

OHIO DEPARTMENT OF INSURANCE

A

MARKET CONDUCT EXAMINATION

OF

ANNUITY INVESTORS LIFE INSURANCE COMPANY

NAIC# 93661

As Of

December 31, 2002



Bob Taft, Governor
Ann Womer Benjamin, Director

2100 Stella Court, Columbus, OH 43215-1067
(614) 644-2658 www.ohioinsurance.gov

Honorable Ann Womer Benjamin
Director
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Director:

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

Annuity Investors Life Insurance Company
NAIC Company Code 93661

The examination was conducted at the Company's primary business location at:

525 Vine Street
Cincinnati, Ohio 45202

A report of the examination is enclosed.

Respectfully submitted,


David R. Beck
Chief, Market Conduct Division


Date



Accredited by the National Association of Insurance Commissioners (NAIC)
Consumer Hotline: 1-800-686-1526 Fraud Hotline: 1-800-686-1527 OSHIP Hotline: 1-800-686-1578

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FOREWORD

This examination was conducted under authority provided by Sections 3901.011 of the Ohio Revised Code (ORC).

SCOPE OF EXAMINATION

The Market Conduct Division of the Ohio Department of Insurance (“Department”) commenced an examination of the Annuity Investors Life Insurance Company (“Company”) on or about November 8, 2002, with the call letter and initial requests for information. The on-site portion of the examination of the Company’s non-financial business practices commenced on April 21, 2003, at the Company’s primary business location in Cincinnati, Ohio. The examination was conducted concurrently with the examination of the Company’s parent, Great American Life Insurance Company (GALIC). The findings of that examination are reported separately.

The examination was restricted to Company activities for individual ordinary annuity business in Ohio from the period of January 1, 2000, through December 31, 2002. The examination report is a report by test.

This examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and Ohio’s applicable statutes, rules, and regulations.

Accordingly, the examination included the following areas of the Company’s operations:

- A. Company History
- B. Company Operations
- C. Certificate of Authority
- D. Marketing
- E. Replacements
- F. Policyholder Services
- G. Single Premium Deferred Annuities
- H. Paid Claims

METHODOLOGY

The examination was conducted through a review of the Company's individual ordinary annuity contracts and claim files. A review was also conducted on the Company's corresponding procedure manuals. This information was supplemented with interviews with Company managers and written inquiries to the Company requesting clarification and/or additional information.

Only those files with Ohio insureds, policyholders, or claimants were reviewed. A series of tests were designed and applied to the files reviewed to determine the Company's level of compliance to Ohio's insurance statutes, rules, and regulations. These tests are described and the results noted in this report.

The Examiners used the NAIC's standard of:

7% error ratio on claim files (93% compliance rate)

10% error ratio on all other files (90% compliance rate)

to determine whether or not an apparent pattern or practice of non-compliance existed for any given test.

The results of each test applied to a sample are reported separately. Each test is expressed as a "yes/no" question. A "yes" response indicates compliance and a "no" response indicates a failure to comply.

In any instance where errors were noted, the Examiners submitted to the Company a request for information describing the apparent error. Responses to these inquiries were returned to the Examiners with notes as to whether the Company:

- Concurred with the findings;
- Had additional information for the Examiners to consider; and/or
- Proposed remedial action(s) to correct the apparent deficiency.

The Examiners' recommendations, as applicable, are included in this report.

SAMPLING

The Examiners requested, and the Company supplied, reports of policy and claim data in file formats specified by the Examiners, which could be used on IBM compatible personal computers. Except as otherwise noted, all tests were conducted on a sample of files randomly selected from a given report. The samples were pulled from populations consisting of Ohio policies.

These samples were selected using a standard business database application that provides a true random sample since it supplies a random starting point from which to select the sample.

COMPANY HISTORY

The Company was incorporated on November 13, 1981, as UCL Life Assurance Corporation, (UCL) an Ohio domestic company. Its original license date was December 23, 1981. UCL changed its name to Carillon Life Insurance Company on October 17, 1985. Great American Insurance Company acquired all of the outstanding stock of the Company in 1993, in a cash transaction. In April 1995 the Company changed its name to Annuity Investors Life Insurance Company. Later that same year, the Company was authorized to write variable annuities in Ohio. The Company began to issue variable annuities in 1996. In 1997 the Company expanded its writings to include fixed annuities.

COMPANY OPERATIONS

The Company is domiciled in Ohio and licensed in 48 states and the District of Columbia. Its statutory home office and its primary business location are in Cincinnati. The Company writes only annuity products.

The Company is a wholly-owned subsidiary of GALIC, a member of Great American Financial Resources, Inc. (GAFRI). Other members of this group include Loyal American Life Insurance Company, United Teacher Associates Insurance Company, and Great American Life Assurance

Company of Puerto Rico. GAFRI is a public company, and its stock is traded on the New York Stock Exchange.

Eighty-two percent (82%) of GAFRI's outstanding shares are owned by American Financial Group. Other companies that are part of this group include Great American Insurance Company, Atlanta Casualty Company, and Republic Indemnity Company of America. American Financial Group is also a publicly traded company listed on the New York Stock Exchange.

The Company's year-end annuity considerations, deposit type funds, and direct claims and benefits paid during the examination period as reported on Life Insurance Part 1 of the Company's Financial Annual Statements appear below.

2000		Ohio	Ohio	National	National
	<u>Line</u>	<u>Ordinary</u>	<u>Total</u>	<u>Ordinary</u>	<u>Total</u>
	Annuity Considerations	\$311,876	\$311,876	\$61,741,755	\$61,741,755
	Deposit Type Funds	\$17,587,944	\$29,143,540	\$266,189,693	\$320,689,333
	Totals (direct premiums and annuity considerations)	<u>\$17,899,820</u>	<u>\$29,445,416</u>	<u>\$327,931,448</u>	<u>\$382,431,088</u>
	Totals (direct claims and benefits paid)	<u>\$1,926,583</u>	<u>\$5,955,047</u>	<u>\$27,385,188</u>	<u>\$55,291,375</u>

2001		Ohio	Ohio	National	National
	<u>Line</u>	<u>Ordinary</u>	<u>Total</u>	<u>Ordinary</u>	<u>Total</u>
	Annuity Considerations	\$18,772,202	\$30,493,877	\$211,540,371	\$251,599,485
	Deposit Type Funds	\$314,857	\$314,857	\$7,932,756	\$7,932,756
	Totals (direct premiums and annuity considerations)	<u>\$19,087,059</u>	<u>\$30,808,735</u>	<u>\$219,473,127</u>	<u>\$259,532,241</u>
	Totals (direct claims and benefits paid)	<u>\$4,475,684</u>	<u>\$6,971,792</u>	<u>\$57,807,931</u>	<u>\$71,120,178</u>

2002		Ohio	Ohio	National	National
	<u>Line</u>	<u>Ordinary</u>	<u>Total</u>	<u>Ordinary</u>	<u>Total</u>
	Annuity Considerations	\$17,946,246	\$29,200,125	\$210,371,242	\$246,483,143
	Deposit Type Funds	0	0	\$5,315,811	\$5,315,811
	Totals (direct premiums and annuity considerations)	<u>\$17,946,246</u>	<u>\$29,200,125</u>	<u>\$215,687,053</u>	<u>\$251,798,954</u>
	Totals (direct claims and benefits paid)	<u>\$6,374,298</u>	<u>\$10,835,414</u>	<u>\$92,965,282</u>	<u>\$115,196,990</u>

As of December 31, 2002, the officers of the Company were:

President: Charles Richard Scheper
Secretary & Vice President: Mark Francis Muething
Treasurer: Richard Lee Magoteaux
Actuary: Richard Lee Sutton

CERTIFICATE OF AUTHORITY

The Company is an Ohio domestic company and operates under a Certificate of Authority issued in accordance ORC §3911.01. In the course of the examination, the Examiners found the Ohio operations of the Company to be in compliance with its Certificate of Authority.

MARKETING

The Company's products are fixed and variable annuities. The Company markets its annuity products through Great American Advisors, Inc. (GAA), a wholly owned subsidiary of GAFRI. GAA is a licensed broker/dealer, and its registered representatives market the Company's variable annuities. The Company supplied the Examiners with data showing that 471 agents and agencies were appointed during all or part of the examination period. During the same period the Company reported it was represented by 56 brokers and registered representatives.

The Company's largest variable product is its Tax Sheltered Annuity (TSA). The Company also coordinates marketing with GALIC's educational market, which comprises primarily public school employees. This variable product provides additional retirement product options to GALIC's retirement savings customers. The Company is shifting its marketing and distribution focus to agents and customers of GALIC.

Sales and Marketing Materials

Standard: All advertising and sales materials are in compliance with applicable statutes, rules, and regulations.

Test: Did the sales and marketing materials distributed by the Company to its agents, its insureds, and the general public conform with ORC §3901.20, ORC §3901.21, Ohio Administrative Code (OAC) §3901-6-01, and OAC §3901-6-03?

Methodology:

- The Company supplied a copy of all marketing materials in use during the examination period.
 - The Examiners reviewed each individual piece to test for compliance.
 - The Examiners compared the text of the marketing materials with the text of policy forms and endorsements.
 - Any material which was unclear, deceptive, misleading or apparently inaccurate or might have the tendency to mislead its intended recipient was considered an exception.

Findings: The Examiners found the Company’s marketing materials to be in apparent compliance with ORC §3901.20, ORC §3901.21, OAC §3901-6-01, and OAC §3901-6-03.

REPLACEMENTS

Replacement Register

Standard: Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

Test: Did the Company maintain a replacement register as required by OAC §3901-6-05 (G) (3)?

Methodology:

- The Company supplied an electronic copy of its replacement register.
- The Examiners reviewed the file to determine if the Company’s replacement register contained all information required by OAC §3901-6-05 (G) (3).
- The Examiners considered as an exception the Company’s failure to maintain a register of replacements accurately capturing those applications that were “replacements” as

defined by OAC §3901-6-05 (D) (1) *or* failed to include sufficient information to permit its replacement records to be cross indexed by the name of the company being replaced.

Findings: The Company failed to maintain a replacement register as required by OAC §3901-6-05 (G) (3).

Examiners' Comments:

The Company's replacement register failed to accurately recognize and record those applications which were "replacements." In the course of the examination, the Examiners determined that only 93 of the 569 unique records in the Company's replacement register were "replacement" applications as defined by OAC §3901-6-05 (D) (1). Further, none of the eleven (11) records reported to be internal replacements were "replacement" applications as defined by OAC §3901-6-05 (D) (1).

Absent accurate information on which applications were "replacements," the Company had no record which would permit it to assure that its new business practices and procedures were compliant with the various sections of OAC §3901-6-05, thereby providing the minimum consumer protections prescribed by that regulation.

Examiners' Recommendations

The Examiners recommend that the Company:

1. Establish processes and procedures which accurately identify which applications are "replacements" as defined by OAC §3901-6-05 (D) (1).
2. Establish and implement procedures to capture the information required by OAC §3901-6-05, including the name of the existing insurer.
3. Establish and implement internal audit procedures to monitor and review the Company's "replacement register" at intervals of no more than a year. These internal audits should be kept for at least three years and made available for review by the Superintendent upon request.

Notices Regarding Replacement Form

Standard: Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

Test: Did the “Notice Regarding Replacement” forms in use during the examination period conform with OAC §3901-6-05 (E) (2) (a)?

Findings: The “Notice Regarding Replacement” form in use during the examination period conformed with OAC §3901-6-05 (E) (2) (a).

Review of Specific Application Practices—Internal Replacements

Methodology

- The Examiners reviewed all written policies and procedures that instructed agents on the Company’s replacement procedures and requirements.
- The Company supplied the following data files:
 1. A report of apparent replacements during the examination period compiled from the Company’s automated data records.
 2. Individual fixed and variable annuity new business written in Ohio during the examination period.
- A file was produced for review containing a population of eleven (11) apparent internal replacements.
- Upon review the Examiners found that none (0) of these policies were “replacements” as defined by OAC §3901-6-05 (D) (1).
- No tests were conducted on these records.

Review of Specific Application Practices—External Replacements

Methodology for Agent and Company Requirements

- The Examiners reviewed all written policies and procedures that instructed agents on the Company’s replacement procedures and requirements.

- The Company supplied the following data files:
 1. A report of apparent replacements during the examination period compiled from the Company's automated data records.
 2. Individual fixed and variable annuity new business written in Ohio during the examination period.
- A file was produced for review containing a random sample of fifty (50) policies listed in the Company's report of apparent replacements was selected.
- Less than 20% of the sample were "replacements," as defined by OAC §3901-6-05 (D) (1). The Examiners reviewed the entire population of 569 variable life new business reported to be apparent replacements which originated during the examination period.
- Upon review of the entire population of 569 records, the Examiners identified 93 records as "replacements" as defined by OAC §3901-6-05 (D) (1).
- All 93 policies were tested for compliance with the various sections of OAC §3901-6-05.

Agent Requirements

Standard: Company rules pertaining to agent requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

Test: Did the Company require its agents to comply with the replacement requirements for annuities according to OAC §3901-6-05?

Findings:

Test	Population	Yes	No	Standard	Compliance
Did the agent submit a statement signed by the applicant as to whether a replacement was involved?	93	86	7	90%	92%
Did the agent submit a statement signed by the agent as to whether he/she knew that a replacement was involved?	93	86	7	90%	92%
Did the agent present to the applicant at the time of application a "Notice Regarding Replacement"?	93	55	38	90%	59%
Was the "Notice Regarding Replacement" signed on or before the application date?	93	55	38	90%	59%

Test	Population	Yes	No	Standard	Compliance
Did the agent submit a copy of the “Notice Regarding Replacement” to the replacing company?	93	59	34	90%	63%
Was the “Notice Regarding Replacement” signed by both the applicant and the agent?	93	58	35	90%	62%
Did the agent submit a completed application to the replacing company?	93	88	5	90%	95%
Did the agent obtain a list of all existing life insurance or annuities to be replaced and did the list properly identify replaced policies by insurer name, insured name and contract number?	93	90	3	90%	96%

The standard of compliance is 90%. The Company’s practices failed to meet those standards for four (4) tests.

Examiners’ Comments

Each time the Company’s agent failed to present a “Notice Regarding Replacement,” the applicant was denied an essential protection of his/her interests. The Examiners take exception to the Company’s failure to protect Ohio consumers through conscientious implementation of Replacement regulations and oversight of its agents. In more than 40% of the applications tested, the Company’s agents failed to present to the applicant at the time of application the “Notice Regarding Replacement.” This exposes owners of existing life insurance and annuity contracts to potential irreparable harm to their economic interests.

The Examiners’ recommendations appear after the findings for “Company Requirements.”

Company Requirements

Standard: Company rules pertaining to company requirements in connection with replacements are in compliance with applicable statutes, rules, and regulations.

Test: Did the Company’s practices of handling replacement applications comply with the replacement requirements for annuities according to OAC §3901-6-05?

Findings:

Test	Population	Yes	No	Standard	Compliance
Did the Company require a statement signed by the applicant as to whether the proposed annuity would replace existing life insurance or annuities?	93	86	7	90%	92%
Did the Company require a statement signed by the agent as to whether the agent knew a replacement could be involved?	93	86	7	90%	92%
Did the Company require its agents to obtain a list of all existing life insurance or annuities to be replaced and to properly identify them by name of the insurer, insured, and contract number?	93	88	5	90%	94%
Did the Company require from the agent, with the application, a signed copy of the "Notice Regarding Replacement"?	93	58	35	90%	62%
Did the Company maintain evidence in the file of the "Notice Regarding Replacement"?	93	59	34	90%	63%
Did the Company provide notification in or with the policy about the "20 day free look" period and premium refund?	93	93	0	90%	100%
Did the Company notify the existing insurer of possible replacement within 3 working days of receiving the annuities application?	93	0	93	90%	0%

The standard of compliance is 90%. The Company's practices failed to meet the minimum standard in three (3) tests.

Examiners' Comments

The Company failed to send any notices of possible replacement to existing life insurance or annuity contract insurers during the examination period. This practice essentially prevented any existing life insurance or annuity writer an opportunity to conserve its business.

This practice *may* have resulted in the applicant choosing a Company product which may have been less beneficial to the consumer than the existing policy after surrender charges and differences in contract provisions were taken into consideration. This information might have

been provided to the applicant by the existing agent if given the opportunity to attempt to conserve the businesses.

Since the Company failed to send notice, it is not feasible to determine the outcome for the annuity applicants if the existing life insurance or annuity companies had been given an opportunity to conserve the business. Therefore, it could not be determined to what extent applicants may have suffered economic loss due to the Company's failure to comply with the requirements of OAC § 3901-6-05.

Examiners' Recommendations

The Examiners recommend that the Company:

1. Establish and implement procedures which assure that all consumers receive the protections prescribed in OAC §3901-6-05, including but not limited to, Notices Regarding Replacement (NRR) presented and signed no later than the date of application, timely notification to existing insurers and complete information on applications of insurance to be replaced, including policy or contract number and name and address of the existing insurer.
2. Distribute to all agents writing Ohio business, both resident and non-resident, instructions on completing the NRR form and instructions on how to submit replacement applications which conform with the Replacement Rule.
3. Establish and implement internal audit procedures to monitor and review the Company's new business practices as respects replacements at intervals of no more than a year. The results of these internal audits should be kept for at least three years and made available for review by the Superintendent upon request.

POLICYHOLDER SERVICES

Consumer Complaints

Standard: An insurer shall adopt and implement reasonable standards for the proper handling of written communications, primarily expressing grievances, received by the insurer from insureds or claimants.

Test: Did the Company adopt and implement reasonable standards for handing written communications, primarily expressing grievances, including procedures to make a complete investigation of an insured's or claimant's complaint and respond as required by OAC §3901-1-07 (C) (15)?

Methodology:

- The Examiners reviewed all written policies and procedures that instructed the agents on the Company's complaint procedures.
- The Company supplied a report of all consumer complaints received during the examination period, regardless of source.
- The Examiners reviewed the entire population of five (5) consumer complaints to test for compliance with OAC §3901-1-07 (C) (15).
- Considered a record to be an exception if the Company failed to respond appropriately to the consumer's inquiry, request, or complaint.

Findings:

Population	Yes	No	Standard	Compliance
5	3	2	90%	60%

The standard of compliance is 90%. The Company's practices failed to meet this minimum standard.

Examiners' Comments:

Both exceptions resulted from the Company's failure to make an appropriate response to a consumer's grievance or failure to make any response at all. Both complaints alleged

misrepresentation by the selling agent of one or more features of the Company's TSA Variable Annuity product.

Variable annuity products combine an annuity contract with a security similar to a mutual fund. There are also expenses which are charged against the variable annuity contract value which do not have counterparts in fixed annuity products.

These complex products are regulated both by state insurance departments and the National Association of Securities Dealers (NASD). Because of the complexity of these products, the NASD requires the broker dealer to monitor the actions of its registered representative to make certain the registered representative determines the suitability of the product for the client. Given the cost and complexity of the variable annuity product, it is important that consumers receive clear and accurate information about the product and that agents accurately determine the suitability of the product for the applicant.

Examiners' Recommendations

The Examiners recommend that the Company:

1. Establish and implement procedures which assure that all consumers grievances are correctly identified and remedied regardless of how the Company becomes aware of the consumer's grievance.
2. Establish and implement procedures which assure that all consumers receive appropriate responses to their grievances based on information available to the Company from all reasonable sources.
3. Establish and implement internal audit procedures to monitor and review the Company's responses to consumer communications at intervals of no more than once a year and to keep the results of these internal audits for review by the Superintendent. This should include a method to monitor and trend all complaints by complaint type (e.g. misrepresentation, failure to deliver policy, etc.) and by individual agent. Such reports should be made to senior management and the Company should establish thresholds that, when met, generate additional review and corrective action.

SINGLE PREMIUM DEFERRED ANNUITIES

Single Premium Deferred Annuity Disclosure Form

Standard: All mandated disclosures for individual annuity products are documented and in accordance with applicable statutes, rules and regulations.

Test: Was the text of the Single Premium Annuity (SPDA) Disclosure form in compliance with OAC §3901-1-47 (C) (“the SPDA Rule”)?

Findings:

The Company failed to use any SPDA Disclosure form during the examination period.

Standard: All mandated disclosures for individual annuity products are documented and in accordance with applicable statutes, rules and regulations.

Test: Does the Company ensure that, at the time an application is taken for an SPDA, a disclosure form is executed by the applicant and the selling agent as required by the SPDA Rule?

Methodology:

- The Company supplied a computer file of all of the SPDA new business written in Ohio during the examination period.
- Using the Company’s data, the Examiners identified a population of twenty-seven (27) SPDA’s. The Examiners reviewed all twenty-seven (27) files. The Examiners removed twenty-five (25) records which were not SPDA’s.
- The identified population of two (2) SPDA contracts was tested for compliance with the SPDA Rule.
- Each annuity file was reviewed to verify that the mandated disclosure form was utilized.
- Each annuity file was reviewed to verify that the mandated disclosure form was completed in its entirety.
- A file was considered an exception if it did not comply with the portion of the SPDA Rule tested.

Findings:

Test	Population	Yes	No	Standard	Compliance
Was a disclosure statement used in conjunction with the sale of the SPDA?	2	0	2	90%	0%
Was the disclosure statement completed in its entirety?	2	0	2	90%	0%
Was the disclosure statement signed by the applicant at the time of the application?	2	0	2	90%	0%
Was the disclosure statement signed by the selling agent at the time of the application?	2	0	2	90%	0%

The standard of compliance is 90%. The Company's practices failed to meet the minimum standard for all four (4) tests.

Examiners' Comments:

The Company failed these tests, because no disclosure form was in file. The Company advised the Examiners that no SPDA Disclosure forms were used during the examination period.

The Examiners are particularly concerned about this practice when a contract owner becomes incompetent. Without disclosure forms, the legal representative for the owner would not be able to determine that the rate of interest on the annual annuity statement was consistent with what the owner thought was being purchased at the time of application.

The Company's electronic policy records failed to accurately recognize and record applications for SPDA contracts. Upon review of the 27 contracts identified as SPDA contracts, only two (2) of those were found to be SPDA contracts. Absent accurate information on which contracts are SPDA contracts, the Company has no credible data which would permit them to assure that its new business practices and procedures were compliant with the SPDA Rule, and there could be no assurance that the Company was providing the minimum consumer protections required by the SPDA Rule.

Examiners' Recommendations

The Examiners recommend that the Company:

1. Establish and implement procedures which assure that all consumers receive the protections prescribed in the SPDA Rule, including but not limited to, SPDA Disclosure form presented and signed no later than the date of application.
2. Distribute to all agents writing Ohio business, both resident and non-resident, instructions on completing the SPDA Disclosure form and instructions on how to submit SPDA applications which conform with the SPDA Rule.
3. Establish and implement data system procedures which assure that information on contracts issued is accurately recorded and preserved.
4. Establish and implement internal audit procedures to monitor and review the Company's new business practices as respects SPDA's at intervals of no more than a year. The results of these internal audits should be kept for at least three years and be made available for review by the Superintendent upon request.

PAID CLAIMS

Death Benefit Claims

Methodology:

- The Examiners requested, and the Company supplied, a report of all ordinary annuity death claims paid during the exam period.
- The Examiners reviewed the entire population of paid death claims for ordinary annuities to test for compliance with various sections of OAC §3901-1-07.

Adequate Documentation

Standard: Claim files are adequately documented.

Test: Were the claim files adequately documented to determine the beneficiary(-ies), the requested method(s) of claim settlement, the date of death, date the Company received notification of the death, date of proof of death received and the dates of all correspondence?

Test Methodology:

- The claim files were reviewed to verify that the Company’s claim settlement records were accurate and complete.
- A claim was considered an exception if the claim file did not adequately document the beneficiary(-ies), the requested method(s) of claim settlement, the date of death, date company received notice of the death, date the proof of death received, and the dates of all correspondence.

Findings:

Population	Yes	No	Standard	Compliance
23	21	2	93%	91%

The standard of compliance is 93%. The Company’s claim practices failed to meet this standard.

Timely Initial Contact

Standard: The initial contact by the Company with the claimant is within the required time frame.

Test: Upon receiving notification of claim, did the Company respond within the time frame required by OAC §3901-1-07 (C) (2)?

Test Methodology:

- The claim files were reviewed to verify dates in the claim settlement process.
- The Examiners considered initial contact to have been made by the Company upon receiving telephone notification from the beneficiary, assignee, and/or legal representative.
- A claim was considered an exception if the Company did not contact the claimant within fifteen (15) working days from the date of notification of the insured’s death.

Findings:

Population	Yes	No	Standard	Compliance
23	21	2	93%	91%

The standard of compliance is 93%. The Company's claim practices failed to meet this standard.

Timely Investigation

Standard: Investigations are conducted in a timely manner.

Test: Did the Company begin investigating the claim within the time frame required by OAC §3901-1-07 (C) (4)?

Test Methodology:

- The claim files were reviewed to verify dates in the claim investigation process.
- A claim was considered an exception if the Company did not begin investigating the claim within fifteen (15) working days of notice of claim.

Findings:

Population	Yes	No	Standard	Compliance
23	21	2	93%	91%

The standard of compliance is 93%. The Company's claim practices failed to meet this standard.

Timely Response to Pertinent Claim Communications

Standard: The Company responds to pertinent claim communications in a timely manner.

Test: Did the Company respond to all pertinent claim communications within the time frames within OAC §3901-1-07 (C) (2)?

Test Methodology:

- The claim files were reviewed to verify dates in the claim settlement process.

- A claim was considered an exception if the Company did not respond to pertinent claim communications within the required time frame of 15 working days.

Findings:

Population	Yes	No	Standard	Compliance
23	23	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices met this standard.

Claim Settlement

Standard: Claim files are handled in accordance with policy provisions and state law.

Test: Were the claims settlements correctly calculated and were complete payments made to the correct beneficiary(ies)?

Test Methodology:

- The Examiners reviewed each claim to confirm that the payment(s) made were to the correct beneficiary and/or assignee as documented in the Company’s claims and policy records and that the manner of payment, such as lump sum, checking account, or annuity, were made according to the beneficiary’s specific request.
- A claim was considered an exception if the payee of the benefit or the manner of payment did not conform to the beneficiary’s request as recorded in the Company’s claim file.

Findings:

Population	Yes	No	Standard	Compliance
23	23	0	93%	100%

The standard of compliance is 93%. The Company’s claim practices met this standard.

Examiners’ Comments:

The Company failed tests for file documentation, timely initial contact and timely initial investigation as the result of lacking any documentation of the dates two claims were initially

received. It appears this documentation was lost in migration of the claims records from one data system “platform” to another.

Since there is no apparent on-going problem with capturing this data “going forward” the Examiners make no recommendations.

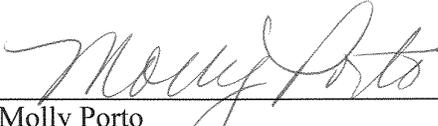
SUMMARY

The examination found the Company to be out of compliance in the following areas:

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
REPLACEMENTS		
Company failed to maintain a replacement register as specified in OAC §3901-6-05 (G) (3).	N/A	N/A
REPLACEMENTS (External)		
Agent Requirements		
“Notice Regarding Replacement” presented to applicant at the time of application	90%	59%
“Notice Regarding Replacement” signed on or before application date.	90%	59%
“Notice Regarding Replacement” submitted to replacing company.	90%	63%
“Notice Regarding Replacement” signed by applicant and agent.	90%	62%
Company Requirements		
Required from agent a copy of “Notice Regarding Replacement.”	90%	62%
Maintained evidence of “Notice Regarding Replacement.”	90%	63%
Notified Existing Insurer within 3 working days.	90%	0%
POLICYHOLDER SERVICES		
Consumer Complaints		
Make appropriate response to written communications primarily expressing a grievance.	90%	60%
SINGLE PREMIUM DEFERRED ANNUITIES		
An SPDA Disclosure form was used in conjunction with the sale of the SPDA.	90%	0%
The SPDA Disclosure form was completed in its entirety.	90%	0%
The SPDA Disclosure form was signed by the applicant at the time of the application.	90%	0%

<u>Areas of Review</u>	<u>Compliance Standard</u>	<u>Compliance Rate</u>
The SPDA Disclosure form was signed by the agent at the time of the application.	90%	0%
PAID CLAIMS		
Claim files adequately documented.	93%	91%
Timely contact following initial notice of claim.	93%	91%
Timely investigation started following initial notice of claim.	93%	91%

This concludes the report of the Market Conduct Examination of the Annuity Investors Life Insurance Company. The Examiners would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



 Molly Porto
 Examiner in Charge



 Date

COMPANY RESPONSE



250 East Fifth Street, Cincinnati, Ohio 45202

ANNUITY INVESTORS LIFE INSURANCE COMPANY

NAIC No. 93661

Ohio Market Conduct Examination Response

**Replacements – Replacement Register
(Ohio Market Conduct Examination Report Page 7)**

Department Report Recommendation, Item 1: Establish processes and procedures which accurately identify which applications are "replacements" as defined by OAC §3901-6-05 (D) (1).

Company Response: The Company has created and/or revised its Replacement Policy Summary, Replacement Handbook and appropriate Policies and Procedures, which will enable its staff to more accurately identify which applications are replacements. Additionally, the Company has already trained its New Business associates and will train associates in Policy Owner Services by fourth quarter 2004.

Department Report Recommendation, Item 2: Establish and implement procedures to capture the information required by OAC §3901-6-05, including the name of the existing insurer.

Company Response: AILIC's IT Group is working to ensure that the Replacement Register conforms to the requirements of the Replacement Rule and expects completion by first quarter 2005.

Department Report Recommendation, Item 3: Establish and implement internal audit procedures to monitor and review the Company's "replacement register" at intervals of no more than a year. These internal audits should be kept for at least three years and made available for review by the Superintendent.

Company Response: Agree.

**Replacements – Notices Regarding Replacement Form
(Ohio Market Conduct Examination Report Page 12)**

Department Report Recommendation, Item 1: Establish and implement procedures which assure that all consumers receive the protections prescribed in OAC §3901-6-05, including but not limited to, Notices Regarding Replacement (NRR) presented and signed no later than the date of application, timely notification to existing insurers and complete information on applications of insurance to be replaced, including policy or contract number and name and address of the existing insurer.

Company Response: The Company has drafted a Handbook and appropriate Policies and Procedures to address the Department's concerns regarding replacements. These new Policies and Procedures were implemented and communicated to the various business units. Training for associates in New Business and Policy Owner Services will be completed by fourth quarter 2004.

Department Report Recommendation, Item 2: Distribute to all agents writing Ohio business, both resident and non-resident, instructions on completing the NRR form and instructions on how to submit replacement applications which conform with the Replacement Rule.

Company Response: The Company has distributed to all agents writing Ohio business, both resident and non-resident, instructions on completing the Notice Regarding Replacement form and instructions on how to submit replacement applications which conform with OAC § 3901-6-05.

Department Report Recommendation, Item 3: Establish and implement internal audit procedures to monitor and review the Company's new business practices as respects replacements at intervals of no more than a year. The results of these internal audits should be kept for at least three years and made available for review by the Superintendent upon request.

Company Response: Agree.

**Policyholder Services – Consumer Complaints
(Ohio Market Conduct Examination Report Page 14)**

Department Report Recommendation, Item 1: Establish and implement procedures which assure that all consumers grievances are correctly identified and remedied regardless of how the Company becomes aware of the consumer's grievance.

Company Response: Our Company wishes to note that we maintain a robust program with respect to consumer complaints. Our current complaint handling policies and procedures have been in effect since March 10, 2003. These procedures maintain reasonable standards for handling written communications, primarily expressing grievances, including procedures to correctly identify and remedy all consumers' grievances regardless of how the Company becomes aware of the consumer's grievance.

Department Report Recommendation, Item 2: Establish and implement procedures which assure that all consumers receive appropriate responses to their grievances based on information available to the Company from all reasonable sources.

Company Response: Our Company wishes to note that we maintain a robust program with respect to consumer complaints. Our current complaint handling policies and procedures have been in effect since March 10, 2003. These procedures maintain reasonable standards for handling written communications, primarily expressing grievances, including procedures to promptly and appropriately provide a response to consumers' grievances.

Department Report Recommendation, Item 3: Establish and implement internal audit procedures to monitor and review the Company's responses to consumer communications at intervals of no more than once a year and to keep the results of these internal audits for review by the Superintendent. This should include a method to monitor and trend all complaints by complaint type (e.g. misrepresentation, failure to deliver policy, etc.) and by individual agent. Such reports should be made to senior management and the Company should establish thresholds that, when met, generate additional review and corrective action.

Company Response: Disagree. With respect to your Department's recommendation regarding consumer complaints, please note that our Company has adopted and implemented reasonable standards for handling written communications, primarily expressing grievances, including procedures to make a complete investigation of an insured's or claimant's complaint and respond as required by OAC §3901-1-07 (C) (15). Our Company updated our complaint procedures in 2003 to provide for quarterly reporting due to the increased push toward statistical analysis. The complaint handling procedures that reference quarterly complaint handling analysis were effective March 10, 2003. These reports, which sort by complaint type, product, agent, agency and state, are communicated to senior management, at least twice per year, and reviewed for any/all trends and other corrective action if necessary.

Single Premium Deferred Annuities
(Ohio Market Conduct Examination Report Page 16-17)

Department Report Recommendation, Item 1: Establish and implement procedures which assure that all consumers receive the protections prescribed in the SPDA Rule, including but not limited to, SPDA Disclosure form presented and signed no later than the date of application.

Company Response: The Company has created and/or amended its Procedures to ensure that the Single Premium Deferred Annuity ("SPDA") Disclosure form is presented and signed no later than the date of application.

Department Report Recommendation, Item 2: Distribute to all agents writing Ohio business, both resident and non resident, instructions on completing the SPDA Disclosure form and instructions on how to submit SPDA applications which conform with the SPDA Rule.

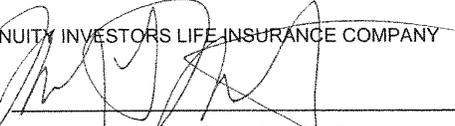
Company Response: Since the inception of this Examination, the Company has twice distributed to all agents writing Ohio business, both resident and non resident, instructions on completing the SPDA Disclosure form and instructions on how to submit SPDA applications which conform with the SPDA Rule clarifying that all sections of that form must be completed in its entirety and, to the extent a matter is not applicable, it should be marked "N/A" (not applicable) rather than left "blank."

Department Report Recommendation, Item 3: Establish and implement data system procedures which assure that information on contracts issued is accurately recorded and preserved.

Company Response: The Company is currently evaluating our various administrative systems, as well as our Policies and Procedures, which assume that information on contracts issued is accurately recorded and preserved in the system. Once our evaluation is complete, we will take appropriate steps to make sure our systems accurately record and preserve the information.

Department Report Recommendation, Item 4: Establish and implement internal audit procedures to monitor and review the Company's new business practices as respects SPDA's at intervals of no more than a year. The results of these internal audits should be kept for at least three years and be made available by the Superintendent upon request.

Company Response: Agree.

ANNUITY INVESTORS LIFE INSURANCE COMPANY
By 
Mark F. Muething, Executive Vice President,
General Counsel & Secretary

arguments or contentions in writing and to present evidence and examine witnesses appearing for and against it. The Company hereby waives all such rights.

- 3) The Company consents to the jurisdiction of the Superintendent and the Department to determine the issues set forth herein. The Company waives any prerequisites to jurisdiction that may exist.
- 4) The Company agrees to maintain a replacement register as required by Ohio Adm.Code 3901-6-05(G)(3).
- 5) The Company agrees to require its agents to comply with the replacement requirements for annuity sales as required by Ohio Adm.Code 3901-6-05.
- 6) The Company agrees to modify its practice of handling annuity replacement policies to conform to Ohio Adm.Code 3901-6-05.
- 7) The Company agrees to comply with the "three business day" notification requirement as required by Ohio Adm.Code 3901-6-05.
- 8) The Company agrees to modify its practice to ensure that the applicant and the agent execute a disclosure form at the time an application is taken for a Single Premium Deferred Annuity as required by Ohio Adm.Code 3901-1-47(C).
- 9) The Company agrees to establish policies and procedures to ensure claims are processed in accordance with Ohio Adm.Code 3901-1-07.
- 10) The Company agrees to pay a forty thousand dollar (\$40,000) fine, with twenty thousand dollars (\$20,000) suspended pending the outcome of a reexamination to take place next calendar year. The payment shall be made by check or money order payable to the Ohio Department of Insurance no later than thirty (30) days from the date of execution of this Consent Order.
- 11) This is a public document and a copy shall be entered into the Journal of the Ohio Department of Insurance.

Date: September 20, 2005



Mark H. Muething
Executive Vice President

Date: 4 Oct. 2005



Ann Womer Benjamin
Superintendent of Insurance