life and Accident and prepared report number 1012-18-TGT; and

WHEREAS, the report of the Market Conduct Examination revealed that:

1. In 10 instances, American General Life and Accident failed to provide the annual notice to policyholders required by §376.678¹;
2. In 14 instances, American General Life and Accident failed to notify claimants that

¹ All references, unless otherwise noted, are to Missouri Revised Statutes, as amended.

their claims would be closed if proof of death was not received in 90 days in violation of §375.1007 (3) (4) (6) (12) and 20 CSR 1.050 (1) (C);

3. In 2 instances, American General Life and Accident committed errors in the payment of proceeds to life insurance beneficiaries implicating the provisions of §375.1007 (3).

WHEREAS, the Division and American General Life have agreed to resolve the issues raised in the Market Conduct Examination Report as follows:

A. **Scope of Agreement.** This Stipulation of Settlement and Voluntary Forfeiture embodies the entire agreement and understanding of the signatories with respect to the subject matter contained herein. The signatories hereby declare and represent that no promise, inducement or agreement not herein expressed has been made, and acknowledge that the terms and conditions of this agreement are contractual and not a mere recital.

B. **Remedial Action.** American General Life agrees to take remedial action, to the extent it has not already done so, bringing it into compliance with the statutes and regulations of Missouri and agrees to maintain those remedial actions at all times, to reasonably assure that the errors noted in the above-referenced market conduct examination report do not recur. Such remedial actions shall include, but not be limited to, the following:

1. American General Life agrees to establish a process for compliance with the notice requirements of §376.678;

2. American General Life agrees to amend its letters to life insurance claimants who do not provide proof of death or other necessary paperwork to advise the claimant that the claim will be closed and escheated if such proof of death or other necessary paperwork is not timely received by the Company.

C. **Compliance.** American General Life agrees to file documentation with the Division within 90 days of the entry of a final order of all remedial action taken to implement compliance with the terms of this stipulation and to document the payment of restitution required by this Stipulation.

D. **Voluntary Forfeiture.** American General Life agrees, voluntarily and knowingly, to surrender and forfeit the sum of \$4,000, such sum payable to the Missouri State School Fund, in accordance with §374.049 and §374.280 RSMo Supp. 2013.

E. **Other Penalties.** The Division agrees that it will not seek penalties against American General Life, other than those agreed to in this Stipulation, for the conduct found in Market Conduct Examination 1012-18-TGT.

F. **Waivers.** American General Life, after being advised by legal counsel, does hereby voluntarily and knowingly waive any and all rights for procedural requirements, including notice and an opportunity for a hearing, and review or appeal by any trial or appellate court, which may have otherwise applied to the above referenced Market Conduct Examination.

G. **Changes.** No changes to this stipulation shall be effective unless made in writing and agreed to by all signatories to the stipulation.

H. **Governing Law.** This Stipulation of Settlement and Voluntary Forfeiture shall be governed and construed in accordance with the laws of the State of Missouri.

I. **Authority.** The signatories below represent, acknowledge and warrant that they are authorized to sign this Stipulation of Settlement and Voluntary Forfeiture.

J. **Effect of Stipulation.** This Stipulation of Settlement and Voluntary Forfeiture shall not become effective until entry of a Final Order by the Director of the Department of Insurance, Financial Institutions and Professional Registration (hereinafter the "Director") approving this Stipulation.

K. **Request for an Order.** The signatories below request that the Director issue an Order approving this Stipulation of Settlement and Voluntary Forfeiture and ordering the relief agreed to in the Stipulation, and consent to the issuance of such Order.

DATED: 10/20/14


Stewart Freilich
Senior Regulatory Affairs Counsel

DATED: 9/15/14


Kyle Jennings, Chief Compliance Officer
American General Life Insurance Company

STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND
PROFESSIONAL REGISTRATION



FINAL MARKET CONDUCT EXAMINATION REPORT
of the Life Insurance Business of

American General Life and Accident Insurance Company

NAIC # 66672

MISSOURI EXAMINATION # 1012-18-TGT

NAIC EXAM TRACKING SYSTEM # MO341-M19

October 20, 2014

Home Office
458N American General Center
Nashville, TN 37250

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FOREWORD

This is a targeted market conduct examination report of American General Life and Accident Insurance Company (NAIC Code # 66672). This examination was conducted at the offices of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP). This examination report is generally a report by exception. However, failure to criticize specific practices, procedures, products or files does not constitute approval thereof by the DIFP. During this examination, the examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

When used in this report:

- “ACL®” refers to Audit Command Language – proprietary software;
- “Company” or “AGLA” refers to American General Life and Accident Insurance Company;
- “CSR” refers to the Missouri Code of State Regulations;
- “DIFP” or “Department” refers to the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “Director” refers to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration;
- “NAIC” refers to the National Association of Insurance Commissioners;
- “RSMo” refers to the Revised Statutes of Missouri. All citations are to RSMo 2000, unless otherwise specified.

SCOPE OF EXAMINATION

The DIFP has authority to conduct this examination pursuant to, but not limited to, Sections 374.110, 374.190, 374.205, 375.445, 375.938, and 375.1009, RSMo.

The purpose of this examination was to determine if the Company complied with Missouri statutes and regulations and to consider whether the Company's operations are consistent with the public interest. Unless otherwise noted, the primary period covered by this review is January 1, 2006, through December 31, 2011. Errors uncovered outside the examination time period, may also be included in the report. The examination was a targeted examination involving the following business functions:

- Policyholder Service
- Claims handling
- Complaints

The examination was conducted in accordance with the standards in the NAIC's *Market Regulation Handbook*. As such, the examiners utilized the benchmark error rate guidelines from the *Market Regulation Handbook* when conducting reviews applying a general business practice standard. The NAIC benchmark error rate for claims practices is seven percent (7%) and for other trade practices is ten percent (10%). Error rates exceeding these benchmarks are presumed to indicate a general business practice. The benchmark error rates were not utilized, however, for reviews not applying the general business practice standard.

In performing this examination, examiners only reviewed specific segments of the Company's practices, procedures, products and files. Therefore, some noncompliant practices, procedures, products and files may not have been discovered. As such, this report may not fully reflect all of the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdictions does not constitute acceptance of such practices.

This market conduct examination was performed as a desk audit at the following DIFP office:

Harry S Truman State Office Building
301 W. High Street
Jefferson City, MO 65101

COMPANY PROFILE

During the examination scope, American General Life and Accident Insurance Company (AGLA) was domiciled in the state of Tennessee and licensed by the DIFP to conduct the business of life insurance, annuities and endowments as well as accident and health insurance under Chapter 376, as set forth in its Certificate of Authority.

AGLA was an outcome of the consolidation two insurers, The National Life and Accident Insurance Company and Life and Casualty Insurance Company of Tennessee. In addition, AGLA grew through mergers with Equitable Life Insurance Company of McLean, VA; Gulf Life Insurance Company; Independent Life and Accident Insurance Company; and Home Beneficial Life Insurance Company. In 2001, AGLA and its parent company and affiliates were acquired by American International Group, Incorporated (AIG).

Effective December 31, 2012, AGLA was merged into American General Life Insurance Company with five additional insurance carriers also owned by AIG. American General Life Insurance Company is domiciled in the state of Texas.

EXECUTIVE SUMMARY

The DIFP conducted a targeted market conduct examination of AGLA. The examiners found the following principal areas of concern:

- The Company did not provide some of its contract holders an annual statement or notice providing sufficient information to permit identification of the policy or contract.
- The Company did not clearly explain in its final claim letters to claimants who had failed to provide sufficient claim documentation that their claims would be closed and benefits would be escheated if requested documentation was not received.
- The Company incorrectly calculated the life insurance benefits for one policy and overpaid the beneficiary.
- The Company paid the proceeds from one life insurance policy directly to the beneficiary after he had assigned the benefits to another party.

Various noncompliant practices were identified, some of which may extend to other jurisdictions. The Company is directed to take immediate corrective action to demonstrate its ability and intention to conduct business according to the Missouri insurance statutes and regulations. When applicable, corrective action for other jurisdictions should be addressed.

EXAMINATION FINDINGS

I. POLICYHOLDER SERVICE

This section of the report details the examiners' review of the Company's policyholder service practices. These practices include reinstatements, annual disclosures and coverage questions.

An error can include, but is not limited to, not applying reinstatements consistently and in accordance with policy provisions, failing to communicate nonforfeiture options to the policyholder or incorrectly applying nonforfeiture options, failing to provide an annual report of policy values to each policyholder, failing to disclose to the requesting policyholder the effect of accelerated benefit payments, and any other activity indicating a failure to comply with Missouri statutes and regulations.

Notices to Policyholders

While reviewing the Company provided data, the examiners noted 15 policies in nonforfeiture status where the insured's age was over 90. The examiners questioned the Company about these 15 policies in Formal Request 11. The Company's response indicated that 10 of the policies should have been receiving the annual notice required by Section 376.678, RSMo, and the Company had not been providing it.

In response to Examiner Finding 5, the Company agreed with the examiners that the required notice had not been sent to these 10 policyholders and explained that it would be taking steps to establish a process for compliance with the notice requirements of Section 376.678. The Company projected that it would have such a process in place within six months of the February 28, 2013, date of its response to Examiner Finding 5.

Reference: Section 376.678, RSMo.

II. CLAIMS PRACTICES

This section of the report is designed to provide a review of the Company's claims handling practices. Examiners reviewed the Company's claims handling to determine the timeliness, accuracy of payment, adherence to contract provisions, and compliance with Missouri statutes and regulations.

To minimize the duration of the examination, while still achieving an accurate evaluation of claim practices, examiners used ACL® to extract specific populations of claims from the data provided by the Company. Examiners then requested entire claim files for extracted claims related to life insurance benefits. The review consisted of claims submitted to the Company between January 1, 2006, through December 31, 2011.

A claim file, as a sampling unit, is determined in accordance with 20 CSR 100-8.040 and the NAIC *Market Regulation Handbook*. Error rates are established when testing for compliance with statutes and regulations applicable to general business practice standards (e.g., Sections 375.1000 – 375.1018 and 375.445, RSMo) and compared with the NAIC benchmark error rate of seven percent (7%). Error rates in excess of the NAIC benchmark error rates are presumed to indicate a general business practice contrary to law. Errors indicating a failure to comply with statutes and regulations not applying the general business practice standard are separately noted as errors and were not included in the error rates.

A claim error includes, but is not limited to, any of the following:

- An unreasonable delay in the acknowledgement of a claim;
- An unreasonable delay in the investigation of a claim;
- An unreasonable delay in the payment or denial of a claim;
- A failure to calculate claim benefits correctly; or
- A failure to comply with Missouri statutes and regulations regarding claim settlement practices.

Missouri statutes and regulations require the Company to disclose to first-party claimants all pertinent benefits, coverage or other provisions of an insurance policy under which a claim is presented. Claim denials explaining the reason for disallowing a payment request must be given to the claimant in writing, and the Company must maintain a copy of all pertinent documentation in its claim files.

Examiners requested separate samples of denied claims related to life insurance benefits. Populations of claims were identified by using ACL® to identify claims with specific claim characteristics. While examiners reviewed the separate claim samples for compliance with policy provisions, they also reviewed AGLA's standard operating procedures and claim processing manuals. During their reviews the examiners found the following exceptions:

A. Unfair Claims Practices – Denied Life Insurance Claims

Examiners reviewed six of 20 denied life insurance claims. Two claims were rejected within the first two years for misrepresentation of medical history having a direct relationship to the insured's cause of death. Four claims related to accidental death benefits denied as the cause of death was excluded under the provisions of the policy. No exceptions were noted in reviewing these claims.

B. Unfair Claims Practices – Life Claims Closed Without Payment

Field Size:	2857
Type of Sample	Random
Sample Size	84
Number of Errors:	14
Error Ratio:	16.7%
Within NAIC Benchmark	No

Examiners extracted 2857 claim numbers from the data supplied by the Company that were not indicated as being denied and where the amount paid was shown as zero. From these 2857 claim numbers, the examiners selected a random sample of 84 and sent the Company Formal Request 17, which included a spreadsheet, requesting that the Company provide the examiners with the closing communication for each claim and enter a brief explanation in the spreadsheet as to why each claim was closed without payment.

In the Company's response to Formal Request 17, it provided explanations in the spreadsheet indicating that 15 of the claims had been closed without payment because paperwork or proof of death had not been received. The examiners determined further clarification on these 15 claims was needed and sent Formal Request 31 asking the Company for: (1) an explanation of its process when paperwork or proof of death was not received, (2) information about the status of these policies, and (3) information as to whether or not any letter was sent to the claimants notifying them that these 15 claims would be closed.

The Company's response to Formal Request 31 explained that its process at the time period subject to examination "was to close the claim if the proof of death is not received within 90 days after claim correspondence is sent," but the letters used at that time did not apprise the claimant that the claim would be closed if the necessary information was not received. The Company advised that it was in the process of implementing revisions to its standard letters "to advise that the claim will be closed and escheated" if necessary information is not received. From the Company's explanation of its past practice along with additional information about the policies provided in the response, the examiners concluded that the Company's handling of 14 of the 15 claims appeared to be contrary to the claims investigation requirements of 20 CSR 100-1.050(1)(C) and the type of conduct prohibited by Section 375.1007(4), RSMo. Accordingly, Examiner Finding 6 was sent to the Company asking if it agreed or disagreed with this conclusion.

In response to Examiner Finding 6, the Company disagreed that its handling of the 14 claims was "in violation" of 20 CSR 100-1.050(1)(C) and Section 375.1007(4). The Company argued that 20 CSR 100-1.050(1)(C) was inapplicable to the 14 claims because of the provisions of 20 CSR 100-1.050(1)(A), i.e., "Within fifteen (15) working days after the submission of all forms necessary to establish the nature and extent of any claim, the first-party claimant shall be advised of the acceptance or denial of the claim by the insurer." Because the Company had never received the information it had requested, it reasoned that the requirement of 20 CSR 100-1.050(1)(C) to send letters to the claimant every 45 days was inapplicable. Similarly, the failure to receive the requested information also meant that the Company's liability had not become reasonably clear within the meaning of Section 375.1007(4) according to the Company.

The examiners believe the Company misunderstands its obligations under Missouri law. Pursuant to 20 CSR 100-1.010(1)(F) and 20 CSR 100-1.050(4) (formerly, 20 CSR 100-1.040), the investigation period for a claim commences upon the Company's notification of the claim and continues until such time as it has all the information necessary to make a determination whether to pay or deny the claim. Once the Company receives the needed information, 20 CSR 100-1.050(1)(A) establishes a 15 day time period within which the determination to pay or deny must be made, but this provision is inapplicable to a claim where the necessary information has not been received as the Company indicates was the case for the 14 claims here. In such cases, the investigation continues, and the Company is required to send investigation letters to the claimant every 45 days pursuant to 20 CSR 100-1.050(1)(C). If the Company wishes to terminate the investigation by closing the claim without payment, it has effectively denied payment of the claim and is required to provide the claimant with "a reasonable and accurate explanation of the basis for" its action pursuant to Section 375.1007(12).

In summary, the Company's actions with regard to the 14 claims cited above do not appear to be in compliance with Missouri statutes and regulations regardless of the position the Company chooses to take. If the Company takes the position that its closing of the claim without payment did not effectively act as a claim denial, then the investigation continued, and the Company's failure to send the claimant a letter every 45 days appears contrary to the requirements of 20 CSR 100-1.050(1)(C) and the type of conduct prohibited by Section 375.1007(3) and (6), RSMo. If the Company takes the position that the investigation and its obligation to send letters every 45 days was terminated by its closing of the claims without payment, then its refusal to pay these claims without notifying the claimant of the reason appears to be the type of conduct prohibited by Section 375.1007(3) and (12), RSMo. If the Company was able to determine for any of the claims that the insured had died so that its liability had "become reasonably clear," which appears to be the case for at least some of the 14 claims from the information provided in response to Formal Request 31, then the Company's conduct also appears to be the type of conduct prohibited by Section 375.1007(4), RSMo.

Reference: Section 375.1007(3), (4), (6) and (12), RSMo, and 20 CSR 100-1.050(1)(C).

C. Unfair Claims Practices – Paid Life Claims

Field Size:	14,223
Type of Sample	Random
Sample Size	109
Number of Errors:	2
Error Ratio:	2%
Within NAIC Benchmark	Yes

The examiners found two claims with exceptions in the sample. For the claim identified in Examiner Finding 1, the Company incorrectly calculated the life insurance benefits and overpaid the beneficiary \$881. For the claim identified in Examiner Finding 2, the Company paid the policy proceeds directly to the beneficiary after he had assigned the benefits to another party.

In the response to Examiner Finding 1 and Examiner Finding 2, the Company agreed with both findings. These types of errors appear to be the type of conduct prohibited by Section 375.1007(3).

Reference: Section 375.1007(3), RSMo.

D. Unfair Claims Practices – Endowment Benefits

In response to examiners Formal Request 27, the Company provided the examiners with a listing of all policies where the policy endowed or matured at or over age 85 during the examination scope. Upon reviewing the information provided, it was noted four of the policies were coded as matured but benefits had not been paid. A review of those four files indicated the Company had sent notifications of policy maturity but had not received responses from the policy owners. Therefore, no exceptions were noted in reviewing these claims.

III. COMPLAINTS

This section of the report is designed to provide a review of the Company's complaint handling practices. Examiners reviewed how the Company handled complaints to ensure it was performing according to its own guidelines and Missouri statutes and regulations.

Complaint File Review

Section 375.936(3), RSMo, requires companies to maintain a registry of all written complaints received for the last three years. The registry must include all Missouri complaints, including those sent to the DIFP and those sent directly to the Company.

During the examination scope, Company records reflected 76 consumer complaints filed with the DIFP. In addition, there were 92 complaints sent directly to the Company. The examiners reviewed all 76 consumer complaints filed with the Department and also reviewed a sample of 35 of the 92 complaints received directly by the company. The review of complaint files consisted of the nature of each complaint, the disposition of the complaint, and the time taken to process the complaint as required by Section 375.936(3), RSMo, and 20 CSR 100-8.040(3)(D).

The examiners found no exceptions during their review.

IV. FINDINGS AND FORMAL REQUESTS TIME STUDY

This study is based upon the time required by the Company to provide the examiners with the requested material or to respond to examiner findings. Missouri statutes and regulations require companies to respond to examiner findings and formal requests within 10 calendar days. Please note, in the event an extension of time was requested by the Company and granted by the examiners, the response was deemed timely if it was received within the time frame granted by the examiners. If the response was not received within the allotted time, the response was not considered timely.

A. Examiner Finding Time Study

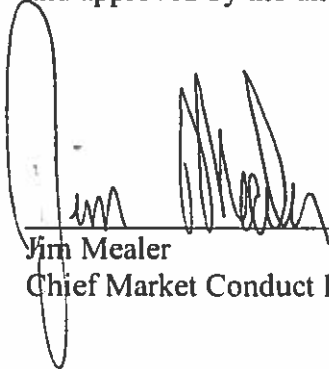
<u>Calendar Days</u>	<u>Number of Findings</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	6	100%

B. Formal Request Time Study

<u>Calendar Days</u>	<u>Number of Requests</u>	<u>Percentage</u>
Received w/in time-limit, incl. any extensions	31	100%

EXAMINATION REPORT SUBMISSION

Attached hereto is the Division of Insurance Market Regulation's Final Report of the examination of American General Life and Accident Insurance Company (NAIC #66672), Examination Number 1012-18-TGT. This examination was conducted by John Korte, Rita Heimericks-Ash, and Mike Woolbright. The findings in the Final Report were extracted from the Market Conduct Examiner's Draft Report, dated March 11, 2014. Any changes from the text of the Market Conduct Examiner's Draft Report reflected in this Final Report were made by the Chief Market Conduct Examiner or with the Chief Market Conduct Examiner's approval. This Final Report has been reviewed and approved by the undersigned.



Jim Mealer
Chief Market Conduct Examiner

10/20/2014
Date