



ODI
Ohio Department
of Insurance

**TARGET MARKET CONDUCT EXAMINATION
OF
MIDLAND NATIONAL LIFE INSURANCE
COMPANY
NAIC #66044
AND
NORTH AMERICAN COMPANY FOR LIFE AND
HEALTH INSURANCE
NAIC #66974**

AS OF DECEMBER 31, 2009

**BY THE MARKET CONDUCT DIVISION OF
THE OHIO DEPARTMENT OF INSURANCE**

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John R. Kasich, Governor
Mary Taylor, Lt. Governor/Director

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Honorable Mary Taylor
Lieutenant Governor and Director
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, Ohio 43215

Lieutenant Governor:

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:

Midland National Life Insurance Company
NAIC Company Code 66044

and

North American Company for Life & Health Insurance
NAIC Company Code 66974

The examiners focused on the Companies annuity suitability practices and procedures.

The examination was conducted at the Companies' statutory home office located at:

4350 Westown Parkway, West Des Moines, Iowa, 50266

and at the offices of the Ohio Department of Insurance located at:

50 West Town Street, Suite 300, Columbus, Ohio 43215.

A report of the examination is enclosed.

Respectfully submitted,

Lynette A. Baker
Chief, Market Conduct

4/27/11
Date

SCOPE OF EXAMINATION

The examination of Midland National Life Insurance Company (Midland) and North American Company for Life & Health Insurance (North American), collectively the Companies, commenced on or about June 9, 2010 with notice of intent to examine.

Unless otherwise noted, the examination covered the period from January 1, 2003 through December 31, 2009.

The market conduct examiners reviewed the Company's compliance programs, computer processes and procedures established to assure annuity suitability compliance. This was accomplished through interviews and reviews of internal audit reports and applicable manuals. The intent of the review was to determine whether the Companies' policies and procedures could reasonably be expected to result in compliance with the various Sections of Ohio's Annuity Suitability Rule, Ohio Adm.Code 3901-6-13.

This policy and procedure review was accompanied by a review of a random sample 50 annuity contracts issued by each of the Companies during the period from January 1, 2009 through December 31, 2009. The examiners conducted this file review at the Companies' statutory home office located in Des Moines, Iowa during the week of October 4, 2010.

The examination was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners ("NAIC") and Ohio's applicable statutes and regulations. The examination included the following areas of the Company's operations:

- A. Annuity New Business Policies and Procedures
- B. New Business Recommendation Suitability

This report is a report by test.

METHODOLOGY

The examination was conducted through a review of the new business records for the Company's ordinary individual annuity products. The examiners also reviewed the Company's corresponding policy and procedure manuals. As needed, the examiners also interviewed Company managers and submitted written requests for additional information.

Only files for Ohio insureds, policyholders or annuitants were reviewed. Compliance tests, designed to measure the Company's level of compliance with Ohio's statutes and regulations, were applied to the files. All tests are described and the results displayed in this report.

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

The examiners used the NAIC standards of a 10% error ratio on all tests (90% compliance rate) to determine whether or not an apparent pattern or practice of non-compliance existed for any

given test. Except as otherwise noted, all tests were conducted on a random sample taken from a given population.

In any instance where errors were noted, the Examiners described the apparent error and asked the Company for a written response. The Company responded that it:

- concurred with the examiners' findings, and/or
- had additional information for the examiners to consider, and/or
- proposed remedial action(s) to correct the apparent deficiency.

The Company's responses and the examiners' recommendations, as applicable, are included in this report.

COMPANY OPERATIONS

The Companies' annuity products are sold through independent insurance agents and national marketing organizations. The companies market through various distribution channels.

In the bank channel, the Companies' products are marketed through banks and their licensed agents.

In the broker dealer channel, the Companies' products are marketed through independent broker dealers and their licensed agents.

For the Midland agent direct channel, the Company markets directly through licensed independent agents. For the North American agent direct channel, the Company markets through independent marketing organizations and licensed independent agents.

As of December 31, 2009 the Companies reported ordinary, direct written premiums of:

	<u>Ohio Annuity Premiums</u>	<u>Grand Total Annuity Premiums</u>
Midland	\$125,122,840	\$1,933,597,326
North American	\$61,987,387	\$1,274,090,577

As of December 31, 2009 the Companies' officers, as reported in the 2009 annual financial statements, were:

	<u>Midland</u>	<u>North American</u>
Steven C. Palmitier	President and COO	President and COO
John J. Craig II	SVP, CFO, and Treasurer	SVP and CFO
Donald T. Lyons	SVP and Corporate Actuary	SVP and Corporate Actuary

In 2010, both Companies reported that Daniel M. Kiefer replaced John J. Craig as Chief Financial Officer for both companies. Otherwise, all officers hold the same posts in 2010 as they did in 2009.

NEW BUSINESS POLICIES AND PROCEDURES

Suitability

Standard: Company has suitability standards for its products as required by applicable statutes, rules and regulations.

Test: Does each Company have policies and procedures that can reasonably be expected to result in compliance with Ohio Adm.Code 3901-6-13 (G)?

Findings:

In response to the examiners' interrogatories, each company submitted applicable suitability policies and procedures for both its agents and new business processing teams. After reviewing them in detail, the examiners considered that the policies and procedures could reasonably be expected to result in compliance with Ohio Adm.Code 3901-6-13(G).

Replacement

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

Test: Does each Company have policies and procedures that can reasonably be expected to result in compliance with Ohio Adm.Code 3901-6-05 (E) (F) and (G)?

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

Test: Does each Company have policies and procedures that can reasonably be expected to require its agents to comply with Ohio Adm.Code 3901-6-05 (D)?

Findings:

In response to the examiners' interrogatories, each company submitted policies and procedures for replacement procedures, requirements for "good order," and quarterly and annual oversight and review of replacements. After reviewing them in detail, the examiners considered that the policies and procedures could reasonably be expected to result in compliance with the various Sections of Ohio Adm.Code 3901-6-05.

NEW BUSINESS RECOMMENDATION SUITABILITY

Standard: Company has suitability standards for its products as required by applicable statutes, rules and regulations.

Test: Does the information in the Company new business file support that the recommendation was "reasonable"?

Methodology

The examiners included the following questions in evaluating whether the Company's new business records supported the purchase and/or replacement and/or surrender recommendation(s) associated with the new business transaction.

- Does the Company's policy file document that the Company and/or its agent had "*reasonable grounds for believing that the recommendation is suitable*" as required by Ohio Adm. Code 3901-6-13 (G) (1)?
- Does the Company's policy file document that the Company and/or its agent made "*reasonable efforts to obtain information concerning the consumer's*" financial status, tax status and investment objectives and any other reasonable information before making a recommendation as required by Ohio Adm. Code 3901-6-13 (G) (2)?
- Does the Company's policy file document that the recommendation was "*reasonable under all the circumstances actually known to the insurer or insurance agent at the time of the recommendation*" per Ohio Adm. Code 3901-6-13 (G) (4)?
- If the annuity purchase recommendation included the replacement of another insurance policy or annuity contract, did the Company require the agent to submit all marketing materials and disclosures as required by Ohio Adm. Code 3901-6-05 (D) and (E)?
- Are the Company's policy files adequate to allow the Superintendent's appointees to determine if the recommendations made by its agents and/or general agents are suitable per Ohio Adm. Code 3901-6-13 (J) (1) and (2)?

Findings

Company	Population	Sample	Yes	No	Standard	Compliance
Midland	6,596	50	50	0	90%	100%
North American	2,889	47	47	0	90%	100%

Examiners' Comments:

The examiners removed three records from the North American sample after finding that the applications were for products outside the scope of the examination, such as, immediate annuities. These records were not replaced once the examiners determined that the results of the compliance test would not be altered regardless of whether or not the records were replaced.

SUMMARY

It is apparent from the information in the Companies' new business records that each company applies its suitability policies and procedures in a way that results in compliance with the numerous Sections of Ohio's Annuity Suitability Rule, Ohio Adm.Code 3901-6-13

This concludes the report of the market conduct examination of Company. The examiners, Daniel Atkisson, Ben Hauck and Molly Porto would like to acknowledge the assistance and cooperation of the Company's employees and management.



Molly Porto
Examiner in Charge



Date

EXECUTIVE SUMMARY

Suitability and Replacement Policies and Procedures		
The Companies' suitability procedures can reasonably be expected to result in compliance with Ohio Adm.Code 3901-6-13.		
The Companies' replacement policies and procedures can reasonably be expected to identify replacements and to result in compliance with the various Sections of the Ohio Adm.Code 3901-6-05.		
New Business Recommendation Suitability		
Test	Standard	Compliance
Does the information in the Midland new business policy sample support that the annuity purchase recommendation was "reasonable"?	90%	100%
Does the information in the North American new business policy sample support that the annuity purchase recommendation was "reasonable"?	90%	100%

COMPANY RESPONSE

Jill M. Williams
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North American Companies
for Life and Health Insurance

Via electronic mail: Molly.Porto@Insurance.ohio.gov

June 24, 2011

Ms. Molly Porto
Insurance Compliance Examiner
Ohio Department of Insurance
50 West Town Street
Suite 300 Third Floor
Columbus, OH 43215

RE: Draft Report of Examination of Midland National Life Insurance Company and
North American Company for Life and Health

Dear Ms. Porto:

This letter is in response to the Draft Report of Examination. Midland National and North American agree with the report and do not have any additional comments.

Sincerely,

A handwritten signature in cursive script that reads 'Jill Williams'.

Jill M. Williams
Assistant Vice President
Compliance