

**MARKET CONDUCT EXAMINATION REPORT**

on

**ALLIANZ LIFE INSURANCE COMPANY  
OF NORTH AMERICA  
NAIC 90611**

as of

March 7, 2008

I, Karen Weldin Stewart, CIR-ML, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of March 7, 2008 of the

**ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA**

is a true and correct copy of the document filed with this Department.



ATTEST BY: \_\_\_\_\_

DATE: April 14, 2010



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 14TH DAY OF APRIL 2010.



Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

**REPORT ON MARKET CONDUCT EXAMINATION**  
OF THE  
**ALLIANZ LIFE INSURANCE COMPANY**  
**OF NORTH AMERICA**  
AS OF  
**March 7, 2008**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.



*In Witness Whereof*, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS 14TH  
DAY OF MARCH 2010.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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## SALUTATION

March 7, 2008

Honorable Karen Weldin Stewart, CIR-ML  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner Stewart:

In compliance with the instructions contained in Certificate of Examination Authority Number 06.727 and pursuant to statutory provisions including 18 Del. C. §§318-322, a Market Conduct Examination has been conducted of the affairs and practices of:

**Allianz Life Insurance Company of North America.**

The examination was performed as of December 31, 2007. Allianz Life Insurance Company of North America, hereinafter referred to as the "Company" or as "Allianz," is incorporated under the laws of the State of Minnesota. This examination was conducted either at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI," or other appropriate locations.

The report of examination thereon is respectfully submitted.

## FOREWORD

This examination reflects Allianz Life Insurance Company of North America's insurance activities in the State of Delaware. This Market Conduct Examination Report is, in general, a report by exception. As such, some of the information reviewed by the examiners will not be referenced in this written report, since reference to or comments about any practices, procedures, or files that did not result in any errors or irregularities is generally not made.

In performing this examination the Delaware Department of Insurance selected a portion of the Company's operations for review. This report does not fully reflect a review of all of the practices and activities of the Company.

Failure to comment on specific products, procedures or files does not constitute approval thereof by the Delaware Department of Insurance.

The final public examination report consists of three parts: the examiners' report, the company's response to that report and the administrative action, if any, based upon the findings of the examiners.

Where used in the report:

"Company" refers to Allianz Life Insurance Company of North America

"Del. Ch." refers to the Statutes of Delaware

"DE Reg." refers to Delaware's Regulations

"DDOI" refers to the Delaware Department of Insurance

"NAIC" refers to the National Association of Insurance Commissioners

"NAIC MCEH" refers to the NAIC's *Market Conduct Examiners' Handbook*

## SCOPE OF EXAMINATION

The Delaware Department of Insurance has authority to perform this examination pursuant to, but not limited to, 18 Del. C. §§318-322.

This Market Conduct Examination of Allianz Life Insurance Company of North America began on October 29, 2007 and covered the period of January 1, 2005 – May 31, 2007, unless otherwise noted.

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures established by the NAIC. While the examiners report on the errors found in individual files, the examination also focuses on general business practices of the Company.

It is the Department's practice to cite companies for errors or apparent violation of a statute or regulation when the results of a sample review show errors/noncompliance at or above the following levels: 0 percent (0%) for Complaints, Sales and Advertising, producers who are not appointed and/or licensed, and the use of forms, rates and rules that are neither filed with nor

approved by the Department; seven percent (7%) for claims; and ten percent (10%) for all other areas reviewed. Any operation with an error ratio in excess of these criteria indicates a general business practice.

When errors are detected in a sample yet the error rate is below the applicable threshold for citing an apparent violation, the Department may choose to issue a Management Letter to the company.

This examination includes a review of the Company's Individual Long Term Care business. The Company stated that it did not write Home Health Care or Group Long Term Care business subject to Delaware jurisdiction during the period under review.

Unless otherwise noted the examination also includes a review of the following business areas: Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Service, Underwriting and Rating & Claims.

## **EXECUTIVE SUMMARY**

This Market Conduct Examination revealed concerns with Company procedures and practices in the areas of Underwriting and oversight of Third Party Administrators.

The Company generally had adequate practices and procedures for Complaints and Claims Handling, Policyholder Services, Producer Licensing and Marketing and Sales.

For each of the cited exceptions in the report, recommendations have been made to address the issues and concerns noted by the examiners.

All unacceptable or non-compliant practices may not have been discovered or noted in this report. Failure to identify or criticize improper or non-compliant business practices in this State or in other jurisdictions does not constitute acceptance of such practices.

## **EXPLANATION OF EXAMINATION PROCESS**

### **Forms, Filings and Underwriting Guidelines**

The examiners review the Company's policy forms and underwriting guidelines to determine compliance with filing approval and content requirements, to ensure that the contract language is not ambiguous and that the policy's provisions are adequate to protect those insured. In addition, the examiners review the Company's underwriting guidelines and review those guidelines in comparison with the active files and terminated files, as well as claim files, in order to determine if the Company adheres to its own guidelines.

### **Marketing**

Delaware law limits which companies may sell insurance as well as the type of insurance the company is allowed to market. The department issues a Certificate of Authority to an insurer

only after the insurer has completed an application process. Delaware law also requires the insurer to only use individuals or agencies to sell its product that are licensed by the Department. The examiners review the Company's operations to ensure they are in compliance with their Certificate of Authority, the licensing requirements of Delaware and the Advertising laws and regulations.

### Complaints

The examiners review the complaints the Company receives directly from consumers and complaints the Department receives to determine the accuracy of handling, the resolution of the complaint and the timeliness of the response.

### Underwriting and Rating

The examiners review the Company's underwriting and rating practices, which includes the use of policy forms and endorsements/riders, adherence to underwriting guidelines and Company manuals, determination and assessment of premium and declination & termination procedures.

### Claims

The examiners review the claims handling practices of the Company in order to determine the efficiency of handling, accuracy of payment, timeliness of investigation, adherence to contract provisions and compliance with Delaware law. A claim is considered to be a request or demand for payment of a loss which may be included within the terms of coverage of an insurance policy; or, a request or demand for any other payment under the policy, such as for the return of unearned premium or nonforfeiture benefits. The claim may be either Paid or Closed without Payment.

### Sampling of Files

Due to the large number of policy files and claims files the examiners cannot review every file and conduct the examination efficiently. As such, the examiners review a sample of the Company's files. A policy file as a sampling unit is considered to be one complete premium unit representing the charges provided or restricted by the riders attached, issued, or re-rated during the period of the examination. A claim file as a sampling unit is an individual demand/request for payment or action under an insurance contract for benefits which may or may not be payable.

The most appropriate statistic to measure the Company's compliance with the law is the percent of files in error. The types of practices considered to be an error *include, but are not limited to*, miscalculations of premium based upon the information in the file, improper acceptance or denial of an application, unreasonable delay in the acknowledgement, investigation, payment or denial of a claim, failure to correctly calculate claim benefits, and failure of the Company to comply with Delaware's laws and regulations.

Some files may contain multiple errors which are indicated by category but only considered once in determining the error ratio. The error ratio criterion used to develop confidence levels for the

policy file review is ten percent (10%) and for the claim file review it is seven percent (7%), as established by the NAIC and adopted by the Delaware Department.

## EXAMINATION FINDINGS

### I. COMPANY OVERVIEW

#### A. History

North American Casualty was incorporated in Minnesota on April 17, 1896 and commenced business May 8, 1896. North American Casualty merged with North American Life Association in 1912 to become North American Life and Casualty (NALAC). In May 1968, NALAC acquired the assets and business of the Thomas Edison Life Insurance Company, Des Moines, Iowa and its wholly-owned subsidiary, Financial Plans, Inc., a broker/dealer. Subsequently, Thomas Edison Life's operations were fully merged into NALAC.

From late 1971 to 1979, NALAC was controlled (over 98%) by the Mutual Life Insurance Company of New York. In November 1979, Mutual of New York completed the sale of its interest in NALAC to Allianz Minnesota Life Insurance Company, a subsidiary of the Allianz Insurance Group of West Germany. Through its subsidiary companies, Allianz maintains life/health and property/casualty insurance operations on a worldwide basis. On January 1, 1981, NALAC was merged into its parent, Allianz Minnesota Life, which concurrently adopted the name North American Life and Casualty Company.

On March 31, 1993, NALAC changed its name to Allianz Life Insurance Company of North America (Allianz Life). Subsequently, as of May 31, 1993, Allianz Life acquired all the assets and liabilities of Fidelity Union Life Insurance Company of Dallas, Texas. Fidelity Union was under common ownership with Allianz Life. It was also owned by Allianz AG Holding of Munich, Germany.

On May 16, 1999, Allianz Life acquired LifeUSA Insurance Company. LifeUSA and Allianz Life merged on July 1, 2002.

Allianz Life currently offers a portfolio of individual fixed and variable annuities, life insurance and long term care products. The individual fixed annuities, life insurance and long term care products are sold through licensed independent agents that are first contracted with a Field Marketing Organization (FMO). The individual variable annuity products are sold through licensed registered representatives that are first contracted with a Broker/Dealer (BD).

The Company made a decision to exit the affinity/association market to focus its group insurance related product offerings on those products and markets that Allianz Life believes offer the greatest opportunities for long term growth. This market exit was completed by the end of 2003. In 2006, the Company also made the decision to no longer

provide healthcare excess of loss products and services. This portion of the business was sold and reinsured to HCC Life, effective October 1, 2006.

#### B. Profile

The Company is licensed to do business in all states and territories except New York (NY), American Samoa (AS), Virgin Islands (VI), and Northern Mariana Islands (MP). The Company is licensed in Delaware to transact life insurance and annuities, variable life insurance and variable annuities and health insurance in Delaware.

#### C. MGA and Vendor Oversight

The Company identified two Third Party Administrators (TPA's) that performed business functions during the examination period. These two TPA's are LifeCare Assurance Company and Marsh Affinity Services.

During the examination period LifeCare Assurance Company performed the following functions: Policy Issue and Underwriting, Policyholder Service and Claims, Premium Collection, Billing, and Accounting, Agent Compensation, Accounting Services, Legal and Compliance Services, Actuarial Services and Data Processing Services. Marsh Affinity Services performed Claim Services and Administrative duties.

#### Company Operations and Management – Standard 5

<p>The Company is adequately monitoring the activities of any entity that contractually assumes a business function or is acting on behalf of the company.</p>
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18 DE Reg 1406

*Findings:* The Company's oversight of their TPA is inadequate. The Company states that the functions administered by these two TPA's represent closed blocks of business. This does not relieve the Company of the oversight responsibilities under 18 DE Reg 1406. The Company has not performed on-site reviews of either TPA since 2004. Desk reviews of the TPA's, while conducted more frequently, consist of workflow, claims and complaints reviews. Documentation provided to the examiners does not indicate that the Company oversees all contractual functional services performed by these TPA's.

*Recommendations:* It is recommended that the Company actively monitor all of the delegated business functions of their TPA's in accordance with their contractual obligations and state law.

#### D. Internal Audit

The Company determines their audit plan based on their annual risk assessment process. After the risk assessment, Internal Audit will assign a score for each process. This score combined with recent audits is evaluated and used to determine the Company's audit plan.

Risks are classified as low, medium and high. Low risk findings are communicated to Management. Medium and High risks are communicated to Management and action plans are developed to address them. These items are entered into an Issue Tracking

Database and are monitored by Management. The Company's Senior Management reviews these issues and action plans on a monthly basis and the Company's Audit Committee reviews these quarterly.

E. Anti-Fraud Initiatives

This area of the Company's operations was not reviewed during the examination.

F. Certificates of Authority

The examiners reviewed the Company's operations for compliance with their Certificate of Authority to ensure that only those companies with the appropriate authority are transacting the business of insurance in Delaware. The results of that review indicate that the Company is operating in accordance with state law.

G. Disaster Recovery Plan

This area of the Company's operations was not reviewed during the examination.

H. Computer Systems

This area of the Company's operations was not reviewed during the examination.

I. Privacy and HIPAA

This area of the Company's operations was not reviewed during the examination.

## II. COMPANY OPERATIONS/MANAGEMENT

The review of the Company's Operations and Management included the overall corporate management structure, record retention policies, reinsurance program, and annual shareholder reports. The examiners note there was no prior Market Conduct Examination of the Company by the DDOI.

*Findings:* There were no exceptions noted during the Company's Operations and Management review.

## III. COMPLAINT HANDLING

The examiners reviewed the one Home Office complaint received by the Company during the examination period. There were no DDOI complaints reported for the period. The Company's complaint handling procedures were also reviewed for compliance with state law.

*Findings:* There were no exceptions noted in the Company's Complaint Handling practices during the examination period.

## IV. MARKETING and SALES

The examiners reviewed the Company's Sales and Marketing practices. This review included advertising, producer training and suitability.

*Findings:* There were no exceptions noted in the Company's Marketing and Sales practices during the examination period.

## V. PRODUCER LICENSING and TRAINING

For this examination a separate Licensing Review was not conducted. However, during the Underwriting Review the examiners did confirm whether or not the writing agent was properly licensed and appointed at the time the policy was written.

*Findings:* There were no exceptions noted in the Company's Producer Licensing practices during the examination period.

## VI. POLICYHOLDER SERVICES

*Findings:* There were no exceptions noted in the Company's Policyholder Services practices during the examination period.

## VII. UNDERWRITING and RATING

### Newly Issued Policies

The examiners requested listings of all In-force and Newly Issued LTC policies applicable to the examination period. The Company provided a listing of 118 policies identified as In-force during examination period and a listing of 122 policies issued during the same period. Review of the In-force listing showed that none of the policies were issued prior to the examination period. As the populations of the In-force and Newly Issued listings were nearly identical, the examiners only selected and reviewed a sample of the Newly Issued files.

### LTC Newly Issued Policies

Field Size:	122
Sample Size:	50
Sample Type:	Random
Number of Files with Errors:	42
Found Error Ratio:	84%
Criterion Used:	10%

### Underwriting and Rating – Standard 2

All mandated disclosures for individual LTC insurance are documented and in accordance with applicable statutes, rules and regulations.

NAIC MCEH Ch. 19

18 Del. C. §7105, 18 DE Reg 1404

*Findings:* The examiners noted fifteen (15) issued samples had incomplete LTC Personal Worksheets. These worksheets had missing policy form numbers and/or acknowledgement boxes that were not checked off.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that all mandated disclosures are complete and in accordance with state law.

Underwriting and Rating – Standard 12

Pertinent information on applications is complete and accurate and applications conform to applicable statutes, rules and regulations. NAIC MCEH Ch. 19	18 Del. C. §2709
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*Findings:* The examiners noted thirty-seven (37) issued policies that had applications which contained alterations that were not approved by the applicant.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that no alteration of any application is made by any person other than the applicant without the applicant's consent in accordance with state law.

Canceled Policies

The examiners requested listings of all LTC canceled during the examination period. The Company provided a listing of seven (7) policies identified as canceled during this period. All seven (7) canceled policies were reviewed.

LTC Canceled Policies

Field Size:	7
Sample Size:	7
Sample Type:	Census
Number of Files with Errors:	7
Found Error Ratio:	100%
Criterion Used:	10%

Underwriting and Rating – Standard 2

All mandated disclosures for individual LTC insurance are documented and in accordance with applicable statutes, rules and regulations. NAIC MCEH Ch. 19	18 Del. C. §7105, 18 DE Reg 1404
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*Findings:* The examiners noted one canceled policy where the LTC Personal Worksheets was incomplete.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that all mandated disclosures are complete and in accordance with state law.

Underwriting and Rating – Standard 12

Pertinent information on applications is complete and accurate and applications conform to applicable statutes, rules and regulations NAIC MCEH Ch. 19	18 Del. C. §2709
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*Findings:* The examiners noted that all seven (7) canceled policies had applications which contained alterations that were not approved by the applicant.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that no alteration of any application is made by any person other than the applicant without the applicant's consent in accordance with state law.

### Replacement Policies

The examiners requested listings of all LTC replacement policies applicable to the examination period. The Company provided a listing of two policies identified as replacement policies issued during the period. Both of these replacement policies were reviewed.

#### LTC Newly Issued Policies

Field Size:	2
Sample Size:	2
Sample Type:	Census
Number of Files with Errors:	2
Found Error Ratio:	100%
Criterion Used:	10%

#### Underwriting and Rating – Standard 2

All mandated disclosures for individual LTC insurance are documented and in accordance with applicable statutes, rules and regulations. NAIC MCEH Ch. 19	18 Del. C. §7105, 18 DE Reg 1404
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*Findings:* The examiners noted that one of the two replacement policies had an incomplete LTC Personal Worksheet.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that all mandated disclosures are complete and in accordance with state law.

#### Underwriting and Rating – Standard 12

Pertinent information on the application is complete and accurate and applications conform to applicable statutes, rules and regulations. NAIC MCEH Ch. 19	18 Del. C. §2709
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*Findings:* The examiners noted that both of the replacement policies reviewed had applications which contained alterations that were not approved by the applicant.

*Recommendation:* It is recommended that the Company review its underwriting procedures to ensure that no alteration of any application is made by any person other than the applicant without the applicant's consent in accordance with state law.

## VIII. CLAIMS

The examiners requested a listing of all LTC Paid and Denied claims during the examination period. The Company provided a listing of twenty-two (22) claims that were paid during the examination period. There were no claims denied or closed without payment during the period.

### LTC Inforce Paid Claims

Field Size:	22
Sample Size:	22
Sample Type:	Census
Number of Files with Errors:	0
Found Error Ratio:	0%
Criterion Used:	10%

*Findings:* There were no exceptions noted in the Company's Claims Handling practices during the examination period.

## CONCLUSION

The examination conducted by Debra A. Boothby, Susanna Stevens, Candace Pickens and Cynthia M. Amann is respectfully submitted.



Debra A. Boothby, CIE  
Examiner-in-Charge  
Market Conduct  
Delaware Department of Insurance



Cynthia M Amann, MCM  
Market Conduct Supervising Examiner