

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

Allianz Life Insurance Company of North America

NAIC #90611

5701 Golden Hills Drive
Minneapolis, MN, USA 55416-1297

As of

June 30, 2017

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of June 30, 2017 on

Allianz Life Insurance Company of North America

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

Attest By: _____



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 12th day of September, 2018.

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



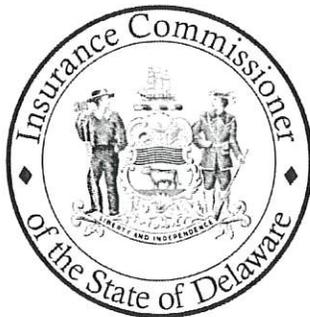
Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Allianz Life Insurance Company of North America
AS OF
June 30, 2017

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

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

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



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 12th day of September, 2018.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

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Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in Exam Authority Number 90611-ANN-16-592, and pursuant to statutory provisions including 18 *Del. C.* §§ 318-322, a market conduct examination has been conducted of the affairs and practices of:

Allianz Life Insurance Company of North America NAIC #90611

The examination was performed as of June 30, 2017. The examination was performed on-site at the home office of Allianz and off-site at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

According to the 2016 Annual Statement for the State of Delaware, Allianz Life Insurance Company, herein after referred to as the Company or Allianz Life, reported direct business life insurance premium in the amount of \$2,543,984, and ordinary annuity considerations in the amount of \$28,722,758. As of their 2016 annual statement for all States, Allianz Life Insurance Company reported direct business life insurance premiums in the amount of \$583,053,727, and annuity considerations in the amount of \$11,916,814,984.

The examination was announced as part of a series of examinations on companies in the Annuity marketplace in Delaware. The examination focused on the Company's annuity and life insurance business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services and Underwriting and Rating. This effort was conducted to gauge the Company's practices in the suitability, replacement and surrender transactions.

The following exceptions were noted in the areas of operation reviewed. The details for the cited code references are noted in the section immediately following this summary:

- 1 Exception
18 *Del. Admin. C.* 902 § 1.2.1.2 Authority for Regulation; Basis for Regulation.
1.2.1.2 Failing to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies.

The Company failed to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies

- 1 Exception
18 *Del. Admin. C.* 1204 § 5.2.1 Duties of Agents and Brokers.
Where replacement is involved, the agent or broker shall:
5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

The Company failed to provide the proof that the replacement notice was presented to the applicant no later than at the time of taking the application.

- 15 Exceptions
18 *Del. Admin. C.* 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers.
Each insurer that uses an agent of broker in a life insurance or annuity sale shall:
7.1.2 Where a replacement is involved:

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7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within seven working days.

- 1 Exception
18 Del. C. § 1715(b) Appointments.
(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.

The Company accepted an application for insurance from a producer not duly appointed by the Company within 15 days of the receipt of the application in one application.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 Del. C. §§ 318-322 and covered the experience period of January 1, 2014 through June 30, 2017, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware annuity suitability, replacement and surrender laws and regulations related to the sales and marketing of individual cash value life insurance, individual fixed annuities and individual variable annuities.

The examination was a targeted market conduct examination of the Company's life insurance and annuity business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing Policyholder Services; and Underwriting and Rating.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC.

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While examiners report on the errors found in individual files, the examiners also focus on general business practices of the Company.

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

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

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

COMPANY HISTORY AND PROFILE

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

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

On March 31, 1993, NALAC changed its name to Allianz Life Insurance Company of North America (Allianz Life). Subsequently, as of May 31, 1993, Allianz Life acquired all the assets and liabilities of Fidelity Union Life Insurance Company of Dallas, Texas.

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Fidelity Union was under common ownership with Allianz Life. It was also owned by Allianz AG Holding of Munich, Germany.

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

The Company made a decision to exit the affinity/association market to focus its group insurance related product offerings on those products and markets that Allianz Life believed offered the greatest opportunities for long term growth. This market exit was completed by the end of 2003. In 2006, the Company also made the decision to no longer provide healthcare excess of loss products and services. This portion of the business was sold and reinsured to HCC Life effective October 1, 2006. On November 2, 2009, the Company announced plans to stop selling stand-alone long-term care products as of November 13, 2009. While it no longer sells stand alone long-term care insurance, the Company continues to consider opportunities for the development of new long-term care combination products.

Allianz Life currently offers a portfolio of individual fixed indexed annuities, variable annuities and life insurance products. Allianz Life distributes its products through field marketing offices (FMOs) and independent insurance producers as well as through broker-dealers and registered investment advisors.

According to the 2016 Annual Statement for the State of Delaware, Allianz Life Insurance Company reported direct business life insurance premium in the amount of \$2,543,984, and ordinary annuity considerations in the amount of \$28,722,758. As of their 2016 annual statement for all states, Allianz Life reported direct business life insurance premiums in the amount of \$583,053,727, and annuity considerations in the amount of \$11,916,814,984.

COMPANY OPERATIONS AND MANAGEMENT

The Company provided the requested information documenting its management and operational procedures in areas for which they conduct business for the State of Delaware, including:

- The Company History and Profile
- The Company's Organizational Charts
- Internal Audit & Compliance Procedures and Reports
- Antifraud Program Compliance Manual
- Documentation indicating that the Company does not use managing general agents (MGAs), general agents (GAs), third-party administrators (TPAs)
- A statement that all Company business functions are conducted internally, and therefore, no monitoring is required or takes place.
- A statement that the records of Allianz Life Insurance Company are adequate, accessible, consistent and orderly and comply with Delaware record retention requirements.
- One State imposed a fine and six (6) Market Conduct Examination reports conducted by other States during the last five (5) years.

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- Copies of the Annual Reports for 2013, 2014 and 2015.

The documents were reviewed to ensure compliance with the State of Delaware Laws and Regulations, and the NAIC Standards.

No exceptions were noted.

COMPLAINTS HANDLING

The Company was requested to identify all consumer complaints received during the experience period of January 1, 2013 thru June 30, 2017. The Company identified 13 consumer complaints received during the experience period. Of the 13 complaints identified three (3) were forwarded from the Department. All 13 complaint files were requested, received and reviewed. The company also provided complaint logs as requested. The Department's list of written consumer complaints that were forwarded to the Company during the experience period was compared to the Company's complaint log.

Complaint files were reviewed for compliance with the Delaware statutes and regulations including but not limited to: 18 *Del. C.* § 2304 (17). This Section of the Code requires maintenance of a complete record of all complaints received since the date of its last examination. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaint and the time it took to process each complaint. The written complaint files involving claims were reviewed for compliance with 18 *Del. Admin. C.* 902 § 1.2.1.2.

The following exceptions were noted:

1 Exception - 18 *Del. Admin. C.* 902 § 1.2.1.2 Authority for Regulation; Basis for Regulation

1.2.1.2 Failing to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies.

The Company failed to acknowledge and respond within 15 working days, upon receipt by the insurer, to communications with respect to claims by insureds arising under insurance policies

Recommendation: It is recommended that the Company review its complaint handling procedures to comply with 18 *Del. Admin. C.* 902 § 1.2.1.2

MARKETING AND SALES

The Company was requested to provide a list of all advertising materials, whether printed or audio/visual, approved for use by field personnel for the examination period. The Company provided a list of 9,848 advertising pieces that were utilized during the exam

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period. A random sample of 115 pieces of advertising was requested, received and reviewed. Of the 115 advertising items reviewed one item was a duplicate and one item was never used by the Company.

The examiners also reviewed documentation for replacements, illustrations, suitability, annuity solicitation training and fixed index annuity disclosure.

No exceptions were noted.

PRODUCER LICENSING

The Company provided a list of 1,240 producers appointed with the Company in Delaware or authorized to conduct business in Delaware at any time during the examination period of January 1, 2014 through June 30, 2017. A sample of 116 producers was compared to departmental records of producers to verify compliance with the Delaware licensing and appointment statutes and regulations. In addition, the sample included 60 producers who were terminated during the exam period.

For purposes of this examination and, if applicable, producer licensing exceptions found in other sections of the examination are addressed in their respective sections. In addition, the examiner reviewed all documentation regarding appointment, termination, and account balances.

No exceptions were noted.

POLICYHOLDER SERVICES

A) Individual Cash Value Life Policies Surrendered

The Company was requested to provide a list of all policies surrendered during the experience period. The Company identified a universe of 11 life insurance policies surrendered. All 11 policy files were requested, received and reviewed. The files were reviewed to ensure compliance with contract provisions, surrender laws and regulations, and proper processing of any cash value.

No exceptions were noted.

B) Individual Fixed Annuity Contracts Surrendered

The Company was requested to provide a list of all fixed annuities surrendered during the experience period. The Company identified a universe of 593 fixed annuities surrendered. A random sample of 86 contract files was requested, received, and reviewed. The files were reviewed to ensure compliance with pertinent statutes and regulations.

No exceptions were noted.

C) Individual Variable Annuity Contracts Surrendered

The Company was requested to provide a list of all variable annuities surrendered during the experience period. The Company identified a universe of 82 variable annuities surrendered. All 82 contract files were requested, received, and reviewed. The files were reviewed to ensure compliance with pertinent statutes and regulations.

No exceptions were noted.

UNDERWRITING AND RATING

A) Individual Cash Value Life Policies Issued – New Issue

The Company identified a universe of 13 cash value life insurance policies issued during the experience period. All 13 policy files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

No exceptions were noted.

B) Individual Cash Value Life Policies Issued – Replacements

The Company identified a universe of seven cash value life insurance policies issued as replacements during the experience period. All seven policy files were requested, received and reviewed. The files were reviewed to determine compliance to issuance, underwriting, and replacement statutes and regulations.

The following exception was noted:

1 Exception - 18 Del. Admin. C. 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

The Company failed to send the notice regarding replacement within seven working days.

Recommendation: It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within 7

working days of the date the application is received in the replacing insurer's home office in accordance with 18 *Del. Admin. C. 1204 § 7.1.2.2*.

C) Individual Fixed Annuities - New

The Company identified a universe of 422 fixed annuity contracts issued during the experience period. A random sampling of 84 annuity contract files was requested, received and reviewed. The files were reviewed to determine compliance with issuance, and replacement statutes and regulations.

No exceptions were noted.

D) Individual Fixed Annuities - Replacements

The Company initially identified a universe of 233 fixed annuity contracts issued as replacements during the experience period. A random sample of 79 files was requested. These 79 files were reviewed to determine compliance with issuance, and replacement statutes and regulations.

The following exceptions were noted:

1 Exception – 18 *Del. Admin. C. 1204 § 5.2.1 Duties of Agents and Brokers*

Where replacement is involved, the agent or broker shall:

5.2.1 Present to the applicant, not later than at the time of taking the application, a "Notice Regarding Replacement" (Delaware Insurance Form R, attached as Exhibit A), or other substantially similar form approved by the Commissioner. The notice shall be signed by both the applicant and the agent or broker and a copy left with the applicant.

The Company failed to provide the proof that the replacement notice was presented to the applicant no later than at the time of taking the application.

Recommendation: It is recommended the Company revise its procedures to ensure the replacement notice is presented to the applicant no later than the time of taking the application in accordance with 18 *Del. Admin. C. 1204 § 5.2.1*.

13 Exceptions – 18 *Del. Admin. C. 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers*

18 *Del. Admin. C. 1204 § 7.1.2.2 Duties of Insurers That Use Agents or Brokers*

Each insurer that uses an agent or broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued,

whichever is sooner.

The Company failed to send the existing insurer written communication advising of the replacement or proposed replacement of the policy within 7 working days.

Recommendation: It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in accordance with 18 *Del. Admin. C.* 1204 § 7.1.2.2.

1 Exception – 18 Del. C. § 1715(b) Appointments.

(b) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the Insurance Commissioner, a notice of appointment within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint a producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request. The group appointment provision of this section is only applicable upon implementation by this Department of an electronic appointment process.

The Company accepted an application for insurance from a producer not duly appointed by the Company within 15 days of the receipt of the application in one application.

Recommendation: It is recommended that the Company ensure the producers are properly appointed in accordance with 18 *Del. C.* § 1715(b).

E) Individual Variable Annuities - New

The Company identified a universe of 40 variable annuity contracts issued during the experience period. All 40 variable annuity contract files were requested, received and reviewed to determine compliance with issuance, and replacement statutes and regulations.

No exceptions were noted.

F) Individual Variable Annuities - Replacements

The Company initially identified a universe of 22 fixed annuity contracts issued as replacements during the experience period. All 22 files were reviewed to determine compliance with issuance, and replacement statutes and regulations.

The following exception was noted:

1 Exception – 18 Del. Admin. C. 1204 § 7.1.2.2 – Duties of Insurers That Use Agents or Brokers.

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

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7. 1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

The Company failed to send the notice regarding replacement within seven working days.

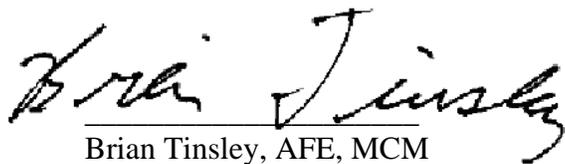
Recommendation: It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in accordance with 18 *Del. Admin. C. 1204 § 7.1.2.2.*

CONCLUSION

The recommendations made below identify corrective measures the Department finds necessary as a result of the Exceptions noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended that the Company review its complaint handling procedures to comply with 18 *Del. Admin. C.* 902 § 1.2.1.2. (Complaint Handling)
2. It is recommended the Company revise its procedures to ensure the replacement notice is presented to the applicant no later than the time of taking the application in accordance with 18 *Del. Admin. C.* 1204 § 5.2.1. (Underwriting and Rating – Individual Fixed Annuities New Issue).
3. It is recommended the Company revise its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer’s home office in accordance with 18 *Del. Admin. C.* 1204 § 7.1.2.2. (Underwriting and Rating – Individual Cash Value Life – Replacements; Individual Fixed Annuities – Replacements; and Variable Annuities – Replacements).
4. It is recommended that the Company ensure the producers are properly appointed in accordance with 18 *Del. C.* § 1715(b). (Underwriting and Rating – Individual Fixed Annuities – Replacements).

The examination conducted by Joseph Krug, Brian Tinsley, James Myers and Peter Salvatore is respectfully submitted.



Brian Tinsley, AFE, MCM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance