REPORT OF
MARKET CONDUCT EXAMINATION
OF
AIG INSURANCE COMPANY
AS OF
SEPTEMBER 15, 2005
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of SEPTEMBER 15, 2005 of the

AIG LIFE INSURANCE COMPANY

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

ATTEST BY: ___________________________

DATE: 15 MAY 2006

In witness whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 15TH DAY OF MAY 2006.

____________________________________
Insurance Commissioner
REPORT ON MARKET CONDUCT EXAMINATION

OF THE

AIG LIFE INSURANCE COMPANY

AS OF

SEPTEMBER 15, 2005

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.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 15\textsuperscript{TH} day of MAY, 2006.
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SALUTATION

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn;

In compliance with the instructions contained in Certificate of Examination Authority Number 05.715, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

0012-66842 AIG Life Insurance Company

Hereinafter referred to as the "Company" or as "AIG". AIG Life Insurance Company is incorporated under the laws of the State of Delaware. This examination reviewed the operations of the Company. The on-site phase of the examination was conducted at the following location:

- 2727-A Allen Parkway, 2-G7, Houston, Texas 77019-2155

The examination is as of September 15, 2005

Examination work was also conducted off site and at the offices of the Delaware Department of Insurance, hereinafter referred to as the "Department" or as "DDOI."

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending of the type on insurer. For all insurers, these areas include:

- Company Operations/Management
- Complaint Handling
- Marketing and Sales
- Producer Licensing
- Policyholder Service
- Underwriting and Rating
- Claims
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Additional areas may be included for an insurer writing Health coverage. Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company’s countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to market conduct examination through a review of the written procedures of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and results indicated below. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

HISTORY AND PROFILE

The Company was incorporated as the National Union Life Insurance Company in the Commonwealth of Pennsylvania on June 18, 1962 and commenced business on September 4, 1962. The Company’s name was changed in January 1971 to the Life Insurance Company of New Hampshire and the present name was adopted in October 1980. The Company later re-domesticated from the Commonwealth of Pennsylvania to the State of Delaware. The Company is a wholly owned subsidiary of American International Group Inc. (AIG) with direct ownership by AIG (79%) and the Commerce and Industry Insurance Company (21%).

After the acquisition of American General Corporation by AIG in August 2001, the Company organizationally became a member of the AIG American General Domestic Life Division (“Life Division”) headquartered in Houston, Texas. As a member company of the Life Division the Company participates in the shared services platform utilized by the Division which includes service provision by affiliate Life Division subsidiaries American General Life Companies LLC and AIG Business Processing Services Inc.
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The Company’s primary means of distributing products is through a network of independent agents and brokers. Until January 1, 2002, the Company portfolio included individual life and health, individual fixed annuities, variable life and annuities, group life and health, structured settlements and terminal funding annuities, single premium immediate annuities, funding agreements and guaranteed interest contracts (GIC). The Life Division began an initiative in 2002 to focus on “best in class” products to reduce duplicate offerings among the affiliated companies. This process involved evaluating the characteristics of similar products, such as unique features, competitiveness, state approvals and profitability, with one product selected as the sole ongoing product offered by one affiliated company. Due to this evaluative process the Company’s product portfolio has become more limited over time.

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination found in Chapter XVII of the Delaware Market Conduct Examiners Handbook. This chapter is derived from applicable Delaware Statutes, Rules, and Regulations as referenced herein and the NAIC Market Conduct Examiners Handbook.

Some standards were measured using a single type of review, while others were reviewed using a combination or all of the types of review. The types of review used in this examination fall into three general categories. The types of review are: generic, sample, and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner, or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using sampling methodology described in the Delaware Market Conduct Examiners’ Handbook and the NAIC Market Conduct Examiners’ Handbook. For statistical purposes, an error tolerance level of 7% was used for claims reviews and a 10% tolerance level was used for other types of review. The sampling techniques used are based on a 95% confidence level. This means that there is a 95% confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOIs actual tolerance for deliberate error.

An "electronic" review indicates that a standard was tested through use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically reviews 100% of the records of a particular type.

Standards were measured using tests designed to adequately measure how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct
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Examiners Handbook. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under Delaware law, and its source in the NAIC Market Conduct Examiners’ Handbook are stated and contained within a bold border in the report.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. The "Result" is indicated and examiner "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported with the appropriate Standard.

This examination primarily utilizes a Review of Procedures feature rather than the conventional review of Standards. This review is explained in greater detail in the Procedure section of this report. It is noted that in most cases there is no direct statutory requirement that an insurer have a specific written procedure for each of the Procedures tested in this examination. However, the absence of a written Procedure along with adequate measurements and controls will place into question whether the examinee is meeting the requirements of 18 Del. C. §508(b) which reads, in part, as follows:

“The Commissioner shall not grant or continue authority to transact insurance in this State as to any insurer or proposed insurer the management of which is found by the commissioner after investigation or upon reliable information to be incompetent or dishonest or untrustworthy or of unfavorable business repute or so lacking in insurance company managerial experience in operations of the kind proposed in this State as to make such operation, currently or prospectively, hazardous to or contrary to the best interests of, the insurance-buying or investing public of this State … .”

A.  COMPANY OPERATIONS/MANAGEMENT

Comments: This examination report is not designed to be a pass/fail report with one exception. That exception is the standard that states:

• “The Company is licensed for the lines of business that are being written.”
• “The Company cooperates on a timely basis with examiners performing the examinations.”

Standard A 07


The Company is licensed for the lines of business that are being written.

18 Del. C. §318(a), §505(b), §508(b).
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Comments: Review methodology for this standard is generic. This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s certificate of authority.

Results: Pass

Observations: The Company is licensed for the lines of business being written.

Recommendations: None

Standard A 09


The Company cooperates on a timely basis with examiners performing the examinations.

18 Del. C. §318(a), §320(c), §508(b), §520(b)3.

Comment: Review for this standard is by “generic” methodology. This standard has a direct insurance statutory requirement. This standard is aimed at ensuring that the company is cooperating with the state in the completion of an open and cogent review of the company’s operations. Cooperation with examiners in the conduct of an examination is not only required by statute, it is conducive to completing the examination in a timely fashion and minimizing cost.

Results: Pass

Observations: During the course of the examination AIG was provided with 51 Information Requests (IR’s), and all responses came in on time. The Company’s communication with the examiners was very responsive. The examiners experienced no delays during the course of the examination.

Recommendations: None

B. COMPLAINTS/GRIEVANCES

Comments: Evaluation of the Standards in this business area are based on the Company’s response to various information requests (IR items) and complaint files at the Company. 18 Del. C. §2304(17) requires the Company to "...maintain a complete record of all complaints received." The statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware’s definition of a complaint is: "...any written communication primarily expressing a grievance."
Observations: The Company provided a database with six hundred (600) logged complaints for the period of examination. A random sample of fifty (50) complaints was taken from the master log and reviewed to compare the accuracy of the databases and to look for any complaint patterns. After the review was completed no complaint patterns were present in either the sample or the master log. The review of the complaint process is noted in Procedure 11 below.

REVIEW OF PROCEDURES

The management of well-run companies generally have some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them, is often reflected in the failure of the various Standards that follow this section. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for company staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true for the absence of a means to measure the results of the application of procedures and determine that the process is performing as intended.

The reviews in the following sections are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Audit Procedure (Internal and External).

Observations: The Company has a written procedure for internal and external audit. The Examiners reviewed the procedure and supplementary information provided by the Company including the Company’s internal audit division charter, internal audit division policy statement documents, a general overview of the audit process, various audit reports and audit workpaper templates. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the procedure is December 2004 and is reviewed for updated on an annual and semi annual basis, depending on management recommendations. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.
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The internal audit division (IAD) charter defines its objectives and the Company’s procedures. Additionally, the charter lists the types of audits performed by IAD, and the scope of each audit, including information technology audits. The charter describes the reporting and rating processes, along with the audit approach. The charter was initially adopted February 1987, revised in September 2004 and December 2004.

Every year the internal audit department prepares an audit plan for the year. The director of the audit division compiles the plan with input from the audit managers. Selection of audit areas to be covered is based on several variables, including AIG required coverage (certain areas are deemed to be audited on a rotating year-to-year basis), recommendations from the independent public accounting firm, future audit considerations (from past audits) and feedback from senior auditors.

AIG required audits and “must-do” recommendations from the public accounting firm are usually performed. However, circumstances and conditions may warrant, changes to the audit plan. The audit plan is subject to the review and revision by the senior director of IT (Information technology) audit division, based at AIG’s corporate headquarters in New York.

The IT internal department services fall into the following broad categories:

- **Infrastructure audits** – these audits are “IT Audit only” audits and cover the IT infrastructure. Change Management, Security Administration, Operating System Platforms and Database Administration Systems are covered under this umbrella. Infrastructure audits include a stand-alone report and workpapers.
- **Integrated audits** – these audits are usually performed in conjunction with a financial audit review of an area. These audits usually involve application control testing. Integrated audits include a shell report, which is merged into the financial audit report, and workpapers.
- **Other “on-request” management services** – fraud investigations and Sarbanes-Oxley testing, facilitating regulatory requests as needed. Workpapers are usually generated as a result of these activities, however, the workpapers are retained by the entity that management has designated as being responsible for the end-product of the “on-request” service.
- **Data extraction and analysis** – these are not audits per se; rather they are used to support and enhance financial or other special-purpose audits. Data extraction involves the completion of a computer assisted audit techniques (CAAT) form.

Audit assignments are made by management, determined by priority, ongoing audit work and the availability of qualified personnel to act as in-charge of the audit, as well as the need for and availability of staff auditors to assist.

A typical audit begins as follows.

- Notifying the auditee that an audit is planned for the area and that background information is being compiled;
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- Reviewing prior workpapers and either updating/completing the relevant systems profiles for the systems;
- Performing outside research. This would involve gathering audit programs from different areas;
- Preparing a time budget;
- Preparing/updating the narrative for the area under audit;
- Completing the risk control assessment;
- Completing the scope memorandum; and
- Incorporating feedback into the audit report.

The operations management control department works with the profit centers to ensure that the following issues are addressed:

- Maintain an internal audit log of all third party administrators reflecting the annual premium collected, the annual volume of claims paid, schedule of audits/due diligence performed, for the purpose of a risk assessment analysis based upon criteria developed by the three profit centers.
- Selection of the audits to be performed in the upcoming calendar year based upon the risk assessment findings.
- Summarizing the findings of the audits as they are performed, defining the risk to the operation, recommending a course of corrective action and clearing the exceptions in conformance with profit center goals.
- Responding to the profit center’s request for an immediate audit based upon management’s concern over operating expenses, claim experience, insurance department complaints, underwriting deficiency, delinquent premium remittance, etc.
- Reviewing the Administrative Service Agreements to ensure they are compliant with current operating standards and they are brought to the Legal department’s attention.
- Working with the various internal departments to ensure that the business processes, risk analysis and testing are performed annually as dictated by the Sarbanes-Oxley legislation.

Profit center business analysts validate audit findings on draft report. Once validated, the report is finalized and sent to legal department for review and approval. A final report is then released to the profit center manager. The profit center is required to address open items within ten (10) business days. Follow up to items not cleared in ten (10) business days is accomplished via a monthly status report that is circulated to senior management and the profit center business analysts.

Audit Report Process was further delineated on June 1, 2005 to document and circulate the following controls/new procedures:

- Audit will complete the draft report within sixty (60) days of the site visit.
- Audit will meet with Profit Center and Claim liaisons to review draft.
- Profit Center/ Claim liaison will verify report findings within one week (two weeks for complex reports).
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- Association/Credit Profit Center and Claims will prepare management responses to be inclusive in final audit report.
- Legal department will receive final audit and client report - approval anticipated within a few days.
- Employer Profit Center and Claims will prepare management responses following release of Client Report to the TPA.
- Final report to be released no later than ninety (90) days following the site visit.
- The monthly status report will include the Chief Counsel and the CEO on the distribution list.
- A quarterly status meeting will be held to review open audit items.
- An annual audit presentation to be developed that may include Sarbanes-Oxley test results

This information is also contained inside the review of the audit process. Management controls consist of management’s review of procedures used in clearing audit reports. At least manager-level review is required for all workpapers. The major control over report issuance is that reports are not transmitted to New York for the final clearance through the audit department until a sign-off is obtained at the auditee Vice-President level. Formal written workpaper standards were created in September 2003. Standards existed before, but were not in writing. There have been no major revisions since the document was first published.

Recommendations: None

Procedure 02 – Assertions of Privilege Procedure.

Observations: The Company does not have a written procedure for the assertion of privilege. The Examiners reviewed several items provided by the company purporting to be the written procedure but these were merely ad hoc descriptions of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

According to the Company, the department supervisor advises all attorneys and staff of the legal department on the applicable privileges and related requirements.

These requirements include:
- Appropriately labeling documents and other communications as attorney client and/or work product privilege, and confidential,
- Advising clients that privileged documents may not be shared with external non-company personnel.
- Generally maintaining the confidentiality of information within the legal department due to privileges, and in accordance with applicable laws and company policies.
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According to the Company, compliance is not formally measured, due to the fact that assertion of privilege is a standard business practice. Legal department managers advise attorneys and staff of the requirement that all documents and communications are appropriately labeled as attorney client and/or work product privilege, and confidential. The labeling of documents and communications is made through several different methods, both electronic and hard copy in nature.

According to the Company, the assertion of attorney client and work product privileges has been a standard practice within the legal department for many years and has not undergone significant change. An additional document provided to the Examiners included the Company’s policy on confidential information. The focus of this document involves the preservation of confidential information within the employee, vendor and consumer realms.

The company also stated that all legal department staff are advised of the requirements to preserve privileges, and the use of the various methods of preserving privilege is integral to the day-to-day activities of the legal department. These processes are part of the department’s standard business procedures and observable throughout the legal department on a daily basis.

Recommendations: None.

Procedure 03 – Company records, central recovery and backup procedure.

Observations: The Company has a written procedure for company records, central recovery and backup. The Examiners reviewed the procedure and supplementary information provided by the Company including the AIG policy concerning company records, the AIG records management policy executive summary, several other compliance reports and workpapers involved in the backup procedure, as well as tape backup and destruction procedures, timelines and business continuity procedures. These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure. The AIG records management policy and retention schedule were adopted on September 29, 1999 and revised in 2003. The Company’s data center created the Houston (main office) tape procedures in 1987. Since 2000 these procedures have been maintained and reviewed annually by AIG management. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to this procedure.

The AIG policy concerning company records describes the process of handling backup tapes for the Houston AIG life mainframe. The AIG technologies general backup document details the backup policies and procedures for non-mainframe computer systems.

Policies concerning records management and retention are governed by guidelines laid forth in the records management policy. This policy provides guidance on maintaining
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records in accordance with all applicable laws and regulations, as well as the corporate policies outlined in the document. The policy states that the Company president and comptroller are responsible for ensuring compliance with this policy. If it becomes necessary (or as allowed by the prevailing laws and regulations governing off-site record retention) to destroy documents stored off-site, their destruction is regulated by policies contained in the off-site storage destruction procedures. These procedures were provided to the Examiners for review.

The executive summary of record management policy is a detailed description of record management policy and practices including management controls. Effectiveness of the procedures is measured in several ways. The destruction eligibility report is sent to the department head of each business area where documents will be destroyed. The head of the department must approve the destruction and retention of the documents by signature and date. A certificate of destruction is sent to the senior officer of each Business area for approval by signature and date, then sent to the company comptroller for approval, then sent to the cooperate tax department for final approval. Tape backup logs are reviewed by technical and IT department managers on a daily basis in the form of tape back logs.

Recommendations: None.

Procedure 04 – Computer Security Procedure.

Observations: The Company has a written procedure for computer security. The Examiners reviewed the procedure and supplementary information provided by the Company including the AIG information security program summary. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The program summary document was created July 16, 2003 with updates of July 7, 2004, January 25, 2005 and July 8, 2005. AIG policies and standards for information security have been in force as part of the current program since 1998 however the largest core of documents have been developed since 2001.

Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to this procedure.

The information security program summary outlines the mission and goals of the program including the roles of the information security advisory committee, the information security department, security administrators and various other affected departments in meeting the expectations of executive management.

The security program has been designed to address these influencing factors in a timely manner in order to ensure proactive actions are taken to control information security threats and vulnerabilities.

The mission of the program is to direct and support Company organizations in the cost-effective protection of their information assets from unauthorized or accidental access, modification, destruction, and disclosure. This protection includes the integrity,
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availability and confidentiality of information regardless of the media or technology used where it is stored, or who handles or possesses it.

The Company has an information security governance group that coordinates and develops security policies, standards and procedures. Certified security professionals throughout are utilized to ensure there is representation from each business group involved or significantly impacted by new requirements.

There are approval processes for each type of document to ensure appropriate acceptance and understanding of the documents. The Company’s corporate, legal, privacy officer and group compliance areas are included in the review process. Additionally, the standards review group meets every two months to review new or updated standards that have been developed.

The security documents are available in a centralized web site for all employees to access. There are additional security awareness programs suitable for different levels of employees and consultants that focus attention on the security issues relevant to tasks of the particular employees. There are several processes and tools used for conformance with the security program. Measurement processes include but are not limited to: third party hosting reviews, internal and external audits, external connectivity reviews, building permits and system policy validation tools.

Recommendations: None

Procedure 05 – Anti Fraud Procedure.

Observations: The Company has a written procedure for anti-fraud. The Examiners reviewed the procedure and supplementary information provided by the Company including the Company’s business policy regarding anti-fraud, AIG anti-fraud reports, corporate mission and policy statements, fraud referral forms, documented fraud cases and a sample copy of the Company’s distributed anti-fraud bulletin. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

A comprehensive business policy was created, published and distributed to all domestic life division employees on September 14, 2004. A detailed fraud referral form and listing of red flag indicators were created and made available to employees. These documents were designed to assist employees in identifying potential fraud activities and in documenting pertinent information for the investigation process. All employees are required to review this policy.

The AIG anti-fraud plan was initially adopted in 2000. This program applies to all its member companies (including AIG Life) worldwide. The AIG Worldwide Investigative Resources, Inc (AIGWIR), an AIG company, provides a broad range of prevention,
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detection and recovery services to combat insurance fraud against all its member companies worldwide. AIGWIR employs over ninety (90) investigators throughout the world, all of whom are either licensed adjusters, hold professional certifications, and/or have multiple years of investigative experience.

Under the AIG anti-fraud program, there are two primary Special Investigation Units (SIUs): the Fraud Investigation Division (FID) of AIGWIR and the Investigative Group of AIG Internal Audit Division. Their responsibilities include, but not limited to; fraud prevention, detection, prosecution, reporting, record keeping, and employee training. Additionally, in 2004 the AIG American Domestic Life Division (the division which AIG Life is under) created and published a business policy on the anti-fraud program.

This business policy illustrates the applicable definitions, structures, and procedures (including a detailed fraud referral form and a listing of red flag indicators) of the anti-fraud program that all employees are to comply with and observe. AIGWIR also publishes the fraud quarterly bulletin which includes recent new stories, fraud detection/investigation recognition awards, applicable training updates, other fraud cases nationwide, AIGWIR fraud investigator profile and other related topics. This Bulletin is distributed to employees at different business centers and also is available to all AIG employees on the intranet website.

Internal periodic and/or ad hoc reports are generated for management’s review, for risk assessment purposes and upon special requests. Reports are also produced for external reporting as required by applicable laws and regulations. Samples of these reports were provided to the Examiners for review.

Recommendations: None

Procedure 06 – Disaster Recovery Procedure.

Observations: The Company has a written procedure for disaster recovery. The Examiners reviewed the procedure and supplementary information provided by the Company including the Company’s business continuity plan for various sites, business recovery strategies, recovery processes, business continuity reference guides, emergency contact spreadsheets, vendor disaster recovery agreements and checklists, management sign-off reports, and response plans for all business centers. These procedures are clear, readable, organized and available to all persons needing access to or affected by the procedures. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedures.

The business continuity plan defines what this business unit needs to do in the event of a disaster and describes what resources are needed to support the Company’s critical and necessary business functions. Critical business functions should be resumed within three to five (3-5) business days following a disaster. AIG has contracts in place with SunGard
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(outside vendor) to utilize their facilities in case of a partial or complete loss the Company’s location.

The business continuity plan is reviewed and signed off twice a year by senior management. In addition, disaster recovery tests are held at least twice a year, during May and October. During these practice runs, tests are performed in restoring critical systems and processes at various SunGard disaster recovery sites. The test also serves as validation of both the Company’s off-site tape storage process, and the ability of the technical and information technology staffs to recover critical parts of the Company’s network and applications systems. For each test an executive summary is prepared detailing the test results and distributed to senior management. The on-site business continuity coordinator listed in the business continuity plan is responsible for maintaining the plan and ensuring that management and staff are aware of all of the procedures.

The comprehensive Business Continuity Plan for AIG was developed in December 2003.

It was last updated on January 27, 2005. The revision history is as follows:

- Version 1 – December 2003 (Initial version)
- Version 2 – January 2004 (Format adjustment)
- Version 3 – May 2004 (Biannual review & update)
- Version 4 – July 2004 (Personnel update)
- Version 5 – September 2004 (Personnel update)
- Version 6 – November 2004 (Personnel update)
- Version 7 – December 2004 (Biannual review & update)
- Version 8 – January 2005 (Personnel update)

The Neptune group division has an identical disaster recovery program. The only difference is in version and revision history. The comprehensive business continuity plan for this location was developed in May 2003. It was completely re-written in October 2004 to bring it in line with AIG standards. The revision history is as follows:

- Version 1 – May 2003
- Version 1.2 – December 2003
- Version 1.3 – June 2004
- Version 2.0 – October 2004 (complete re-write to bring it in-line with AIG standards)
- Version 2.1 – December 2004
- Version 3.0 – June 2005

Recommendations: None

Procedure 07 – MGA Oversight and Control Procedure.

Observations: The Company does not use MGA’s in its production or servicing of business in Delaware.
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Recommendations: None

Procedure 08 – Vendor Oversight and Control Procedure.

Observations: The Company has a written procedure for vendor oversight and control. The Examiners reviewed the procedure and supplementary information provided by the Company including AIG’s business policy and procedures regarding contracts. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The Company’s Business Policy, originally established in 2001, was recently rewritten in 2005. This procedure will be reviewed on an annual basis. The company states that adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure, however samples of these methodologies were not provided to the Examiners.

The Domestic Life Division Business Policy requires all business relationships or arrangements with vendors or third parties to be appropriately documented through a written contract that receives legal department approval prior to execution.

The business unit that is interested in pursuing a relationship with a vendor is responsible for identifying the vendor(s) and performing appropriate due diligence regarding the vendor. In cases where a vendor is being contracted at the AIG corporate level the due diligence and legal contracting are handled through the AIG corporate business and legal departments in New York.

In cases where the vendor is being contracted at the domestic life division level, the due diligence may be handled by the business unit or the strategic planning group (consulting group) with appropriate assistance from the legal department. Depending on the type and scope of services to be performed by the vendor, the due diligence may include reviewing the vendor’s business service capabilities, assessment of IT systems and security, and review of financial, corporate, and legal information. For large scale projects, where several vendors may be under consideration, a formal Request for Information (RFI) or Request for Proposal (RFP) vendor selection process may be utilized during which several vendors are analyzed and asked to submit formal written responses and/or bids to the Company.

Once the vendor is identified the legal department prepares and negotiates an appropriate contract which contains terms providing vendor oversight and control. Terms may include service performance standards, vendor insurance, indemnification of the Company, termination of the contract for cause in the event of vendor breach of performance standards or contract terms, and vendor representations and warranties regarding service performance and compliance with laws. Once the contract is in force the business unit is primarily responsible for monitoring the vendor’s compliance with the contract terms and contacting the legal department regarding any breaches of the contract.
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Measurement of the operations and effectiveness of the vendor is performed in several ways. At an informal level there may be ongoing monitoring of the vendor’s services and quality through day to day use of the vendor and internal feedback within the Company and business units. No other information regarding measurement was provided to the examiners.

On a more formal level, the business unit responsible for the relationship may have in place reporting procedures whereby the vendor provides certain reports regularly to the Company for review through which the Company monitors the vendor’s contract performance. Current Company contract terms with vendors often require regular reporting to the Company, compliance with specific stated service levels or standards, and the allowance of audits by the Company of the vendor. Standard contract terms to enforce vendor performance include Company termination of the contract for cause due to vendor performance, indemnification of the Company due to certain vendor actions, and vendor insurance coverage.

Specimen copies of vendor reports were provided to the examiners which illustrate the oversight methods utilized by the life division vendor relations department to manage relationships with underwriting services vendors. The vendor relations department also monitors vendors through establishing relationships that encourage proactive reporting of problems to the Company by vendors and by providing a single point of contact for vendors that they manage.

Recommendations: None

Procedure 09 – Customer and Consumer privacy protection Procedure.

Observations: The Company has a written procedure for customer and consumer privacy protection. The Examiners reviewed the procedure and supplementary information provided by the Company including the Company’s notice of health information privacy practice for consumers, the Company’s compliance manual for employees, the company’s privacy policy notice, information security guide, HIPAA authorization sample form, a general synopsis of the customer and consumer privacy protection procedure and a privacy notice field bulletin. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

The AIG domestic life operations privacy policy and procedures were initially adopted in June 1999 and have been reviewed and revised as needed on an annual basis. Revisions have been to adjust the list of companies belong to the AIG domestic life operations and not to the policy or procedures themselves.

Additional version and revision history provided by the Company included:

- AIG Domestic A and H Privacy Notice dated-March 15, 2002;
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- US Privacy Policy Procedures for Mailings – initial mailings prior to July 1, 2001;
- and
- The Notice of Health Information Privacy practices, implemented on April 10, 2003.

The compliance manual describes the detail guidelines and procedures for the business conduct of all distributors of Company business, including privacy protection and preservation of proprietary information. According to the Company, the revision of the manual is conducted periodically, and the newest version of the manual can be obtained on the Company’s intranet website.

The compliance manual was initially published in 1998 and revised in May 2001 and October 2004. The May 2001 revisions included adding and/or updating information about suitability and fact finding, replacement guidelines, complaint handling and unfair competition. The October 2004 revisions included adding and/or updating information about do not call policies, policy delivery, quality assurance, file and record maintenance, premium payments and transactions by distributors that are prohibited.

According to the Company, AIG American General Domestic Life Operations Companies do not share nonpublic personal information about their customers or consumers except as allowed by law. The Companies provide protection to customers and consumers by restricting access to nonpublic personal information to employees, representatives, agents, or selected third parties who have a business need to know and have been trained to properly handle nonpublic personal information.

The privacy notice, and HIPAA authorization form is distributed to all clients in regard to the information the Company collects, how the Company uses it and what the Company does to protect the information. The authorization form allows the Company with client authorization to release information regarding the client to be used in relation to underwriting and eligibility of insurance and benefits.

The information security guide provides tools and procedures for the employees regarding confidentiality, integrity and availability of corporate assets, including client privacy rights and information. The field bulletin alerts and informs all employees on new privacy standards and practices that are established in relation to client information.

The company also measures the effectiveness of the written privacy procedures by monitoring consumer complaints as well as LIMRA’s CAP surveys. Samples of these surveys and methodology are included within the AIG Employees’ compliance manual.

Consumer complaints involving allegations of privacy violations are addressed through established complaint-handling protocol and procedures. Similarly, where a response to a LIMRA CAP survey includes a complaint alleging violations of privacy, the complaint is handled accordingly.
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Recommendations: None


Observations: The Company has a written insurance information management procedure. The procedure is clear and readable. Insurance information management procedures and policies are described in detail within the record management policy and practices, including management controls.

Additionally, two documents used to measure the effectiveness of the procedures were provided to the Examiners. The two documents are controls for documents destroyed in reference to the retention schedule. The first memorandum, which is the destruction eligibility report is sent to the department head of each business area where documents are to be destroyed. A description of the documents and a copy of the retention schedule are attached to the memorandum. The head of the department must approve the destruction and retention of the documents by signature and date. The second memorandum entitled Certificate of Destruction, is sent to the senior officer of each business area for approval by signature and date, then sent to the company comptroller for approval, then sent to the cooperate tax department for final approval. Tape backup logs are reviewed by technical and IT department managers on a daily basis in the form of tape back logs.

AIG’s records management policy and retention schedule were adopted on September 29, 1999 and revised in 2003. The American General data center created the Houston tape procedures in 1987. Since 2000 these procedures have been maintained by ACS and reviewed annually with AIG AG management.

Please refer to the observations discussed in P-03 above.

Recommendations: None

Procedure 11 – Complaint Handling Procedure.

Observations: The Company has a written procedure for complaint handling. The Examiners reviewed the procedure and supplementary information provided by the Company including complaint handling procedures for consumer affairs regarding life and group life policies, a sample exhibit of the management of consumer affair’s computer system regarding a complaint and a verbal walkthrough of the complaint procedure by the director of the consumer affairs division. Complaint handling procedures for AIG Life were adopted in 2001. Although management regularly reviews the complaint handling procedures and makes minor adjustments as necessary, no material changes have occurred since 2002.
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This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

Management reviews all new complaints upon receipt, participates in periodic case discussions, monitors the database and monthly reports, and randomly reviews complaint investigations to determine that a good faith effort is being made to resolve complaints fairly within the time standards provided. Management regularly reviews its complaint handling procedures to ensure that they provide an effective means of receiving and resolving customer complaints. One of the primary means by which the Company monitors its customer complaint policies and procedures is to review and analyze complaint patterns and trends.

Quarterly summary reports are prepared by consumer affairs and provided to the director of consumer affairs and chief compliance officer. The reports are analyzed for the purpose of identifying trends and root causes and recommending appropriate corrective action to effectively eliminate the cause of a complaint pattern or trend. Consumer Affairs utilizes a Lotus Notes database that notifies management when: (1) new complaints are assigned, (2) follow-ups are due, and (3) due dates that are approaching or have passed. The database provides a template to ensure that all required information is maintained. The database requires Management approval to close the complaint. Copies of these reports were provided to the Examiners.

Recommendations: None

Procedure 12 – Grievance Handling Procedure.

Observations: The Company has a written procedure for grievance handling. The Examiners reviewed the procedure and supplementary information provided by the Company including the grievance processes and procedures and, a written summary of the Appeals/Review process of settled life and health claims. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The consumer affairs department revised the procedures so that all sites would be consistent when the sites were merged into the Houston office in August 2003. Adequate measurement methodologies regarding this process were not provided to supply meaningful feedback relating to the procedure.

Pursuant to the Company’s procedures/manuals/practices whenever any settled claim is disputed, the dispute/appeal is provided, in writing, to the claims director for review. The appeal or grievance submitted by the claimant is included with the written documentation. AIG Life will notify, in writing, the covered person or their authorized representative, of the Company’s decision within twenty (20) working days after the date of receipt of the request for a standard review of a grievance. If, due to circumstances beyond the Company’s control, it cannot make a decision, a notification of this delay is
sent to the customer within twenty (20) working days. The Company may take up to an additional ten (10) working days to issue a written decision.

Any claim that is received is scanned into the consumer affairs database for file documentation and routing purposes. The claim is referred to a claims examiner for handling on a rush basis. An examiner, other than the examiner that handled the initial claim, then reviews the correspondence and writes a decision for the director’s review. The complaint is then referred to the director of consumer affairs for review and resolution. The quality review process ensures that work items are handled properly. The quality review team reviews processed items in the consumer affairs database for accuracy and completeness. The consumer affairs department revised the procedures so that all sites would be consistent when the sites were merged into the Houston office in August 2003.

Quarterly summary reports are prepared by consumer affairs and provided to the director of consumer affairs and chief compliance officer. The reports are analyzed for the purpose of identifying trends and root causes and recommending appropriate corrective action to effectively eliminate the cause of a complaint pattern or trend. Consumer affairs utilizes a Lotus Notes database that notifies Management when: (1) new complaints are assigned, (2) follow ups are due, and (3) due dates are approaching or have passed. The database provides a template to ensure that all required information is maintained. The database requires management approval to close the complaint.

Recommendations: None

Procedure 13 – Advertising, sales and marketing Procedure.

Observations: The Company has a written procedure for advertising sales and marketing. The Examiners reviewed the procedure and supplementary information provided by the Company including the Company’s marketing reference guide, Noosh, (quick reference guide), AIG employee benefits press release and public relations workflow charts. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The version date of the procedure is March 2003 and is reviewed for update annually, or as needed by management. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

The marketing guidelines were developed to assist sales representatives, agents and brokers in the creation of advertising/marketing material for employee benefits solicitations. Nearly all marketing collateral is produced through the internal marketing department in Neptune, New Jersey, partnered with the Houston office of marketing for advertising creation.

Entities wanting to create their own materials must first submit it through the marketing department for appropriate brand review and to the compliance department for
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appropriate legal review. The underwriting company disclosures need to pertain to the collateral adequately. The marketing department uses an online project management system, Noosh, to track all advertising material being created and reviewed. The Company stores all material online through Smartworks, an outside vendor. Using both systems, the Company is able to identify and monitor materials that need to be updated as well as periodically reviewed. Samples of all printed materials must be sent to the marketing communications department upon completion. The Noosh management system houses all of the key project steps from initiation through final files sent to the legal department for domicile approval to ensure appropriate steps are being taken.

The marketing reference guide was initiated in March 2005. The advertising guidelines has a revision history of 2003 and includes the following updates: November 2003 to add a new cover page, June 2004 to updated advertising guidelines and cover, January 2005 to update underwriting company information to advertising guidelines and March 2005 to embed into marketing reference guide.

Recommendations: None

Procedure 14 – Agent produced advertising Procedure.

Observations: Please refer to Procedure 13 for information regarding this procedure.

Recommendations: None

Procedure 15 – Producer Training Procedure.

Observations: The Company has a written procedure for producer training. The Examiners reviewed the procedure and supplementary information provided by the Company, which includes: training methodology for employee benefits summary, a power point presentation regarding agent producer and broker licensing, employee orientation training agenda and an AIG direct producer contract. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. According to the Company, the knowledge assessment process within the training methodology process was developed in 2005. Review, measurement and version history regarding all these documents was not provided.

According to the Company, a one-week orientation is held for newly hired sales representatives in the home office located in Neptune, NJ. This classroom training is designed to provide information on products, underwriting, home office operations and workflow. Additional training is provided on an as-needed basis to deliver knowledge and skills in the areas of:

- Products;
- Procedures;
- Systems / Technology; and
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- Sales Skills.

Training needs are identified though needs assessment and are provided using a variety of training methods including classroom training at national or regional meetings, distance learning via web-based training or conference calls.

Sales representatives are responsible for providing training to external sales partners. Training evaluations are distributed after every classroom training session. Additional methods of evaluation include monitoring results and conducting periodic needs assessments. In 2005, the Company instituted a knowledge assessment process to assess the understanding of newly filed products. Training methodology is reviewed on an ongoing basis.

Recommendations: None.

Procedure 16 – Replacement Procedure.

Observations: The Company has a written procedure for replacement. The Examiners reviewed the procedures and supplementary information provided by the Company including new business replacement processing procedure, replacement procedures for existing customers: and incoming and outgoing exchange processing procedures, Regulation 60 processing procedure and samples and replacement registration database user guide for new business processors. In addition, a copy of the Company’s weekly report and quality checklist in reference to replacements was also provided to the Examiners. These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure.


Revision history was not provided regarding these procedures. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

The Company’s replacement policies and procedures (individual life only) were revised in 2002, 2003 and 2004 to incorporate individual state regulations and NAIC Model updates, and in 2005 to revise commission adjustments on replacement sales. These revisions do not apply to the new business administration of AIG Life, which is limited to term life conversions.

All documents provided to the Examiners contain general procedures for handling replacements. These procedures are also used for training purposes and daily reference.
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In reference to measurement, three quality review representatives in the quality team select a certain percentage of cases for independent quality review. Management receives a weekly report stating the number of cases reviewed and the number failed. Management reviews the report for agreement, the need for discussion with the processor, and the need for remedial training if necessary. Copies of the quality checklist and a weekly report were provided to the Examiners.

Recommendations: None

Procedure 17 – Illustration Procedure.

Observations: This procedure is not applicable since the Company does not use illustrations for their products.

Recommendations: None

Procedure 18 – Outline of Coverage Procedure.

Observations: The Company does not have a written procedure for outline of coverage. The Examiners reviewed several items purporting to be the written procedure but these were merely ad hoc descriptions of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

According to the Company, in regard to individual health insurance, the Company provides all prospective purchasers an outline of coverage/policy summary prior to accepting the applicant’s initial premium or premium deposit. The Company also provides an outline of coverage/policy summary to any prospective purchaser upon their request.

The Company tests the issuance system periodically to ensure that proper outline of coverage/policy summaries are made available to all prospective purchasers prior to accepting an applicant’s initial premium or upon their request. Processes regarding outline of coverage were adopted in 1999 and have not been revised during the last three year period.

Written procedures regarding outline of coverage do not currently exist. The accident and health products and compliance departments periodically audits the sales process and issuance system to ensure proper distribution of the outline of coverage documents. Information regarding Life products was not provided to the Examiners.

Recommendations: None
Procedure 19 – Network Adequacy Procedure.

Observations: The Company does not have a written procedure for network adequacy. The Examiners reviewed several items purporting to be the written procedure but these were merely ad hoc descriptions of a process used in the absence of a written structure. These ad hoc processes are not subject to reporting or control and may lead to inconsistent application of management intent.

When filing its networks with the various States’ insurance departments, if requested, the Company will work with the Company to provide the necessary documentation to the insurance department.

The Company reviews for network adequacy during the initial due diligence of the network that is rented. Auditors request information about the quality assurance procedures and reviews for adequacy. If any issues are discovered, the network vendor must respond and rectify the issue before the Company will sign the agreement. In addition, within the contractual language of the network vendor agreements, the Company may at any time request additional providers be added to the network. The network provider will then work with the provider to see if the provider will join the network.

Information relating to measurement structures in place to test the functioning of the process was not provided to the Examiners.

Recommendations: None

Procedure 20 – Producer Selection, Appointment and Termination Procedure.

Observations: The Company has a written procedure for producer selection, appointment and termination. The Examiners reviewed the procedure and supplementary information provided by the Company including the Houston office’s licensing and contracting department processing procedure, affluent and corporate markets background review criteria, a copy of the licensing and contracting team weekly report and power point training presentations regarding new agent appointment procedures. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The licensing and contracting unit was established in August 2001, an automatic upload of reports into the Company’s imaging system was implemented on January 1, 2004. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

The Houston office’s licensing and contracting department receives and processes agent licensing and appointment requests from numerous financial and marketing institutions, as well as from individual agents. All work is scanned into the work distribution system for processing. Work is then reviewed for completeness. A background investigation report is ordered through First Advantage’s (outside vendor) website. The background
investigation results are received and analyzed. If the background report from the vendor has “Pass” results, then the agent is coded on the Company’s system and an appointment is sent to the state. If the report contains “Review” results, the management/compliance department reviews decline. If review of initial results is confirmed, the agent is coded in the system as declined. If the “Review” results are overridden by management/compliance department determination, the agent is coded on the system and appointment is sent to the state.

In regards to terminations, information regarding an agent is scanned into the work distribution system for processing. Information is then reviewed for completeness. If complete, the agent is terminated on the system and termination information sent to the state’s if applicable.

According to the Company, due to low volumes of AIG appointments, management monitors set-ups to ensure procedures are being followed. Regular training sessions and procedure revisions are frequently performed to ensure management is receiving appropriate feedback concerning effectiveness of procedures.

Management reviews procedures on a weekly basis and documents these reviews in the licensing and contracting team weekly report. This report allows management to view the actual volume of licensing projects, including attributes such as, passed, pending, total processed and quality review and productivity statistics.

In addition, when coding a new agent or terminating an existing agent, the system has mandatory fields that must be completed in order to ensure the agent is coded correctly. This includes hierarchy information and financial owner information. The Company also has automatic uploads of background reports into its imaging system.

Recommendations: None

Procedure 21 – Producer Defalcation Procedure.

Observations: The Company has a written procedure for producer defalcation. The Examiners reviewed the procedure and supplementary information provided by the Company including fraud referral forms, producer contracts and other information included within the observations of the anti fraud procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. Since the licensing and contracting unit was established in 2001, it has been responsible for reviewing all background investigations. Automatic upload of reports into the Company’s imaging system were initiated on January 1, 2004. Adequate measurement methodologies are in place and appear to provide meaningful feedback relating to the procedure.

A background check is ordered for both individual and corporations seeking a contract. Background check results are reviewed and approved before a contract is accepted and
before a state appointment is requested. Background results that do not meet minimum standards are either declined or referred to the profit center compliance officer.

Due diligence is performed via background investigations on 100% of all cases. A background specialist, management and/or the compliance officer determine if contracting will be approved in reference to review background investigations that do not pass the initial approval screening. In addition, agent fraud cases involving embezzlement are referred to AIG World Investigative Resources, Inc. (“AIGWIR”). AIGWIR’s procedures with respect to agent defalcation, investigation and disposition are clearly defined and organized.

Under the AIG anti-fraud program, there are two primary Special Investigation Units (SIUs): the Fraud Investigation Division (FID) of AIGWIR and the Investigative Group of AIG Internal Audit Division. Their responsibilities include but not limited to: fraud prevention, detection, prosecution, reporting, record keeping, and employee training. Additionally, in 2004 the AIG American Domestic Life Division (the division which AIG Life is under) created and published a Business Policy on the anti-fraud program.

This Business Policy illustrates the applicable definitions, structures, and procedures (including a detailed fraud referral form and a listing of red flag indicators) of the anti-fraud program that all employees are to observe and comply. AIGWIR also publishes the fraud quarterly bulletin which includes recent top stories, fraud detection/investigation recognition awards, applicable training updates, other fraud cases nationwide, AIGWIR fraud investigator profile and other related topics. This Bulletin is distributed to employees at different business centers and also is available to all AIG employees on the intranet website.

Internal periodic and/or adhoc reports are generated for management’s review, for risk assessment purposes and upon special request. Reports are also produced for external reporting as required by applicable laws and regulations. Samples of these reports were provided to the Examiners.

Recommendations: None

Procedure 22 – Prevention of use of persons with felony conviction Procedure.

Observations: The Company has a written procedure for prevention for use of persons with felony conviction. The Examiners reviewed the procedure and supplementary information provided by the Company including a summary of background hits that are excluded for compliance review and all observation information within producer selection, appointment and training procedure.

In addition to the information included in the observations in procedure 020 above, the company states that a decline letter is back scanned into on-line imaging system with decline entered as the new agent type. This information can be retrieved via the
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Company’s on-line imaging system. All hits not listed below are to forwarded to the Compliance Section/Division/Manager for approval or declination. Background hits that do not need to be approved by the Compliance Section/Division/Manager are:

- Speeding or moving violations
- Collection accounts, judgments or tax liens under $2,500
- Collection items over five (5) years old
- Bankruptcies over five (5) years old

Recommendations: None

Procedure 23 – Policyholder Service Procedure

Observations: The Company has a written policyholder procedure and they have two different sites (Houston, TX and Neptune, NJ) for the procedure. These procedures are clear, readable, organized and available to persons needing access to or affected by the procedure.

The Company’s Houston site has files that contain general procedures, which are beneficiary change, ownership change, full surrender, partial surrender and signature requirements that service the policyholder. These procedures are used for training purposes and daily reference. To measure the procedure, three quality review representatives in the quality team select a certain percentage of cases for independent quality review. Management receives a weekly report stating the number of cases reviewed and the number failed. They review for agreement, discuss with the processor, and if necessary provide remedial training.

The work performed at the Neptune site is scanned into a workflow distribution system for processing. These files contain termination, eligibility processing, change processing, evidence of insurability, group eligibility rules, processing enrollment, and the group enrollment form to service the policyholder. To measure the procedure, all new employees work is checked 100% of the time for quality until they meet a 90% rating. For each type of work, the new employee must process a specified amount of work at the 90% passing rate. Once an employee meets this criterion, 5% of the work is checked via workflow distribution system. The quality assurance department monitors this and quality reports are obtained from the distribution system on a daily basis.

Recommendations: None

Procedure 24 –Premium Billing Procedure

Observations: The Company has a written premium billing procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was revised May 2004.
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The Company’s Houston site has files that contain general procedures for direct billing and premium payment guidelines. Checks are received to pay premiums, loans, loan interest, and fees for a duplicate policy, or billing suspense to a department. Some payments are received with their original billing notices and others are received with a letter or memorandum with instructions on how to apply the money. Payments are also received with no instructions on payment processing which can result in a delay to complete the payment.

These procedures are used for training purposes and daily reference. Three quality review representatives in the quality team select a certain percentage of cases for independent quality review. Management receives a weekly report stating the number of case reviewed and the number failed. Management also reviews for agreement, discusses with the processor, and provides remedial training if necessary.

The Company’s Neptune site has bills that are automatically generated by the administration system on a monthly, quarterly, semi-annual or annual basis. Late notices and reinstatement applications are generated by the system approximately ten (10) to fifteen (15) days after the due date. Staff reviews the system-generated reports to determine those accounts that need to be canceled for non-payment.

Recommendations: None

Procedure 25 –Correspondence Routing Procedure

Observations: The Company does not have a correspondence routing procedure. It cannot be determined with the information provided to the Examiners whether the correspondence routing process is accessible and provided to persons subject to its provisions or if the process is performing as intended and being utilized by the persons affected. No information regarding measurement structures was provided for the Examiners to review in order to determine if management exercises oversight and control of the process.

The Company response to interrogatories related to this procedure adequately describes and discusses how correspondence is addressed once it arrives at its appropriate location but does not address how it gets there once received by the Company, nor does it address how the process is structured to avoid misrouting.

Recommendations: It is recommended that the company formulate, adopt and implement a written correspondence routing procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure.

Procedure 26 –Policy Issue Procedure

Observations: The Company does not have a policy issue procedure at the Neptune site. No information regarding measurement structures was provided to the Examiners to
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review in order to determine if management exercises oversight and vision and audit history of the policy issue process was not provided.

This procedure does not apply to the Houston site, as new business administration of the company is limited to only term life conversions.

Recommendations: None

Procedure 27 – Reinstatement Procedure.

Observations: The Company has a written reinstatement procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was adopted in 1994.

According to the Company, when a group policy is cancelled for non-payment of premium, the policyholder may request that the case be considered for reinstatement. In order to be considered for reinstatement, the policyholder must remit all premiums due and complete a reinstatement consideration form. When all required premium and reinstatement form is received, factors including the groups past payment history and claims, after the termination date is reviewed to determine if reinstatement is an option.

Three-quality review representatives in the quality team select a certain percentage of cases for independent quality review. Management receives a weekly report stating the number of cases reviewed and the number failed. Management reviews for agreement, discusses with the processor, and provides remedial training if necessary. All new employees have their work checked until they meet a specific quality percentage. Once off quality check, supervisors use management conservation report to ensure procedures are followed.

Recommendations: None

Procedure 29 –Credible Coverage Procedure.

Observations: The Company has a written credible coverage procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. This procedure has been in place since January 1, 2002 and revised on August 1, 2004.

The Company assigns credibility based on life years of claim experience, which is indicated by the summation of the product of the average number of covered lives for a period multiplied, by the number of years in the experience period. Products of specific characteristics such as an Elimination Period for disability determine the percentage of credibility. This calculation is performed automatically by the various rating spreadsheets.
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The Company audits individual underwriters’ work two times per year at a rate of approximately four (4) cases per underwriter per audit. An audit worksheet is used to ascertain that all underwriting procedures are followed on a particular case. Management uses the audit results for training needs on both an individual and enterprise level. The company monitors the block level profitability and growth to determine if the underwriting procedures are producing the desired profits. Deficiencies are isolated and causes are determined when a particular procedure is casual, then the procedure will change.

**Recommendations:** None

**Procedure 30 – Premium Determination and Quotation Procedure.**

**Observations:** The Company has a written premium determination and quotation procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. This procedure has been in place since January 1, 2002 and was revised on August 1, 2004. Please refer to Procedure 29 above.

**Recommendations:** None

**Procedure 31 – Policyholder Disclosures Procedure.**

**Observations:** The Company does not have a policyholder disclosure procedure. It cannot be determined with the information provided to the Examiners whether the policyholder disclosure process is accessible and provided to persons subject to its provisions or if the process is performing as intended and being utilized by the persons affected. No information regarding measurement structures was provided in order for the Examiners to determine if management exercises oversight and control of the process. Revision and audit history of the process was not provided.

According to the company, the following checklist is used to verify client information prior to releasing information over the telephone. This checklist is maintained at each desk within the telephone unit and was initiated with the advent of the HIPAA regulations

Before giving information to a Plan Administrator, ask the following:

- Group Policy Number
- Group Telephone Number
- Group Address

Before giving information to the employee, ask for the following information:

- Spelling of Members Name
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- Date of Birth
- Home Address
- Employee Identification Number

This procedure does not apply to the Houston site, since the new business administration of the company is limited to only term life conversions.

Recommendations: None

Procedure 32 – Underwriting and Selection Procedure.

Observations: The Company does not have an underwriting and selection procedure. No information regarding measurement structures was provided to the Examiners in order to determine if management exercises oversight and control of the process. Revision and audit history of the underwriting and selection process was not provided.

The Company uses the AIG Group Underwriting Manual in lieu of a distinct underwriting and selection procedure. This manual has sufficient detail to operate similar to a procedure and make a separate procedure unnecessary.

According to the Company, they do not issue new policies except for those policies issued as a result of a term conversion. The Company noted that a certain percentage of cases are selected for independent quality review by three quality review representatives in the quality team and management receives a weekly report stating the number of cases reviewed and the number failed. Management reviews for agreement, discusses with the processor, and provides remedial training if necessary. It is not clear to what extent the review addresses compliance with all provisions of the underwriting manual.

This procedure does not apply to the Houston site, since new business administration of the company is limited to only term life conversions.

Recommendations: None

Procedure 33 – Rate and Form Filing Procedure.

Observations: The Company does not have a written procedure for rate and form filing. No information regarding measurement structures was provided. No information was provided to the Examiners in order to determine if management exercise rate and form filing process. Evidence of the process performing as intended cannot be determined due to the lack of measurement structure. Revision and audit history of the rate and form filing was not provided to the Examiners.

According to the Company, the current procedure is that the Actuarial department develops the appropriate rates, and then creates a rate manual with corresponding
actuarial memorandum. These documents are then filed with the state based upon an
understanding of the regulations and rules. Actuarial department sends this information to
Compliance department, who, working with the Company’s consulting organization,
packages this information along with the Form filing requirements and sends all of this
information to the states with a cover letter. Any clarification or questions come through
the Compliance area, which are then funneled to the appropriate department(s), which
then provides timely responses. It is the Actuarial departments understanding and
interpretation of the regulations that any rate increases following the initial filing will
require a filing of rates, actuarial memorandum and certification.

Recommendations: None

Procedure 34 – Termination Procedure.

Observations: The Company has a termination procedure. This procedure is clear,
readable, organized and available to persons needing access to or affected by the
procedure. This procedure has been in place since 1995.

The declination process is as follows:
1. An application is received by mail, scanned and indexed into Company’s
   Medical Underwriting Tracking system
2. An inquiry is sent to a database
3. An underwriter reviews the application on a database and determines
   whether any additional information, such as a blood profile is required. If
   needed, additional information is ordered.
4. Upon receipt of the final requirements, an underwriter reviews the file and
   makes a final decision
5. The decision is based on the applicant’s disclosed medical history and any
   other medical history developed during the course of the Company’s
   investigation. An Underwriting Manual is used to guide the Underwriter in
   the decision making process.
6. The applicant is notified of the decision, except when the reason is
   sensitive or the medical condition was not disclosed on the application. In
   those situations, the reason is disclosed to a doctor selected by the
   applicant.
7. A brief report of the medical condition may be made to the database.

To measure the procedure, all new employees’ work is checked 100% of the time for
quality until they meet a 90% ratio. For each type of work, the new employee must
process a specified amount of work at the 90% pass ratio. Once an employee meets this
criterion, 5% of the work is checked via workflow distribution system. The quality
assurance department monitors this procedure and quality reports are obtained from the
distribution system on a daily basis.

Recommendations: None

Observations: The Company does not have a underwriting and file documentation procedure. No information regarding measurement structures was provided to the Examiners to determine if management exercises oversight and control of the process. Revision and audit history of the underwriting and file documentation process was not provided. The AIG Group Underwriting Manual referred to in Procedure 32 above does contain documentation elements sufficient to meet the concerns addressed by this procedure.

Recommendations: None.

Procedure 36 – Underwriting Training Procedure

Observations: The Company does not have an underwriting training procedure. No information regarding measurement structures was provided to the Examiners to determine if management exercises oversight and control of the process. Revision and audit history of the underwriting training process was not provided. According to the Company, underwriters receive on-the-job training. New underwriters are also sent through various training classes to familiarize them with AIG’s system processing. Since the Company has limited new business, this procedure appears to be adequately addressed by the training actively provided by the Company.

Recommendations: None.

Procedure 37 – Insured/Member Enrollment Procedure.

Observations: The Company has a written insured or member enrollment procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. This procedure was adopted in 2000.

The types of changes to an individual’s coverage are primarily changes that take place at the certificate level. These changes are usually the result of requested changes in an employee’s coverage due to a salary change, marriage, additions, deletions to the family, divorce or refusal of coverage. Any changes which affect the entire group and pertains to changing eligibility requirements, benefits offered, rates or in some other way alters the group’s plan or requires an amendment.

Eligibility for Group Insurance coverage is linked closely with conditions pertaining to employment. The following is a checklist for eligibility:
- Determine who is an eligible employee;
- Determine who is an eligible dependent;
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- Determine the eligibility date for coverage;
- Determine the effective date of coverage.

Once a case is in force and a plan holder wishes to add an employee to its plan, it is a primary function of the Client Service Analyst to determine if the applicant is eligible for coverage, and if so, to process the request for enrollment.

The Company measures new employees by checking 100% of all work until they meet a 90% correct ratio. For each type of work the new employee must process a specified amount of work at the 90% pass ratio. Once an employee meets this criterion, 5% of the work is checked by the workflow distribution system. This is monitored by the quality assurance department and quality review is done daily.

Recommendations: None

Procedure 38 –Continuation of benefits Procedure.

Observations: The Company has a written continuation of benefits procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. This procedure was revised on 2004.

If an inquiry regarding an individual’s eligibility to continue benefits is received, the Company first reviews the file to determine if the insured is eligible for COBRA continuation. If it is determined that the insured is not eligible for COBRA continuation, if not, then eligibility for state continuation is investigated.

To determine if state continuation requirements apply, the State Continuation in the Customer Service Application or Memorandum should be reviewed. The format of the state continuation benefits presented in the Customer service application indicates the information required to determine if an insured is eligible. The following areas are addressed:

1. Who is eligible to continue; Eligible individuals can be the employee only or employee and/or dependents. Some states specify a minimum period of coverage prior to the beginning of a continuation period.
2. Under what circumstances can coverage be continued? Some states indicate that if coverage ends for any reason, the insured has the right to continue. Other states limit continuation eligibility to specific reasons. Some of the reasons that are specified are as follows:
   - Employee’s total disability;
   - Death or divorce of employee, (for dependent continuation);
   - Labor dispute (strike); and/or
   - Employer relocation.
A state may specify one or more reasons for allowing employee or dependent continuation. If more than one continuation reason is specified, it is generally as a result of a different duration of benefits allowed for each event defined.

The Company measures new employees by checking 100% of all work until they meet a 90% correct ratio. For each type of work the new employee must process a specified amount of work at the 90% pass ratio. Once an employee meets this criterion, 5% of the work is checked by the workflow distribution system. This is monitored by the quality assurance department and quality review is done daily.

Recommendations: None

Procedure 40 – Staff Training Procedure.

Observations: The Company has a written staff training procedure. This procedure is clear, readable, organized and available to all persons needing access to or affected by the procedure. The procedure was revised at the beginning of 1999.

A combination of internal and external training is provided done in the Financial Reporting department. New employees with little life insurance experience are generally sent to seminars and/or training classes. The seminars are conducted on-site for financial reporting and other areas within the financial department. The Company’s in-house training department also offers numerous classes for all levels of employees, including management development courses. In addition, the company supports many educational and self-development programs through a variety of organizations such as Life Office Management Association (LOMA) and the American College. The Virtual Learning Center also provides a variety of courses. The Company also provides financial support for a continuing education for a variety of professional designations such as CPA, FSA, ACS, CCM, and CFA.

Lastly, on-the-job training is utilized fairly extensively for new employees or when new responsibilities are distributed. This involves reviewing work papers, walking through processes and procedures and performing duties while being supervised. Documentation of all key financial reporting processes and controls is also available and updated quarterly.

Recommendations: None

Procedure 41 – HIPAA Compliance Procedure.

Observations: The Company has a written HIPAA compliance procedure in place. The information provided to the Examiners included the health insurance notice of privacy practices issued to policyholders as well as the notices posted on the Company’s intranet website. This procedure is clear, readable, organized and available to persons needing
The HIPAA notice outlines the purpose of the act, clients’ rights and a listing of the lawful disclosure purposes in regards to medical information. The Company provides the client, per request, a form that will allow disclosure of medical information with written consent, as well as allowing additional restrictions to be put in place with regards to medical history. Contact information for any actions or complaints regarding HIPAA and the required notices are clearly defined.

The Company does not share personal health information about their customers or consumers without proper authorization. The Company’s provide protection to customers and consumers by restricting access to personal health information to employees, representatives, agents, or selected third parties who have a business need to know and have been trained to properly handle personal health information. The company also measures the effectiveness of the written HIPAA compliance procedures by monitoring consumer complaints as well as random surveys.

Recommendations: None

Procedure 42 –Claims Training Procedure.

Observations: The Company has a written claims training procedure. This procedure is clear, readable, organized and available to all persons needing access to or affected by the procedure. The procedure was revised in August 2003. The Company has two sites (Houston, TX and Neptune, NJ) and the same process for the claims training procedure is used at both sites.

The Company provided step-by-step procedures of the processing of a death claim as well as a checklist of all the steps that need to be verified before the processing of a claim is completed. The entire application must be reviewed, including the enrollment card and the background information supplied by the policyholder in conjunction with the group life contract to verify that the employee was indeed insured and his/her beneficiaries are eligible to receive payment.

The following type of information is reviewed:

- retiree coverage
- leave of absence
- statements of health
- dependent eligibility
- optional coverage eligibility
- service requirements

The digest should be checked to determine the eligibility for coverage, any class distinction and the schedule of benefits. Information from the claim form, that has been
verified by the group policyholder should be checked against the digest information so that the claims examiner can determine if, in fact, the claimant is eligible for coverage and, if so, what benefit would be payable.

Even with the documents, the claims examiners are all individually trained on a one-on-one basis, which is overseen by a senior examiner. The trainee learns and reviews the system process by participating in hands-on training. Once the trainee has mastered the claims applications at a level where the trainee can process claims on their own, all of their work is monitored through the distribution system.

Each user is assigned a quality percentage of work to be reviewed. When an examiner has just been trained 100%, their work is reviewed as well as each time the examiner handles a piece of work. A member of a claims quality team then reviews how the work was handled by verifying all information. If the work was completed satisfactorily, then the work is approved. If the work is unsatisfactory, it is then returned to the examiner with an explanation detailing what needs to be corrected. Once the corrections have been made, it is reviewed for quality and this procedure takes place until the work is handled correctly.

Recommendations: None

Procedure 43 – Claim Handling Procedure.

Observations: The Company has a written claims handling procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure. The procedure was revised in August 2003. The Company has two sites (Houston, TX and Neptune, NJ) that use the same process for the claims training procedure. Please refer to Procedure 42(above).

Recommendations: None

Procedure 44 – Internal Claim Audit Procedure.

Observations: The Company has a written internal claim audit procedure. This procedure is clear, readable, organized and available all persons needing access to or affected by the procedure. The procedure was initially adopted in September 2003. It was revised in March 2005 when the new claims system was implemented.

According to the Company, the objective of the claim audit process is to ensure that overall standards of quality are adhered to and processed claims satisfy state department regulations. Established goals are 95% error free claim handling and 99% financial accuracy.

A monthly basis, the quality assurance specialist audits ten percent (10%) of a sample of claims, with a minimum of five (5) claims per examiner. This is a random sample that is
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derived from the paid claims report that is run at the end of each month. The audit is conducted on a post claim payment basis.

The audit sheet lists the audit criteria and the points allocated to each item. The audit criteria includes:

(a) ensure payment is calculated correctly and in the correct period.
(b) there was adequate support documentation to support the claim payment or denial;
(c) adherence to state guidelines pertaining to timeliness of acknowledgement, processing, follow-ups etc; and.
(d) claim processed consistently in accordance with company policy.

Audit results are discussed with each examiner and a spreadsheet summary is given to the examiner staff and management. The results are presented under Financial Score and Procedural Score. Dividing the amount that was overpaid/underpaid by the total dollar amount of claims paid derives the examiner’s financial accuracy score. Tabulating the total points on each audit sheet and dividing that figure by the number of claims reviewed results in the examiner’s procedural score.

The spreadsheet also summarizes the department results for the month.

If an underpayment of $25.00 or more is discovered, the file is returned to the examiner to issue a check for the amount underpaid. The Company does not issue adjustment checks for an underpayment of less than $25.00. If an overpayment is discovered, it is referred to management to make a decision regarding whether or not the Company will request reimbursement.

A permanent record of the audit is retained. Repetitive errors, gaps in training identified by the audits or procedures requiring reinforcement are addressed during routine monthly meetings of the claims examiner staff. Audit results are used for performance evaluations.

Recommendations: None

Procedure 45 – Claim File Documentation Procedure.

Observations: The Company has a written claims file documentation procedure. This procedure is clear, readable, organized and available to all persons needing access to or affected by the procedure. The procedure has been revised since August 2003. Please refer to Procedure 42 (above).

Recommendations: None
Procedure 47 – Reserve Establishment Procedure.

Observations: The Company has a written reserve establishment procedure. This procedure is clear, readable, organized and available to persons needing access to or affected by the procedure.

According to the Company, reserves for liabilities are set according to appropriate statutory principles applying to the various lines of business. For example, life reserves are generally set using the Commissioner's Reserve Valuation Method with the appropriate assumptions for mortality and interest as required by statute. Similarly, annuity reserves are generally set using the Commissioner's Annuity Reserve Valuation Method with appropriate assumptions for mortality and interest as required by statute.

Administration of these policies may be on in-house systems, or may be handled by third party administrators. Valuation for certain lines of business and the associated review are handled in other sites (in particular, most Group Life and Group A&H is handled in Neptune, New Jersey).

Reserve valuation is performed using a combination of third-party vendor software and proprietary in-house software. In some cases, the administrators perform valuation services and sends reserve information via reports.

The general procedure is as follows:
1. Administration systems will provide data through automated feed or through other electronic transmissions. The data usually takes the form of seriatim policy listings, though some blocks will provide system-generated reports with reserves already calculated.
2. These extracts are run through the valuation software.
3. Results of the valuation are then reviewed and consolidated and provided to accounting.
4. Various roll forwards and trend analyses are performed (varies by line of business).

The Reserving Methodology is reviewed on a regular basis by the Actuarial area to ensure that the results are reasonable.

Recommendations: None
SUMMARY

A Delaware Baseline (Procedure and Controls review) market conduct examination of AIG Life Insurance Company was conducted.

AIG Life Insurance Company’s primary means of distributing products is through a network of independent agents and brokers. Until January 1, 2002, the Company portfolio included individual life and health, individual fixed annuities, variable life and annuities, group life and health, structured settlements and terminal funding annuities, single premium immediate annuities, funding agreements and guaranteed interest contracts (GIC). The Life Division began an initiative in 2002 to focus on “best in class” products to reduce duplicate offerings among the affiliated companies. This process involved evaluating the characteristics of similar products, such as unique features, competitiveness, state approvals and profitability, with one product selected as the sole ongoing product offered by one affiliated company. Due to this evaluative process the Company’s product portfolio has become more limited over time.

No major items of regulatory concern were noted.

Recommendations have been made to address the areas of concern noted during the examination. These are summarized below.

LIST OF RECOMMENDATIONS

Procedure 25 – Correspondence Routing Procedure

Recommendations: It is recommended that the company formulate, adopt and implement a written correspondence routing procedure. It is also recommended that the procedure address utilization of measurement structures to test the functioning of the procedure.
CONCLUSION

The examination was conducted by Donald P. Koch, Stephen E. Misenheimer, Sean Connolly and Candace Reese and is respectfully submitted,

_______________________
Donald P. Koch, CIE
Market Conduct Supervising Examiner
Insurance Department
State of Delaware

_______________________
Stephen E. Misenheimer, AIE, EIC
Market Conduct Examiner-in-Charge
Insurance Department
State of Delaware

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