

**A**

**TARGETED MARKET CONDUCT EXAMINATION OF**

**JACKSON NATIONAL LIFE INSURANCE COMPANY**

**NAIC #65056**

**As Of**

**December 31, 2009**





Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street Suite 300  
Columbus, Ohio 43215

Lt. Governor:

Pursuant to your instructions and in accordance with the powers vested under Title 39 of the Ohio Revised Code, a targeted market conduct examination was conducted on the Ohio business of the following:

Jackson National Life Insurance Company NAIC# 65056

The examination and risk assessment was conducted at the Ohio Department of Insurance:

50 West Town Street  
Columbus, Ohio 43215

A report of the examination is enclosed.

Respectfully submitted,

*Lynette A. Baker*

---

Lynette Baker  
Chief, Market Conduct Division

3-28-2012

---

Date

## TABLE OF CONTENTS

FOREWORD .....	1
EXECUTIVE SUMMARY .....	1
SCOPE OF EXAMINATION.....	2
METHODOLOGY .....	2
COMPANY OPERATIONS.....	3
NEW BUSINESS AND REPLACEMENTS REVIEW FINDINGS .....	3
COMPLAINT HANDLING .....	7

## **FOREWORD**

This examination and risk assessment was conducted under authority provided under Ohio Revised Code (“R.C.”) 3901.011.

## **EXECUTIVE SUMMARY**

This examination is a targeted market conduct examination of Jackson National Life Insurance Company (“Company”) by the State of Ohio as it relates to the Company’s suitability compliance program for its annuity products for the period of January 1, 2003, through December 31, 2009.

The most significant areas of concerns are:

- Thirty eight percent of the files reviewed involved a question of suitability due to the applicant’s age in relation to the high percentage of net worth invested in the annuity, the length of surrender period, and/or missing information regarding the consumer’s financial status and investment objectives.
- Sixty Percent of the non-replacement annuity files reviewed failed to contain compliant annuity disclosure documentation.
- Thirty two percent of the replacement annuity files reviewed failed to contain compliant annuity disclosure documentation.
- Twenty percent of the replacement annuity files reviewed failed to contain compliant annuity disclosure documentation.

## **SCOPE OF EXAMINATION**

The basic business areas included as part of the examination included:

- A. Compliance
- B. New Business and Replacements
- C. Marketing and sales material
- D. Complaint Handling

Each business area has standards that were measured during the examination. Some of the standards have specific statutory guidance; others have specific company guidelines or contractual guidelines.

The focus of the examination was on the procedures and methods used by the Company to achieve compliance with applicable Ohio statutes and rules involving the issuance of fixed, individual annuity products. This included an analysis of how the Company communicates its instructions and philosophy with its employees and broker/dealers.

This examination report is a report by test, rather than a report by exception, and all standards and tests are described and the findings indicated.

## **METHODOLOGY**

This examination is based on the standards and tests for a market conduct examination of a life and annuity insurer found in Chapters 16 and 19 of the NAIC Market Regulation Handbook and on applicable Ohio statutes and rules.

Some of the standards were measured using a single type of review, while others used a combination or all types of review. The types of review used in this examination fall into two general categories: Generic and Sample.

A “Generic” review indicates that a standard was tested through analysis of general data gathered by the examiners, or provided by the Company in response to interrogatories or personnel interviews conducted by the examiners.

A “Sample” review indicates that a standard was tested through direct review of a random sample of files selected using automated sampling software.

Each standard is accompanied by a comment describing the purpose or reason for the standard. Findings are indicated and any examiner comments or observations are noted.

## COMPANY OPERATIONS

Jackson National Life Insurance Company was established in 1961 and is organized under the laws of the state of Michigan as a life insurance company, conducting business in all 50 states within the United States, including the District of Columbia.

### 2009 Annuity Considerations

Ohio Individual Ordinary	National Individual Ordinary
\$851,785,399	\$13,043,176,118

## NEW BUSINESS AND REPLACEMENTS REVIEW FINDINGS

### Standard 5: Marketing and Sales

The insurer has suitability standards for its products as required by OAC 3901-6-13 (G)(5), (7), and (8).

### Procedure Review

**Methodology:** The examiners reviewed compliance procedure manuals and interviewed Company personnel to determine how new business and replacements are reviewed and processed.

### **Examiner Observations:**

While the Company meets the requirements of OAC 3901-6-13(G)(6) by maintaining written suitability procedures, the Company does not meet the requirements of OAC 3901-6-13(G)(8) due to the lack of random third-party sampling and review of annuity sales.

The Company provided copies of written annuity suitability oversight procedures, compliance methods, and complaint handling procedures intended to assure compliance with Ohio required statues and regulations. However, in some instances, the documentation was not provided to the examiners to confirm that these detailed suitability processes and procedures were being followed.

The Company's Legal Department Compliance Group is responsible for ensuring the Company is in compliance with the insurance laws and regulations of each state in which the Company is licensed, as well as Federal laws. The Compliance Group monitors for statutory and regulatory changes. Insurance regulatory or statutory changes that impact the Company's business are provided to each business unit within the Company. The Company's Compliance Group distributes via e-mail, the actual document containing the change with a Regulatory Compliance Statement (RCS) which requests the impacted business unit to assess the impact of the change and to provide a statement regarding steps taken, if any, to comply with the change. All regulatory or statutory changes that have been distributed are tracked by the Compliance Group to ensure completion of the RCS.

The Company's Compliance Group also provides quarterly reports to the Company's Board as well as the North American Audit and Risk Management Committee within the Company's holding company system. The Company's Board reviews a Quarterly Compliance Report and Separate Account Compliance Report, which summarizes significant market conduct activities and the outcome of any exams or investigations.

As a complement to the Company's Compliance Group, the Company's Internal Audit Department is driven by their mission to provide independent, reliable and objective assurance to the Board, Group Executive Committee and Group Audit Committee on the overall effectiveness of risk management, control and governance processes and provides support to help individual Business Unit CEOs deliver the Groups' strategy effectively. While the Company's procedures appear to be sound, the Company's Internal Audit Department did not perform any annuity suitability audits during the examination period.

The Company distributes its fixed annuity and life products in Ohio through independent producers that have entered into producer selling agreements with the Company. Newly appointed independent insurance producers are provided a copy of the Company's Producer Compliance Manual (PCM) and must certify that they have read the PCM - including a specific section regarding client-focused sales ensuring that each sale is suitable for the client's financial and insurance needs. All producer selling agreements contain an Ethical Market Conduct Addendum that clearly states that the producer/agency/broker dealer agrees to provide customer focused sales and services that include a careful evaluation of each client's insurance needs and financial objectives. Additionally, the Company's annuity applications require the producer to certify that they believe the transaction is suitable given the client's situation, needs and investment goals. As such, the Company places all suitability determinations with the producer and does not make direct suitability recommendations to consumers.

The Company utilizes a Suitability Acknowledgement form for all fixed, fixed index or immediate annuities. This particular form simply contains "yes" or "no" checkboxes to certify that the producer discussed various aspects of the sale. Section 3 of this form allows the consumer to refuse to provide the necessary financial information.

The Company also utilizes a "Fixed, Fixed Index or Immediate Annuity Needs Analysis" form wherein income, net worth, investment objectives, liquidity needs and detailed asset and liability information are captured to document and support the suitability of the annuity sale. Different variations of this form have been developed by the independent producers entitled "Confidential Client Profile" form and "Direct Account Form" to capture this same information.

Another check on suitability involves sending each contract owner a questionnaire (45 days post-purchase) designed to determine the customer's satisfaction with – and understanding of their purchase. If the owner indicates that they did not receive their policy or contract, are not familiar with the product features or don't believe the product meets their needs, the selling producer is contacted and informed of the response so that they can resolve the issue(s) with the owner. If the questionnaire contains a complaint of any kind, an immediate investigation is conducted by the Company's Customer Relations Department to resolve the issue.

One concern noted by the examiners during the file review involved the suitability forms used by the broker/dealers. Each broker/dealer is allowed to develop and use its own form to gather annuitant’s financial information. These forms are inconsistent in the information captured. The Department recommends that the Company attempt to obtain consistent information from the broker/dealers, to the extent possible, given that the broker/dealers use suitability forms that are governed by FINRA standards. However, at a minimum, the Company shall require that the items listed in Ohio Administrative Code 3901-6-13(E)(9) be used.

While reviewing annuity policy contract language, contract number VA650OH – Individual Deferred Variable and Fixed Annuity, and contract number VA660OH – Individual Deferred Variable Annuity contained language associated with group sales and the reduction of the Annual Contract Maintenance Charge (ACMC). Subsequent to the examiner’s review and inquiry with the Company, the policy contracts in question have been revised to exclude the aforementioned language and current contracts have been filed and approved by the Department. Additionally, the Company indicated that they are no longer marketing either of these annuity products to groups. From the Department’s perspective, this particular issue has been rectified.

The Company does not apply a surrender charge at time of death. The surrender periods on the annuity products varies from five to ten years. Most products fall into a nine year surrender period.

### **FILE REVIEW METHODOLOGY**

The findings are based on the standards for a market conduct examination of a life and annuity insurer according to applicable Ohio statutes and rules, including Ohio Administrative Code (“OAC”) 3901-6-13 and 3901-6-14.

**File Review:**

The examiners reviewed a sample of 50 Ohio new business and 50 replacement policies on individual fixed annuity contracts issued during the examination period. The major focus of the new business and replacements involved the issue of annuity suitability and the Company’s oversight of its products.

**New Business (non-replacement):**

Population	Sample	Yes	No
2797	50	31	19

**Replacements:**

Population	Sample	Yes	No
1417	50	31	19

Discussions with the Company regarding the suitability of the exception files noted above did not result in mutual agreement. The Company submitted additional documentation to further substantiate the suitability of each annuity sale that the Department could not align with the date of the annuity application.

In an effort to bring this examination to a close, the Department and the Company have agreed to deem the suitability of these files to be *undeterminable*. In this instance, the Company neither admits nor denies any wrongdoing, and the Department's focus at this time will be on ensuring the Company's compliance with Ohio's new suitability guidelines.

**Examiner Recommendations:**

- The Company should inform all appointed broker/dealers of the minimum suitability information that should be used in Ohio to determine suitability as outlined in (E)(9) of the revised version of OAC 3901-6-13, effective July 1, 2011.
- In conjunction with the aforementioned recommendations, the Company should consider establishing sales suitability matrixes to guide the sales process to ensure that these long term investment vehicles are sold to age-appropriate individuals whom will realize and receive the benefits associated with their annuity purchase.

Standard 11: Marketing and Sales  
 The insurer has procedures in place to educate and monitor insurance agents/producers and to provide full disclosure to consumers regarding all sales of products involving annuity products, and all sales are in compliance with OAC 3901-6-14 (E)(4)&(5) and R.C. 3901.21(A).

**File Review:**

**Methodology:**

The examiners reviewed a sample of 50 Ohio new business and 50 replacement policies on individual fixed annuity contracts issued during the examination period. Disclosures were reviewed to determine their compliance with OAC 3901-6-14 (E) (4) & (5).

**New Business (non-replacement):**

Population	Sample	Yes	No	Standard	Compliance
2797	50	22	28	90%	44%

The standard for compliance is 90%. The Company's handling practices were below this standard.

**Examiner Observations:**

The 28 exception files noted above failed to contain the required annuity disclosure. The remaining 22 annuity policy files contained the required annuity disclosure that met the requirements of Ohio Administrative Code 3901-6-14(E)(4)&(5) or Ohio Administrative Code 3901-1-47, Appendix 1.

**Replacements:**

Population	Sample	Yes	No	Standard	Compliance
1417	50	27	23	90%	54%

The standard for compliance is 90%. The Company's handling practices were below this standard.

**Examiner Observations:**

The 23 exception files noted above are comprised of 13 policy files wherein the required annuity disclosure was absent from the file documentation and 10 policy files containing annuity

disclosures that failed to meet the minimum requirements of Ohio Administrative Code 3901-6-14(E)(4)&(5) or Ohio Administrative Code 3901-1-47, Appendix 1.

### COMPLAINT HANDLING

**Standard: Complaint Handling**

The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with statutes, rules, regulations, and contract language.

**Examiner Observations:**

The Company has in place procedures for handling complaints promptly and thoroughly. The complaints are also trended and analyzed to identify any specific problem areas, like specific agents with more than one complaint. The Company's Customer Relations Department, staffed by ten associates, is responsible for investigating each complaint received throughout the Company – including complaints submitted directly to the President and chief Executive Officer. The examiners review of Ohio Department of Insurance complaints showed that the Company had no complaints on annuities during the examination period.

This concludes the report of the market conduct examination of the Jackson National Life Insurance Company. The examiners, John Pollock and Rob Stroup, would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



---

John Pollock  
Examiner in Charge

---

3-28-2012  
Date

STATE OF OHIO  
DEPARTMENT OF INSURANCE  
50 WEST TOWN STREET  
3<sup>rd</sup> FLOOR, SUITE 300  
COLUMBUS, OHIO 43215

IN THE MATTER OF: :  
:  
JACKSON NATIONAL LIFE :  
INSURANCE COMPANY :  
MARKET CONDUCT :  
EXAMINATION : CONSENT ORDER

The Superintendent of the Ohio Department of Insurance ("Superintendent") is responsible for administering Ohio insurance laws pursuant to Ohio Revised Code ("ORC") Section 3901.011. Jackson National Life Insurance Company ("Company") is authorized to engage in the business of insurance in the State of Ohio and as such is under the jurisdiction of the Superintendent. The Superintendent conducted an examination of the Company's annuity suitability oversight and compliance from March 1, 2007 through December 31, 2009 to ensure compliance with Ohio law. As a result of this examination the Department alleges the following:

- A. The Company failed to maintain or make available to the superintendent documentation in its records that established reasonable grounds for suitability as required by Ohio Administrative Code ("OAC") 3901-6-13 (G) and (J) (in effect until July 1, 2011).
- B. The Company failed to use disclosures that were compliant with OAC 3901-6-14.

In lieu of further proceedings and to resolve this matter, the Superintendent and the Company hereby agree to the following:

1. The Company shall comply with Ohio statutes and regulations concerning annuity suitability and disclosure and supervision of annuity purchases.
2. The Company shall modify and thereafter maintain a system to reasonably detect annuity recommendations that are not suitable, as well as supervise compliance with OAC 3901-6-13.

3. The Company shall modify the system to require that suitability forms include information that is reasonably appropriate to determine the suitability of a recommendation including but not limited to the information outlined in OAC 3901-6-13(E)(9).
4. The Company shall design an annuity disclosure form that complies with OAC 3901-6-14. The disclosure form will define the terms used in language that facilitates the understanding by a typical person within the segment of the public to which the disclosure statement is directed and will be provided to each annuity applicant within the time frames described in OAC 3901-6-14(E).
5. The Company shall provide to the Superintendent by May 1, 2012 an example of the annuity disclosures developed.
6. The Company will further implement changes to internal controls and processes which ensure that:
  - a) the Company or its agents collects and maintains the appropriate customer information for annuities subject to suitability review before selling;
  - b) annuity suitability reviews conducted by the Company or its agents are appropriate, timely and properly documented;
  - c) the Company observes written suitability guidelines that are in compliance with OAC 3901-6-13; and
  - d) agents are monitored and trained appropriately.

The Company has been advised that under ORC Chapter 119, it has a right to a hearing before the Superintendent may impose sanctions or penalties; that, at a hearing, it would be entitled to appear in person, to be represented by an attorney or other representative permitted to practice before the agency, to present its position, arguments, or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.

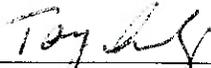
The Company waives any rights it may have under ORC 119.12 to appeal this Consent Order.

The Company waives any and all causes of action, claim or rights, known or unknown, which it may have against the Department, and any employees, agents, consultants, contractors or officials of the Department in their individual and official capacities, as a result of any acts or omissions on the part of such persons or firms.

The individual signing on behalf of the Company represents that he or she has the authority to execute this Consent Order on behalf of the Company.

This Consent Order is a public record and shall be entered into the Journal of the Ohio Department of Insurance.

Date: 4-11-12

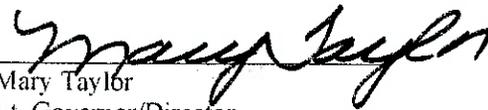
Signature: 

Name (Printed): Tony Dowling

Title: Assistant Vice President

Jackson National Life Insurance Company

Date: 5/4/12

  
Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance