

MARKET CONDUCT
EXAMINATION REPORT OF
AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY
WEST DES MOINES, IOWA
AS OF OCTOBER 31, 2014

West Des Moines, Iowa
April 10, 2015

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, a market conduct examination has been made of the records, business and marketing practices for statutory compliance of the

AMERICAN EQUITY INVESTMENT LIFE INSURANCE COMPANY

WEST DES MOINES, IOWA

AS OF OCTOBER 31, 2014

The examination was conducted at the Home Office of the Company located at 6000 Westtown Parkway, West Des Moines, Iowa.

INTRODUCTION

The report by exception of this examination, containing applicable comments, explanations and findings is presented herein. Additional practices, procedures and files subject to review during the examination have been omitted from the report if no improprieties were found.

SCOPE OF EXAMINATION

American Equity Investment Life Insurance Company, hereinafter, the Company, was previously examined as of December 31, 2008. This regular market conduct examination covered the intervening period from January 1, 2009 to the close of business on October 31, 2014. It was conducted and performed solely for the Iowa Insurance Division by its examiners. This examination was performed under the authority granted to the Iowa Insurance Commissioner at section 507.2 of the Iowa Code. A general review and survey was made of the Company's marketing operations and treatment of policyholders for statutory compliance during the stated period. Records and other supporting evidence were examined and evaluated utilizing the provisions of the NAIC Market Conduct Handbook to the extent deemed adequate.

HISTORY

The Company was incorporated December 19, 1980 with the name Century Life Insurance Company. It was established as a legal reserve stock life insurance company under the provisions of Chapters 491 and 508 of the Iowa Code. Authorized capital was \$1,500,000 divided into 750,000 shares with a par value of \$2 per share. On December 30, 1985 the par value was increased to \$2.67, increasing the authorized capital to \$2,002,500.

American Equity Investment Life Insurance Company was incorporated on December 28, 1995 under the provisions of Chapters 490 and 508 of the Iowa Code as a stock life insurance company and commenced business on December 29, 1995. At incorporation the authorized capital consisted of 4,000,000 shares of common stock

with a par value of \$1.00 per share and 500,000 shares of preferred stock with a par value of \$1.00 per share.

American Equity Investment Life Insurance Company acquired, on December 28, 1995, a block of group life and individual accident and health (mostly long-term disability and cancer) business from American Life and Casualty Insurance Company, Des Moines, Iowa. On January 1, 1996, the Company acquired a block of individual life business from the same company.

On September 30, 1996, Century Life Insurance Company merged with American Equity Investment Life Insurance Company with the Company being the surviving entity. The Company simultaneously changed its name to American Equity Investment Life Insurance Company. All the requisite regulatory approvals were received for the merger.

In March 2001, the Company contributed \$2,000,000 of capital and \$8,000,000 of additional paid-in surplus to form a wholly-owned subsidiary, American Equity Investment Life Insurance Company of New York.

On December 9, 2003, American Equity Investment Life Holding Company, an insurance holding company domiciled in the state of Iowa and sole owner of the Company, completed an initial public offering of 18,700,000 shares of its common stock at a price of \$9.00 per share. An over-allotment option was granted to the underwriters in the offering, allowing them to purchase an additional 2,000,000 shares on December 29, 2003 and an additional 805,000 shares on January 7, 2004. Net proceeds from the initial public offering were approximately \$178 million, of which \$125 million was contributed to the Company to fund the future growth of the business.

On September 17, 2008, the Company formed an Iowa domiciled insurance company named Eagle Life Insurance Company (Eagle Life). The Company owns 100% of the outstanding stock of Eagle Life.

TERRITORY AND PLAN OF OPERATION

At December 31, 2013, the Company was authorized to transact business in the District of Columbia and all fifty states except New York.

The five states with the largest amounts of direct premium writings in 2013 were:

<u>State</u>	<u>Direct Premium Collected</u>	<u>% of Total</u>
Florida	\$ 411,053,395	9.9%
California	377,042,102	9.1
Texas	314,609,889	7.6
Illinois	277,620,579	6.7
Pennsylvania	233,505,447	5.6
Total premium	\$4,164,427,216	100.0%

GROWTH OF COMPANY

The growth of the Company is reflected by the following significant data taken from office copies of filed annual statements. Admitted assets exclude separate accounts assets. (000's omitted)

<u>Year</u>	Total Admitted <u>Assets</u>	Total <u>Liabilities</u>	Capital and <u>Surplus</u>	Life Insurance <u>In Force</u>	Aggregate <u>Life Reserves</u>
2009	16,697,272	15,504,142	1,193,130	2,578,554	14,154,138
2010	21,125,166	19,724,481	1,400,685	2,571,868	17,269,374
2011	24,685,609	23,088,591	1,597,018	2,529,936	20,837,160
2012	28,078,993	26,420,064	1,658,929	2,407,222	23,708,821
2013	32,435,473	30,564,744	1,870,728	2,294,571	27,109,982

<u>Year</u>	Aggregate A&H <u>Reserves</u>	Life Claims <u>Reserves</u>	<u>A&H Premium</u>	Annuity <u>Premium</u>	<u>Life Premium</u>
2009	1,387	610	299	2,813,740	12,917
2010	1,301	563	275	4,039,350	11,867
2011	1,177	598	232	4,499,873	11,544
2012	1,106	301	219	3,472,552	11,994
2013	1,018	306	205	3,864,558	11,515

MARKETING AND SALES

The products marketed include primarily individual annuities with a small amount of life and accident and health insurance, both group and individual.

Advertising

The Company uses a Microsoft access database to track corporate forms and advertising material. The Company is in violation of Iowa Code: 15.13(2) Insurer's control over advertisements. Every insurer shall establish and at all times maintain a system of control over the content, form, and method of dissemination of all advertisements which explain a particular policy. All such advertisements, whether written, created, designed or presented by the insurer or its appointed producer, shall be the responsibility of the insurer whose particular policies are so advertised. As part of this requirement, each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published or prepared advertisement of its policies, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to inspection by the insurance division. All such advertisements shall be maintained for a period of either four years or until the filing of the next regular report on examination of the insurer, whichever is the longer period of time.

The following issues were found within the database:

1. The database does not capture all types of advertising activities (e.g., excludes sponsorships, billboards, radio advertisements, professional journals, and testimonials).
2. The manner and extent of advertising distribution is not being captured in the database.
3. The database contains information that does not appear accurate or appropriate. Examples would include the following:

- a. records that lacked a company code,
- b. a number of corporate forms that have been discontinued, but the record was not coded as such,
- c. records had the "ownership" field left blank (i.e., the department or individual responsible for the corporate form),
- d. The database does not track different versions to the same form

The Company's internet website at www.american-equity.com was reviewed for content and compliance. No exceptions were noted.

Producer Training

A review of producer training materials was conducted. Producer training materials were found to be in compliance with state statutes and regulations.

SUITABILITY DETERMINATION PROCESS REVIEW

The Company has formulated Suitability guidelines which include the following:

- Company requires that suitability forms and Financial Inventory Worksheets be filled out and signed by both the agent and the applicant. All questions have to be answered and documentation is required by the company for reasons behind those reasons.
- All annuity applications are reviewed for suitability by company staff in the New Business/Suitability department.
- Company keeps a Suitability Procedural Manual that is available for each individual in suitability department. This Manual gives guidance on reviewing applications submitted to ensure they are in compliance with suitability requirements.
- Process is semi-automated as information is entered into Life Pro, system determines the level of review that is required.

Iowa Administrative Code 191-15.75(6) requires each insurer selling annuities in the state to establish a supervision system that is reasonably designed to achieve the insurer's and its insurance producers' compliance with the requirements of Iowa law for suitability of annuity sales recommendations. As part of the Supervision System, an insurer is required to "annually provide a report to senior management, including to the senior manager responsible for audit functions, which details a review, with appropriate testing, reasonably designed to determine the effectiveness of the Supervision System, the exceptions found and corrective action taken or recommended, if any." The Company has developed a suitability report to senior management. The Company's Internal Audit is responsible for evaluating the effectiveness of the suitability program on at least an annual basis.

Replacements

The Company tracks replacements through a monthly report. Monthly Replacement reports are automatically generated and reviewed by the Company's compliance department for agents that have written a certain number of business and have a replacement number and percentage above a specified amount (20 policies written or 60% of business). The Compliance department will review these reports on a monthly basis, and further investigations are conducted as deemed necessary. The Company has not had any replacements for life products during the exam period. Replacements were reviewed while doing the policy master file testing. A replacement form had been provided to each applicant that contained brief information concerning policy replacement. It appears the Company handles replacement in compliance with applicable statutes and regulations.

PRODUCER LICENSING

A review of the producer licensing practices of the Company was conducted during this examination. The Company has policies and procedures in place to reasonably ensure that producers are appropriately licensed and appointed and meet all requirements.

A random sample of 40 appointed producers was reviewed to determine if the appointment form was properly completed prior to the producer writing business for the Company. The contracts were reviewed to determine the date the producer was allowed to solicit business. The producers' licenses were reviewed to determine the type of product the producer is eligible to solicit. It appears that the Company handles the appointment of producers in compliance with applicable statutes and regulations.

COMPLAINT HANDLING

The Company's complaint handling policies and procedures were reviewed. The Company appears to be handling complaints according to their guidelines.

The Company's complaint registers for the period January 1, 2009 through October 31, 2014 were reviewed. No exceptions were noted. The Company's complaint registers appear to comply with applicable statutes and regulations.

A random sample of 85 complaints filed directly with the Company from the period January 1, 2009 through October 31, 2014 was examined. Based on the results of this review, it was determined that complaints are handled in a timely and appropriate manner and that documentation was adequate to support the Company's resolution of the complaint.

UNDERWRITING AND RATING

Individual Life Contracts

A random sample of 100 Individual Life contracts issued during the examination period and in force as of December 31, 2013 was reviewed to determine if file documentation adequately supports decisions made. No discrepancies were noted. The Company's policies and procedures appeared to be in compliance with applicable statutes and regulations.

Individual Annuity Contracts

A random sample of 100 Individual Annuity contracts issued during the examination period and in force as of December 31, 2013 was reviewed to determine if file documentation adequately supports decisions made. No discrepancies were noted. The Company's policies and procedures appeared to be in compliance with applicable statutes and regulations.

Declined Applications

A random sample of 100 applications declined during the years 2009 through 2013 was reviewed. It appears that the reasons for declination were not discriminatory and were in compliance with applicable statutes, regulations, Company procedures and guidelines. In all cases, applicants were provided reasons for denials.

CLAIM HANDLING

Life Time Payment Study

For the purpose of this study, time was measured from the date sufficient information is received to proceed in settlement of the claim to the date the check for payment was issued. A random sample of 42 individual life claims and 49 of group life claims paid during the years 2009 through 2013 were reviewed. The results are as follows:

<u>Days to Pay</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 - 7	85	94%
8 - 14	5	5
15 - 21	1	1
22 - 30	0	0
31+	<u>0</u>	<u>0</u>
Total	<u>91</u>	<u>100%</u>

Annuity Time Payment Study

For the purpose of this study, time was measured from the date sufficient information is received to proceed in settlement of the claim to the date the check for payment was issued. A random sample of 19 annuities in which payment was initiated during the exam period was reviewed. The results were as follows:

<u>Days to Pay</u>	<u>Number of Claims</u>	<u>Percentage</u>
0 - 7	14	74%
8 - 14	1	5
15 - 21	2	11
22 - 30	1	5
Over 30	<u>1*</u>	<u>5</u>
Total	19	100%

* There were 15 beneficiaries that took 36 days to locate all of them. Interest was paid.

Denied Life Claims

All 19 of the denied claims were selected for review. It appears each claim was denied in accordance with policy provisions and applicable statutes and regulations.

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, Amanda Buseman CFE; Lindsay Bates, AFE; Randy Guzman and Alex Matovu, examiners for the Iowa Insurance Division participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Jeffrey S. Payne
Jeffrey S. Payne, CFE
Examiner Specialist
Iowa Insurance Division
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