

A

TARGETED MARKET CONDUCT EXAMINATION OF

EQUITRUST LIFE INSURANCE COMPANY

NAIC #62510

As Of

December 31, 2009





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

Director:

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:

EquiTrust Life Insurance Company NAIC# 62510

The examination and risk assessment was conducted at the Company's statutory home office at:

7100 Westown Parkway
West Des Moines, Iowa 50266-5997

A report of the examination is enclosed.

Respectfully submitted,

Lynette A. Baker

June 13, 2011

Chief, Market Conduct Division

Date

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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 EquiTrust Life Insurance Company (“Company”) by the State of Ohio as it relates to the Company’s suitability compliance program for its fixed, individual annuity products for the period of January 1, 2003, through December 31, 2009, (the file review was conducted on annuities issued, replaced, or surrendered, during the period of March 1, 2007, through December 31, 2009). The examination began October 4, 2010 and concluded October 15, 2010.

A review of complaints indicated several areas of concern:

- Allegations of fraud, misrepresentation or forgery;
- Agents not giving all information on policy features;
- A general lack of understanding on the annuitant’s part of exactly what they were purchasing.

The most significant areas of concerns are:

- The major reason for the examiner’s inability to determine suitability was the Financial Needs Analysis form used by the Company. There were three versions of the form reviewed and each variation was lacking in its own way.
- 19 of the new business and replacement files reviewed were identified as being possible unsuitable transactions.
- There were three instances of replacements not being included on the Company’s replacement register.

SCOPE OF EXAMINATION

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

- A. Compliance
- B. New Business and Replacements
- C. Surrenders
- D. Agent Terminations
- E. Miscellaneous-including policy loans and marketing and sales material
- F. 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, agency force, and national marketing organizations.

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

EquiTrust Life Insurance Company is a stock life insurance company, wholly owned by FBL Financial Group, Inc. domiciled in Iowa and admitted to do business in forty-nine states and the District of Columbia.

2009 Annuity Considerations

Ohio Individual Ordinary	National Individual Ordinary
\$26,110,805	\$497,406,379

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.

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 (5), (7), and (8).

Standard 3: Marketing and Sales

The insurer’s rules pertaining to insurer requirements in connection with replacements are in compliance with OAC 3901-6-05.

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).

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:

The examiners reviewed the Company’s compliance procedure manuals and interviewed Company personnel on how the issuance of annuities and the review of suitability are conducted. The Company appears to have a positive, corporate-wide attitude towards compliance and doing things the right way. The Compliance Department works hard to get all employees involved in the compliance process by making it a fun topic, and keeping the importance of compliance in

the forefront. Compliance is driven from the highest level down and that plays an important role in the employees' attitudes. The Company has instituted a "Compliance in Action" team that focuses on the role of compliance in every day work life and also is planning to begin the new year with a new compliance-related theme that will send a positive message about compliance importance.

There are four committees throughout the Company that play different roles in assuring compliance. They are the Corporate Compliance Committee, Internal Audit Department, Market Conduct Committee, and Complaint Committee. The link to all the committees is the Compliance Department. The Corporate Compliance Committee is made of all department heads and basically is kept informed of what has occurred within the Company and what is being implemented. One of the functions of the Internal Audit Department is to test insurance company operational policies and procedures for compliance with internal and external processes and regulatory requirements. The Market Conduct Committee receives input from the Complaint Committee and Compliance Department and review trends and analysis performed by these areas to see if any further actions are needed to handle issues that have been uncovered. The Complaint Committee (made up of all sections including legal, marketing, licensing, and new business) reviews current trends and performs analysis on complaints to determine how to fix an issue that has arisen through a complaint. All committees are driven by the analysis and trending reports developed by the Compliance Department; however, some committee, such as the Corporate Compliance Committee and the Audit Committee also address a number of compliance issues. Communication is very important between all parties and meetings are held quarterly, but in some cases, can be set up on an "as needed" basis to address immediate concerns.

The Company meets the statute requirements of OAC 3901-6-13 by maintaining written procedures (the Company has a procedure manual in place for handling suitability issues) and conducting periodic reviews of agent submissions. The Company also submits to IMSA quarterly reviews that encompass suitability.

The Company developed and instituted a mechanized review system in mid-2008 that enables a policy-by-policy review of suitability. When an application comes in, the New Business area enters all information into the system and this information is transmitted to an individual whose responsibility it is to review each application for suitability. The major factors that are considered are assets and expenses. The examiners objections to this review will be discussed in greater detail in the 'File Review' section. Statistics are gathered on a quarterly basis and are funneled to the Market Conduct Committee for review to determine if further action is warranted.

In addition to the policy-by-policy review, the Company performs trending and analysis on a variety of tasks including: policies not issued, terminated or not taken policies, unreported replacements, complaints, replacements, surrenders/transfers, and LIMRA Caps (which are questionnaires sent to every applicant to obtain feedback on whether the person knew what they were purchasing and the overall rating of the sales process).

The Company has anti-laundering procedures in place and has developed guidelines, procedures and controls on how luncheons or senior forums run by agents to solicit applications from

seniors are conducted (all have to be pre-approved). The Company's pre-approval requirements extend to all advertising materials, including the use of the Company name or any reference to the Company's products.

The Company also has a conservation program on applications that have been surrendered. A customer service person spends one day a week calling the individuals in an attempt to conserve the business.

No issues were identified on the sales and marketing materials, policy contracts or disclosures used by the Company. All meet the statute requirements.

To improve the annuity suitability review process and in preparation for the suitability model law, the Company developed and instituted a new suitability review process in July of 2008. As a first step in the process, each new business annuity application is submitted to the Des Moines, Iowa, office for processing. The "processing" involves data entry of application details, assets, expenses and product details. Once data entry is complete, the data is funneled through an actuarial formula that computes a "number" that will end up being the key determining factor for approval of the annuity application. (The formula includes net assets minus net expenses compared to the present value of net needs of the person. If the result is a "positive" number, the application will be issued). Then the annuity application is electronically forwarded to a designated suitability review person.

The "suitability review representative" works through a queue of files that are received from the New Business area. All of the application, product and suitability form information are available for review in a PDF document; however, there are two apparent "red flags" that would trigger a rejection of the application. One would be if the annuity sale involves a replacement of an existing policy that has been in-force at the prior company for less than three years – that sale would be rejected. A second "red flag" would be if the "actuarial computation number" falls below the pre-established threshold of acceptance – which appears to occur only rarely. For the month of September, 430+ new annuity files were reviewed with approximately 20 denied. Additionally, as mentioned earlier, the value of the applicant's home is factored into their "liquid asset" calculation – which seems to falsely inflate that side of the equation - possibly resulting in an inordinate number of annuity approvals, possibly contributing to a number of unsuitable sales. However, the newest version of the Financial Needs Analysis form (January, 2011) will no longer include any real estate equity of any type as a liquid asset.

The next step in this process involves the Compliance Department running a random sample and review of the list of applications by pre-determined guideline like missing information, inconsistencies between the application, the financial needs form, and the money received, any agent trends, unreported replacements, etc.

The third step involves the review conducted by an informal working that meets on a regular basis to discuss the overall application review process, form adjustments, regulatory changes, procedures, complaints, and other statistics for any improvements that may be warranted.

File Review

Methodology:

The examiners reviewed a sample of 50 Ohio new business and replacement policies on fixed annuity contracts issued during the examination period.

Examiner Observations:

The major focus of the new business and replacements involved the issue of annuity suitability and the Company's oversight of its products. During the course of the review, there were 19 instances of possible unsuitable sales (38%).

Findings:

New Business and Replacement files

Population	Sample	Yes	No	Standard	Compliance
3,040	50	31	19	90%	62%

The standard for compliance is 90%. The Company's performance is below this standard.

The major reason for the examiner's inability to determine suitability was the Financial Needs Analysis forms used by the Company. There are three versions of the form (ET-2506 03-06, 04-08, and 07-09). The Company has tried to make improvements with each variation but each is lacking in its own way.

Version 03-06:

- Annual Gross Income: ranges are too wide to be able to make a common sense decision on suitability. For example, the first range shows income of \$0-99,999. There is a significant difference in the decision-making process if the person is making \$25,000 a year or \$99,000.
- The net worth category has ranges that are too wide. For example, the first choice is 0%-20%. This means that the initial premium being invested is either 0% of the owner's net worth or 20%. Again, this is too far a range to determine if the sale was suitable.
- There is no specific liquidity or emergency needs question on the form. The only question included is if the owner has "considered the surrender charge period of the product applied for in relation to the period of time in which you will need the full account value." More specifics as to the person's current assets would be beneficial.
- There is no occupation provided on the form.
- Net worth is determined using value of the owner's home. This is a major issue throughout the review, because it artificially inflates the assets. Most companies use liquid assets, so real estate is not included (unless this happens to be rental income, land, etc.).

Version 04-08:

- Removed the range categories.
- There is no specific liquidity or emergency needs question on the form. The only question that somewhat addresses it is "Do you anticipate any material changes in your net worth, living expenses, or liquid assets during the withdrawal-penalty period of this annuity?"

- Added a second page that has a breakdown of sources of annual income and annual expenditures and current invested assets. Again, net worth is determined using value of the owner's home. This is a major issue throughout the review, because it artificially inflates the assets. Most companies use liquid assets, so real estate is not included (unless this happens to be rental income, land, etc.).
- There is no occupation on the form.
- There is no tax status question on form.
- There is no question for risk tolerance.
- No specific percentage or amount for any surrender charges that occurred if the file was a replacement.

Version 07-09:

- Matches the same issues on the 04-08 form but provides additional information requested on replacements and trusts.
- There are no ranges of any kind on this form.
- Eliminated the breakdown of assets and expenses. Now only show the total of each.
- Removed the "no response" box option that was included on other forms.
- The inclusion of home value in the determination of net worth is still an issue. (Note: in an interview with the Compliance Manager and the exam coordinator, the home value was not supposed to have been included any longer. The Company is developing a new version of the form and it is expected that this change will be made).

Additional Exam Findings:

During the replacement file review, surrender charge information from the prior company was not consistently provided (especially on older applications). The Ohio Department of Insurance's ("Department") position is that the charges applied to move to EquiTrust is a major factor in determining suitability and if this information is not provided, the agent and the company are not in a position to make a thorough evaluation of the recommendation. The Company has addressed this issue with the newest version of the Financial Needs Analysis form.

New business and replacements issued without financial information:

Examiner Observations:

Of the 50 files reviewed, 5 had the "No Response" box on the suitability form checked. The Financial Needs form did not contain a question that allowed the applicant to avoid providing financial information if they so chose. Only specific questions had a box for a "No Response" choice and this is only on the older version of the form. Most involved the 'net worth' question. There was no trend of any agents possibly abusing this question in order to get a questionable application issued. The newest version of the form does not have this box any longer and there is also a comment on the top of the form that advises the potential annuitant that if they chose to not provide any information, the application may not be issued.

New Business/Replacements issued over maximum allowable age:

Examiner Observations:

There were no new business/replacement policies in the sample issued on individuals over the Company's allowable maximum issue age.

Unreported Replacements:

Examiner Observations:

A review of the Company's replacement register and applications was conducted to check for any unreported replacements. There were 3 policies found that were marked as replacements on the applications, but were not included on the replacement register. All 3 involved situations in which the Company handled the transaction as a replacement, but did not include on register, These are all considered violations of OAC 3901-6-05(G)(1).

AGENT TERMINATIONS

The examiners reviewed all agent terminations, found in the file sample, to test for compliance with the R.C. 3905.21 and 3905.14 and to determine that the agent's file was adequately documented to support the termination.

Standard: Producer Licensing

Termination of producers/agents complies with R.C. 3905.21 (A)-(C) and 3905.14 (B) regarding notification to the producer/agent and notification to the state.

The examiners determined that the Company has adequate procedures in place to notify the Department of Insurance ("Department") when any agent is terminated "for cause" as determined by R.C. 3905.14. There was only one agent that was terminated "for cause"; however, the termination was due to the agent not repaying money owed to the Company. This does not meet the statutory definition of "for cause" so no notification was sent to the Department of Insurance. The Company should only use the "for cause" reason in situations listed in the statute.

The file documentation was sufficient and supported the reason for the agent termination.

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:

A review was conducted on all 19 complaints received in 2009 and 2010 to assure handling in timely manner and analyze for any trends that might need attention while on-site at the company. In 2009, the 15 complaints reviewed centered on allegations of misrepresentation of policy features (10), allegations of fraud (3), forgery (1), and one delay in handling. Other findings of note: 7 of the 15 complaints involved an agent who has since been terminated. In 2010, the 4 complaints reviewed involved one complaint involving the terminated agent, one client felt they were under emotional distress when deciding to continue annuity, one wanted to surrender the policy without a surrender charge, and one where the death benefit was given to the wrong applicant.

Of the agents involved in the 2009 misrepresentations, only one showed up in the sample as a possible unsuitable sale.

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.

This concludes the report of the annuity suitability review of EquiTrust Life Insurance Company. The Examiners, Don Layson, John Pollock, and Robert Stroup would like to acknowledge the assistance and cooperation provided by the management and the employees of the Company.



Don Layson
Examiner in Charge

June 13, 2011

Date

ATTACHMENT



June 9, 2011

Daniel J. Atkisson, CPCU, CIDM, MCM
Insurance Compliance Supervisor
Ohio Department of Insurance
50 West Town Street
Third Floor - Suite 300
Columbus, OH 43215-4186

Re: Targeted Market Conduct Examination of EquiTrust Life Insurance Company, NAIC
62510, As Of December 31, 2009

Dear Mr. Atkisson:

Thank you for the opportunity to provide our written response to the referenced report. In particular, I would like to provide additional clarification in regard to the **File Review** comments.

EquiTrust Life Insurance Company places great importance on the suitability of all of its product sales. As a result, the Company has developed standards and procedures to ensure that each annuity application is individually reviewed for suitability. Our procedures also include steps to monitor the suitability process and continually improve procedures as needed to maintain compliance and ensure suitable sales.

The report includes the examiners' observation that there were 19 instances of possible unsuitable sales. The examiner goes on to acknowledge an "inability to determine suitability" due to the Financial Needs Analysis forms used by the Company and goes on to describe the three different versions of the forms used during the examination review period.

We have re-examined each of the contracts referenced in the original summary of findings and determined that each application would have met the suitability standards that were in place at the time. Paralleling the refinements in suitability standards within the industry, our financial needs form and procedures have evolved over the years. To apply current suitability standards to reviews that were performed over four years ago does not offer a fair basis for evaluation.

The current version of the financial needs analysis form incorporates additional criteria based on the Suitability in Annuity Transactions Model Regulation and also addresses some of the comments provided in the examiners' draft Summary of Findings. In addition, recent changes to our suitability process include an independent verification of suitability, ensuring that *each application* submitted is now verified directly with the applicant. This process includes a suitability verification letter mailed to each applicant with a request to review the suitability information provided to the company and a request to return any corrections directly to the Director – Life Company Compliance. Each response is reviewed. Those responses that demonstrate a substantive change to the financial information are re-evaluated for suitability and

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will receive appropriate follow up action. Suitability verification responses are tracked and results are reported quarterly to the Market Conduct Committee.

The Company would also like to point out that quantifying the results of the sampling as an overall percentage may be misleading, due to the small sampling of the applications reviewed.

We believe that the fact that the Company has continued to examine and strengthen the suitability review process demonstrates the company is committed to continuous improvement in its suitability practices. Please feel free to contact me should you wish to discuss further.

Sincerely,

A handwritten signature in cursive script, appearing to read "Shawna Greenway".

Shawna Greenway, CLU, FLMI, AIRC
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