

**FLORIDA DEPARTMENT
OF
INSURANCE**

**MARKET CONDUCT
REPORT OF EXAMINATION**

**OF
SUNAMERICA LIFE INSURANCE COMPANY**

*as of
December 31, 1996*

DIVISION OF INSURER SERVICES

**BUREAU OF LIFE AND HEALTH
INSURER SOLVENCY & MARKET CONDUCT**

MARKET CONDUCT SECTION

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March 27, 1998

Honorable Bill Nelson
Treasurer and Insurance Commissioner
State of Florida
The Capitol, Plaza Level Eleven
Tallahassee, Florida 32301

Dear Commissioner Nelson:

Pursuant to the provisions of Section 627.3161, Florida Statutes, and in accordance with your Letter of Authority and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), a Market Conduct Examination has been performed on:

SunAmerica Life Insurance Company
1 SunAmerica Center
Los Angeles, California 90067-6022

at its Home Office in Los Angeles, California, and offices of contracted third party administrators in Houston, Texas and Atlanta, Georgia. The report of such examination is herein respectfully submitted.

INTRODUCTION

SunAmerica Life Insurance Company, hereinafter is generally referred to as "the Company" when not otherwise qualified. This is the first Market Conduct Examination of the Company by the Florida Department of Insurance, hereinafter referred to as "the Department" when not otherwise qualified.

This Market Conduct Examination commenced on November 13, 1997, and concluded on March 27, 1998.

SCOPE OF EXAMINATION

This examination covers the period of the Company's operation in the State of Florida from January 1, 1994, through December 31, 1996; and where considered appropriate, transactions and affairs prior and subsequent to the examination period.

The purpose of this Market Conduct Examination was to determine if the Company's practices and procedures conform with Florida Statutes and Florida Administrative Code.

Statistical information is included in this examination report. The National Association of Insurance Commissioners' Examination Handbook standards of 7% error ratio for claim resolution procedures and 10% error ratio for other procedures are applied. Any error appearing to be a pattern or a general business practice has been included in this examination report.

The examination included, but was not limited to, the following areas of the Company's operation:

1. Sales Brochures and Advertisements
2. Appointment and Termination of Agents
3. Policy Forms, Rates and Underwriting
4. Claims and Complaint Handling Procedures

Files were examined on the basis of file content at the time of examination. Comments and recommendations were made in those areas in need of correction or improvement.

DESCRIPTION OF COMPANY

History

SunAmerica Life Insurance Company is domiciled in the State of Arizona and is a stock life insurance company that is a wholly-owned subsidiary of SunAmerica, Inc. The Company was licensed to transact insurance business in the State of Florida on July 20, 1959, as Sun Life Insurance Company of America, changing it's name to SunAmerica Life Insurance Company in 1995. The Company acquired Ford Life Insurance Company on February 29, 1996 and merged it into SunAmerica Life on December 31, 1996. The acquired non-annuity business is in a run-off status with the claims administration handled at the offices of the Company's third party administrator in Atlanta, Georgia.

Certificate of Authority

The Company was authorized to write the following lines of business in the State of Florida, subject to compliance with all applicable laws and regulations of Florida:

TERRITORY AND PLAN OF OPERATION

SunAmerica Life Insurance Company is authorized to transact insurance business in the District of Columbia and all states, except New York and Wyoming.

The Company markets and services their products through the use of independent agents typically associated with broker/dealer marketing firms or other agencies, and establish relationships with third-party marketing organizations who directly recruit agents to solicit SunAmerica Life Insurance Company business.

During the period under review, the only lines written were immediate and deferred annuities, both single and flexible premium.

SALES AND ADVERTISEMENTS

Marketing materials provided to the examiner representing all advertisements utilized by the Company were examined to determine conformity with Rule 4-150, Florida Administrative Code.

The Company maintains an advertising file in accordance with Rule 4-150.119(1), Florida Administrative Code.

The Company filed Certificates of Compliance for Advertising with its Annual Statement for 1994, 1995, and 1996 inadvertently referencing the State of Arizona, rather than the State of Florida. The Company was notified of this discrepancy with compliance of Rule 4-150.119(2), Florida Administrative Code. It

was further noted that the Company's 1997 Certificate of Compliance was properly filed.

All advertisements reviewed that were produced in quantity contained a form number or other identifying means as required by Rule 4-150.102(3), Florida Administrative Code.

Statistical data used in the advertisements reviewed identified the source in compliance with Rule 4-150.111, Florida Administrative Code.

All representations of a commercial rating system about the Company clearly indicated the purpose of the recommendation and the limitations of the scope and extent of the recommendation as outlined in Rule 4-150.117, Florida Administrative Code.

AGENT APPOINTMENT, RENEWAL AND TERMINATION

When the Company receives the renewal list of agents from the Bureau of Agent and Agency Licensing, additions and deletions are made as necessary. The renewal list of agents is returned to the Department with a Company check in compliance with instructions from the Bureau of Agent and Agency Licensing.

When an agent was terminated, Florida Department of Insurance Form DI4-39 was not completed by the Company and forwarded within thirty (30) days to the Department for cancellation of the agent's appointment which is in violation of Section 626.511(2), Florida Statutes, and Bureau of Agent and Agency Licensing's instructions.

Additional appointments were made as required by Section 626.341, Florida Statutes, when business was accepted from a licensed agent who was not previously appointed by the Company.

EXCESS OR REJECTED INSURANCE

The Company did not accept excess or rejected life and health insurance business from non-contracted agents, as defined by Sections 626.793 and 626.837, Florida Statutes.

POLICY FORM AND RATE FILINGS

The Company maintains a file containing copies of policies, rates, riders, endorsements and correspondence appropriate thereto of all forms filed and approved by the Department.

Company filings for 1994, 1995, and 1996, were reviewed to determine if policy forms being used by the Company had been stamped "filed" or "approved" by the Department as required by Section 627.410, Florida Statutes. No discrepancies were noted.

UNDERWRITING AND RATE SURVEY

The underwriting and rate survey included an analysis of the following Company procedures:

1. Basic underwriting guidelines
2. Proper issuance of forms, riders and endorsements
3. Proper use of rates
4. Correspondence during the policy issue process

5. Unfair discrimination

APPLICATION REVIEW

Applications for individual life insurance and annuities were surveyed.

A random sample of one hundred (100) files, from a total population of three thousand four hundred and thirty-five (3,435) for 1994, 1995, and 1996 was reviewed.

The files reviewed revealed the agents were appointed as required by Section 626.112, Florida Statutes.

All applications reviewed contained both the insurer's name on the first page of the form and the agent's name as required by Section 627.4085, Florida Statutes.

Twenty-one (21) out of one hundred (100) applications reviewed did not reveal the agent's identification number as required by Section 627.4085, Florida Statutes. It is noted that the majority of discrepancies occurred in 1994 and early 1995. The Company refiled its application forms in 1995 to specifically include the Florida licensed agent's identification number.

INSURED'S RIGHT TO RETURN POLICY

Thirty-eight (38) files, from a total population of thirty-eight (38), for 1994, 1995, and 1996 were reviewed.

The review indicated that the Company complied with Section 626.99(4)(a), Florida Statutes and refunds were handled in a timely manner.

REPLACEMENT OF INSURANCE

The Company maintains a replacement register as required by Rule 4-151.007(3)(e), Florida Administrative Code.

Copies of "Notice to Applicant" regarding replacement of life insurance, comparative information form and proposed insurance and all sales proposals are maintained as required by Rules 4-151.007(3)(e) and 4-151.008(2)(a) and (b), Florida Administrative Code.

Fifty (50) files, from a total population of six hundred eighty four (684), for individual life insurance and annuities for the years 1994, 1995, and 1996, were reviewed to determine if copies of "Notice to Applicant" were being sent within the specified time to existing insurers whose policies were being replaced as required by Rule 4-151.007(3)(c) or (e), Florida Administrative Code. Seventeen (17) discrepancies were noted wherein the notice to the existing insurer was not sent within five (5) business days.

NONFORFEITURE OPTIONS AND AUTOMATIC PREMIUM LOANS

A random sample of thirteen (13) nonforfeiture option files, from a total population of fifteen (15) Extended Term, three (3) Paid-

Up Insurance and thirty (30) Automatic Premium Loans was reviewed. All cases indicated the values and terms were correctly calculated and were processed in a timely manner.

Policy Loan Benefits were reviewed to determine if the interest charged was appropriate and within the statutory limits established by Sections 627.458 and 627.4585, Florida Statutes.

A random sample of six (6) files were reviewed from a total population of ninety-three (93). No discrepancies were noted.

Twenty-two (22) cash surrender of life or annuity policies, from a total population of twenty-two (22), were reviewed to determine if interest was paid after thirty (30) days in compliance with Section 627.482, Florida Statutes. Two (2) discrepancies were noted as performed by the Company's third party administrator in Houston, Texas representing an error ratio of 9%, wherein no interest was paid. The Company has adjusted the two (2) surrender benefits in question to include the required interest and has implemented enhanced procedures.

In the event of non-payment of premium, and no other options chosen, the policy would convert to extended term insurance.

These procedures comply with the requirements of Section 627.476, Florida Statutes, Standard Non-Forfeiture Law for Life Insurance.

CANCELLATIONS AND NONRENEWALS

There were no individual cancellations and nonrenewals to review applicable to this examination period. It was noted that the

Company's procedure complies with the requirements of Sections 627.6043(1) and 627.6645(1), Florida Statutes.

A random sample of one hundred (100) credit life and credit disability files, from a total population in excess of seven thousand (7,000) for 1996 was reviewed. All files were canceled and refunded as required by of Rule 4-163.003, Florida Administrative Code.

CLAIMS ADMINISTRATION

The Company has established effective claim settlement procedures which maintain control of all claims from the time of receipt to the time of final payment. Claims are reported to and handled in both the Home Office of the Company, as well as the Offices of contracted third party administrators in Houston, Texas and Atlanta, Georgia.

The Claims Managers at all locations have certified that they have read and understand Section 626.9541(1)(i), Florida Statutes, relating to unfair claim settlement practices.

TIME STUDY FOR PAID AND DENIED CLAIMS

Claims were randomly selected and reviewed for compliance with:

1. Contract provisions
2. Timeliness and accuracy of payments

3. Supporting documentation
4. Unfair claim settlement practices

A time study for paid and denied claims was conducted to determine the "calendar days" required to process a claim after receiving proper proof of loss.

The term "calendar days" included Saturday, Sunday and holidays. Cycle time used in the analysis was for the following groups of days: 1-45, 46-120, 121 and over.

The population of processed paid and denied claims for the examination period reviewed is as follows:

Individual Life Claims - Paid

Los Angeles, California Office

1994	64 Claims for	\$1,834,576
1995	94 Claims for	\$2,610,544
1996	<u>132</u> Claims for	<u>\$3,185,095</u>
Total	290 Claims for	\$7,630,215

Houston, Texas Office

1994	31 Claims for	\$ 917,568
1995	26 Claims for	\$ 498,010
1996	<u>13</u> Claims for	<u>\$1,696,461</u>
Total	70 Claims for	\$3,112,039

Individual Life Claims - Denied

There were no Individual Life Claims denied this exam period.

Credit Life Claims-Paid

1994	182	Claims for	\$1,491,510
1995	185	Claims for	\$1,915,380
1996	<u>171</u>	Claims for	<u>\$1,641,563</u>
Total	538	Claims for	\$5,048,453

Credit Life Claims-Denied

1994	17	Claims
1995	18	Claims
1996	<u>17</u>	Claims
Total	52	Claims

Credit Disability Claims-Paid

1994	676	Claims for	\$1,189,790
1995	707	Claims for	\$1,453,152
1996	<u>1,025</u>	Claims for	<u>\$1,588,628</u>
Total	2,408	Claims for	\$4,231,570

Credit Disability Claims-Denied

1994	45 Claims
1995	29 Claims
1996	<u>35</u> Claims
Total	109 Claims

Two hundred eighty-eight (288) claim files from the above-listed population were reviewed. The results of the review are as follows:

CALENDAR DAYS/PERCENTAGE OF CLAIMS

Individual Life Claims - Paid

Los Angeles, California Office

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	99	99%
46-120	1	1%
121 and over	<u>0</u>	<u>0%</u>
Total	100	100%

The average time required to process a claim was nine (9) days.

Houston, Texas Office

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	50	100%
46-120	0	0%
121 and over	<u>0</u>	<u>0%</u>
Total	50	100%

The average time required to process a claim was four (4) days.

Credit Life Claims-Paid

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	38	100%
46-120	0	0%
121 and over	<u>0</u>	<u>0%</u>
Total	38	100%

The average time required to process a claim was nine (9) days.

Credit Life Claims-Denied

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	6	100%
46-120	0	0%
121 and over	<u>0</u>	<u>0%</u>
Total	6	100%

The average time required to process a denied claim was nine (9) days.

Credit Health Claims-Paid

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	86	100%
46-120	0	0%
121 and over	<u>0</u>	<u>0%</u>
Total	86	100%

The average time required to process a claim was six (6) days.

Credit Health Claims-Denied

<u>Calendar Days</u>	<u>Number of Claims</u>	<u>Percentage</u>
1-45	8	100%
46-120	0	0%

121 and over	<u>0</u>	<u>0%</u>
Total	8	100%

The average time required to process a denied claim was twelve (12) days.

An analysis of the claim study revealed the following:

1. A random sample of two hundred thirty-eight (238) paid claim files from a total population of one thousand five hundred sixty-six (1,566) was reviewed to determine if benefits were being allowed according to the policy contract as required by Section 626.877, Florida Statutes. One (1) discrepancy was noted where a credit life claim at the Atlanta Administrative Office was paid when it appeared it should have been denied for preexisting health problems not revealed on the application.
2. A random sample of two hundred eighty-eight (288) claim files from a total population of one thousand six hundred eight (1,608) was reviewed to determine if they had been processed in a timely manner as required by Sections 627.613 and 627.657(2), Florida Statutes. No discrepancies were noted.
3. A random sample of one hundred fifty (150) life claim files from a total population of three hundred sixty (360) was reviewed to determine if the 11% interest, or interest at an annual rate equal to or greater than the Moody's Corporate Bond Yield Average-Monthly Average Corporate as to the day the claims were received and not less than 8% on claims after January 1, 1993 was paid in accordance with Section 627.4615, Florida Statutes. No discrepancies were noted.

4. A random sample of two hundred eighty-eight (288) claim files from a total population of one thousand six hundred eight (1,608) was reviewed to determine if the required Fraud Statement was included on the claim forms as required by Section 817.234(1)(b), Florida Statutes. No discrepancies were noted at the Houston, Texas location; however, all claim forms reviewed at the Home Office in Los Angeles, California and the Atlanta, Georgia location had Fraud Statements that failed to reference "third degree felony."

CLAIMS LITIGATION

During the period under examination, the Company had no litigated claims involving Florida insureds.

INSURER EXPERIENCE REPORTING

The Company did not file Experience Reports, Forms DI4-272, DI4-273, DI4-274, DI4-275 and DI4-276, as required by Rule 4-163.012, Florida Administrative Code, regarding Credit Life and Disability Insurance, for the year 1996 following the acquisition and subsequent merger of Ford Life's Credit Life and Disability business effective December 31, 1996.

COMPLAINTS

The Company maintains complaint-handling procedures as required by Section 626.9541(1)(j), Florida Statutes.

The Company maintained a complete record of all complaints received during the period under review as required by Section 626.9541(1)(j), Florida Statutes.

Thirty (30) complaints (67%), from a total population of forty-five (45), for 1994, 1995, and 1996 were reviewed to determine the number of calendar days taken to resolve a complaint from the time of receipt to the final disposition. Calendar days included workdays, weekends and holidays.

The results of the review are as follows:

<u>Calendar Days</u>	<u>Number of Complaints</u>	<u>Percentage</u>
1-15	24	80%
16-30	5	17%
31 and over	<u>1</u>	<u>3%</u>
Total	30	100%

The average number of days to handle a complaint for the entire review period was eleven (11) days.

CONCLUSION

The customary practices and procedures promulgated by the National Association of Insurance Commissioners have been followed in performing the Market Conduct Examination of SunAmerica Life Insurance Company as of December 31, 1996, with due regard to the Insurance Laws of the State of Florida.

Respectfully submitted,

David E. Doxsee
Insurance Analyst II
Florida Insurance Department

FINDINGS AND RECOMMENDATIONS

The following findings were made in the preceding pages of this report. The Company is directed to:

- Page 3 Note: In the event the Company chooses to begin writing new credit life and health and/or credit disability business, it is reminded of the need to amend its Florida Certificate of Authority to include these lines, in accordance with Section 624.401, Florida Statutes.
- Page 7 Note: Comply with Rule 4-150.119(2), Florida Administrative Code, and file Certificates of Compliance applicable to life advertising practices in Florida. It is noted that the Company has corrected this minor discrepancy.
- Page 8 Comply with Section 626.511(2), Florida Statutes and file form DI4-39 within thirty (30) days following the termination of an appointed agent.
- Page 10 Comply with Section 627.4085, Florida Statutes and require that agent identification numbers be reflected on applications. It is noted that the Company has corrected its application.
- Page 11 Comply with Rule 4-151.007(3), Florida Administrative Code, notify existing insurers whose policies are being replaced immediately (within five (5) business days of receipt).
- Page 20 Comply with Section 817.234(1)(b), Florida Statutes and amend Florida application and claim forms to include a fraud warning statement that references a "third degree felony." It is noted that the Company has corrected this deficiency.
- Page 20 Note: Comply with Rule 4-163.012, Florida Administrative Code, and file credit life and credit disability experience reports in the future on a timely basis.