

THE STATE OF NORTH DAKOTA

NORTH DAKOTA INSURANCE DEPARTMENT

MULTI-STATE TARGETED MARKET CONDUCT EXAMINATION

OF

**ALLIANZ LIFE INSURANCE COMPANY OF NORTH AMERICA
NAIC COMPANY CODE 90611**

**ALLIANZ LIFE INSURANCE COMPANY of NEW YORK
NAIC COMPANY CODE 64190**

**AND THEIR IMPLEMENTATION OF REQUIREMENTS UNDER THE
DECEMBER 22, 2014 REGULATORY SETTLEMENT AGREEMENT**

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INTRODUCTION

A Regulatory Settlement Agreement ("Agreement" or "RSA") dated December 22, 2014 was entered into by and between Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York (collectively "Allianz", the "Company" or the "Companies") and the North Dakota Insurance Department (NDID) (known as the "Managing Lead State") and the Florida Office of Insurance Regulation, California Department of Insurance, Pennsylvania Insurance Department, Illinois Department of Insurance and New Hampshire Insurance Department (collectively known as the "Lead States"). An additional 43 jurisdictions (Appendix 1) signed the Agreement as Participating Jurisdictions.

The Agreement required the Companies to implement certain corrective action steps, including but not limited to, their settlement practices, procedures and policy administration relating to claims and the use of the Social Security Death Master File ("DMF") or similar database or service, including the Companies' efforts to identify the owners and beneficiaries of unclaimed proceeds; regarding the adequacy of the Companies' policies and procedures to ensure that life insurance policies, annuities and retained asset accounts are paid timely to beneficiaries and are reported timely or remitted to the respective jurisdiction in accordance with the Unclaimed Property Laws and the Insurance Laws (collectively known as "RSA Requirements") of each jurisdiction.

SCOPE OF EXAMINATION

The North Dakota Insurance Department, as the Managing Lead State conducted a targeted market conduct multistate examination (“Examination”) of the Companies pursuant to N.D.C.C. §§ 26.1-03-19.2 and 26.1-03-19.3, North Dakota Statutes. The examination period was December 22, 2014 through June 30, 2018 (“Examination Period”). The Examination began on September 5, 2018 and fieldwork ended on April 30, 2019.

The objectives of the Examination were to determine the Companies' compliance with the RSA requirements. The Examination was called pursuant to Section 4b, Regulatory Oversight in the Agreement. The Examination was conducted under the direction, management and control of representatives of the Managing Lead State. Representatives from the firm of Risk & Regulatory Consulting, LLC (“RRC” or “Examiners”) were engaged in the Examination in their capacity as market conduct examiners. RRC provided no representations regarding questions of legal interpretation or opinion. Determination of findings constituting violations or potential violations is the sole responsibility of the Lead States. All statutory citations, case law or any other legal opinions or interpretations included herein are provided by the Lead States for inclusion in this examination report (“Report”).

The Lead States considered a “finding” to be a violation of or noncompliance with the Agreement. All unacceptable or non-compliant practices may not have been discovered or noted in this Report. Failure to identify unacceptable or non-compliant business practices does not constitute acceptance of such practices. When applicable, corrective actions should be taken in all jurisdictions.

In order to assess the Companies’ compliance with the terms of the Agreement, a tailored examination approach was developed using the RSA requirements as the examination standards. The examination included:

- 1) A review of Allianz’s written policies and procedures and administrative forms applicable to the requirements set forth in paragraph 2, Specific Business Practices and Reforms of the RSA;
- 2) A review of Allianz’s quarterly reports provided to the Lead States pursuant to paragraph 4.a of the RSA;
- 3) A review of a sample of transactions occurring during the period of December 22, 2014 through June 30, 2018, reported by Allianz, to evaluate compliance with the prescribed Business Reforms in section 2 of the RSA;
- 4) A review of the technology-related changes as part of the Companies’ response to the RSA.

EXAMINATION SUMMARY

Upon review of the operations, policies and procedures, Business Reforms, and newly implemented processes, the Companies continue to make noticeable progress in meeting the standards established in the RSA.

Section 1 of the RSA includes Defined Terms that define certain terms in the Agreement not otherwise defined in other sections of the RSA. A term that is referenced throughout the RSA is the term "Thorough Search". In Section 1 of the RSA, the definition of a Thorough Search details specific actions to be taken by the Companies to identify, locate and contact the beneficiaries of a life insurance policy ("Policy"), retained asset account, or annuity contract after receiving a date of death notice that indicates that the insured has been reported as deceased.

Section 2 of the RSA titled "Business Reforms" details the specific policies and procedures the Companies were required to implement to comply with the terms of the RSA. The following summarizes the requirements of Section 2 of the RSA and the results of the review. The paragraph numbers match those in the RSA.

- 2.a. **Requirement:** Subject to Schedule B, if the Company is not contacted by a Beneficiary within ninety (90) days of the Date of Death Notice, the Company shall promptly commence a Thorough Search, which shall be completed within one (1) year from the Date of Death Notice. At the conclusion of that one (1) year period, if (i) the Beneficiary cannot be located by a Thorough Search and (ii) the Company is unable to establish an Exception, it shall report and remit the death benefit proceeds as Unclaimed Property to the affected jurisdiction(s) in accordance with the applicable Unclaimed Property Laws following the expiration of three (3) or five (5) years from the Date of Death as appropriate; provided, however, that in the event that the Date of Death Notice either is less than a year before, or is after, the expiration of three (3) or five (5) years from the Date of Death as appropriate, then it is not a violation of this Agreement for the Company to report and remit the death benefit following the Thorough Search.

Observation: The Companies provided responses and documentation confirming completion of the process required in Schedule B. During the Examination Period the Companies compared all Insureds in the Companies' records against any updates to the DMF at least quarterly.

Findings:

Part 1 - Regarding testing of the Pended claim sample, the Examiners' found the following:

- a. The Companies did not commence a Thorough Search when the Company was not contacted by a Beneficiary within ninety (90) days of the Date of Death Notice for nine (9) of 60 claims.
- b. The Companies did not complete a Thorough Search within one (1) year from the Date of Death Notice for two (2) of 60 claims.

Part 2 - Regarding testing of the Deemed Abandoned claim sample, the Examiners' found the following:

- a. The Companies did not commence a Thorough Search when the Company was not contacted by a Beneficiary within ninety (90) days of the Date of Death Notice for eleven (11) of 60 claims.
- b. The Companies did not complete a Thorough Search within one (1) year from the Date of Death Notice for three (3) of 60 claims.
- c. The Companies did not report or remit death benefits in accordance with Unclaimed Property Laws for four (4) of 60 claims.

2.b. **Requirement:** For the sole purpose of this Agreement, the Company, within the time period in Schedule B, shall implement policies and procedures requiring the Company to initiate its death claims process and conduct a Thorough Search upon Date of Death Notice. Nothing herein is intended nor shall be deemed to determine the requirements for establishing proof of death for any other purpose, or to confer any rights on any party other than the Company and the Departments

Observation: The Companies provided responses and documentation confirming implementation of policies and procedures for conducting a Thorough Search upon Date of Death Notice as required in Schedule B. No issues were identified.

2.c. **Requirement:** In the event that a line of business conducts checks of its Policyholders against the DMF for Death Master File Matches at intervals more frequent than those provided for in this Agreement and such Death Master File Match results in action being taken with respect to a Policy, Annuity, Contract, or Retained Asset Account, then that line of business shall share the relevant Policyholder information among applicable lines of business.

Observation: The Companies implemented procedures for sharing relevant policyholder information among applicable lines of business. No issues were identified.

2.d. **Requirement:** In the event that the Company locates the Beneficiary following a Thorough Search, the Company shall provide the appropriate claims forms or instructions, if required, to the Beneficiary to make a claim, including instructions as to the need to provide an official death certificate if consistent with law and the Policy, Annuity Contract, or Retained Asset Account. The Company reserves the right to require satisfactory confirmation of death, including a death certificate, as due proof of death, before Proceeds are paid to a Beneficiary or a Beneficiary's legal or properly designated representative if consistent with law and the Policy, Annuity Contract, or Retained Asset Account. Nothing in this Agreement shall be construed to supersede the Company's obligation to maintain effective procedures and resources to deter and investigate fraudulent insurance acts as required by applicable law.

Observation: The Companies implemented procedures for providing the appropriate claim forms or instructions, if required. No issues were identified.

- 2.e. **Requirement:** The Company shall implement policies and procedures for conducting a Thorough Search. That obligation shall not abrogate the obligation of the Company to complete any unclaimed property law due diligence requirements within the timeframe required by any applicable law.

Observation: Documentation provided by the Companies indicate that policies and procedures for conducting a Thorough Search following receipt of a Date of Death Notice were in effect by July 1, 2015. While it appears that, the Company prepared their policies and procedures as required by the RSA, please refer to 2.a for details of the testing results associated with the Company's handling of claims and their lack of implementation and compliance with their written policies and procedures.

- 2.f. **Requirement:** To the extent permitted under applicable law, the Company may disclose the minimum necessary personal information about a Policyholder or Beneficiary to a person whom the Company reasonably believes may be able to assist the Company locate the Policyholder or Beneficiary or a person otherwise entitled to payment of the claims Proceeds, provided however, the Company shall not implement policies or practices that will or may diminish the rights, amounts of benefits due to Beneficiaries under the terms of its Policies, Annuity Contracts, or Retained Asset Accounts.

Finding: The Companies do not have written procedures detailing how personal information should be handled to comply with this RSA requirement. The Companies' provided Privacy guidelines in an effort to demonstrate they were in compliance with the RSA's Business Reform requirements. The Privacy guidelines do include details about what information can be disclosed to beneficiaries, other individuals and estates. However, the Privacy guidelines were not implemented by July 1, 2015 as required by the RSA's Business Reform requirements. The effective date of the Privacy guidelines was January 22, 2016. Finally, the Companies appear to be handling personal information appropriately based on testing of the Pended and Deemed Abandoned claim samples.

- 2.g. **Requirement:** The Company shall conduct a Thorough Search for group life insurance policies, where the Company is providing Recordkeeping services, including group life insurance certificates issued thereunder, where a group life insurance claim is received for which the Company, from information in its administrative systems and/or the group policy claim form, is able to determine that a benefit is due and is able to determine the benefit amount, but the beneficiary cannot be identified and/or located.

Finding: The Companies were unable to provide documentation to support that policies and procedures were implemented detailing how group life insurance policies should be handled to comply with this RSA requirement.

- 2.h. **Requirement:** The Company shall establish policies and procedures to ensure that:

- i. The Company sends at least two (2) letters to an Annuity Contract Owner notifying the

Annuity Contract Owner of the upcoming Maturity Date, stating that the Annuity Contract will be annuitized following the Maturity Date if no response is received, and identifying any alternatives to annuitization available (e.g., extension of the Maturity Date). The first letter should be sent no later than sixty (60) days prior to the Maturity Date. The second letter should be sent no later than thirty (30) days prior to the Maturity Date. The letters do not have to be sent if the Company has established an Exception;

ii. The Company shall commence a Thorough Search for the Annuity Contract Owner if the letters described in subparagraph (i) are returned as undeliverable;

iii. An affirmative request by an Annuity Contract Owner or legal or properly designated representative or action with respect to the Annuity Contract that is inconsistent with an intent to annuitize (as defined in Section 1(p)) will be required by the Company before a Maturity Date is extended, and such request will be recorded in the Company's books and records;

iv. The Annuity Contract is annuitized as soon as practicable, but in no event more than sixty (60) days following the Maturity Date, if the Company has a valid address for the Annuity Contract Owner and no response is received to the letters described in subparagraph (i) above;

v. If a Thorough Search for the Annuity Contract Owner is unsuccessful, or if annuity payments for an Annuity Contract has been annuitized under paragraph (iv) above are not deposited within one (1) year, the Proceeds will be reported and remitted as Unclaimed Property to the affected jurisdiction(s) in accordance with the applicable Unclaimed Property Laws, if the Company is unable to establish an Exception. The Company shall report and remit the Proceeds to the affected jurisdiction(s) in accordance with applicable Unclaimed Property Laws following the expiration of three (3) or five (5) years, as appropriate, from the Maturity Date or date of annuitization payment;

vi. The provisions described in (i)-(v) above will not apply to Annuity Contracts held within ERISA or other tax-qualified plans, Individual Retirement Annuities, or Annuity Contracts held in Individual Retirement Accounts.

Observation: The Companies have implemented policies, procedures and timelines established as a result of RSA sections 2.h.i through 2.h.vi. According to Schedule B, policies and procedures were to be fully implemented for sections 2.h.i-2.h.vi by January 1, 2016. The Company did supply documents to show compliance with sections 2.h.i-2.h.vi by January 1, 2016.

2.i. **Requirement: The Company shall apply the following Business Reforms to the use of Retained Assets Accounts:**

i. Ensure that all Retained Asset Accounts are monitored for inactivity and each is notified that the failure of an Accountholder to make a withdrawal from the account or to respond to communications from the Company may cause the account to be declared dormant and subject to escheat based on the last documented contact with the Accountholder or the

Accountholder's legal or properly designated representative, subject to Schedule B.

ii. The value of the Retained Asset Account(s) shall be the value of the account as of the date the property is paid to the party determined to be the owner of the account or reported and remitted to the affected jurisdiction(s).

iii. Subject to Schedule B, a Thorough Search for a Beneficiary of a Retained Asset Account or an Accountholder, as appropriate, shall commence no later than two (2) years (in the case of a three (3)-year dormancy period) or four (4) years (in the case of a five (5)-year dormancy period) following the later of (i) the date that the Accountholder last initiated a financial or administrative transaction or (ii) the date of the last Accountholder authenticated response to the Company that is documented on the Company's books and records. In the event that the Company is unable to locate a Beneficiary or Accountholder and is unable to establish an Exception within one (1) year after the commencement of the Thorough Search, it shall report and remit the Proceeds of the Retained Asset Account as Unclaimed Property to the affected jurisdiction(s) in accordance with the Unclaimed Property Laws following the expiration of three (3) or five (5) years from (i) the date that the Accountholder last initiated a financial or administrative transaction, or (ii) the date of the last Accountholder-authenticated response to the Company that is documented on the Company's books and records.

Observation: The Companies provided policies and procedures to support the process they implemented to monitor Retained Asset Accounts for inactivity and to notify Accountholders as appropriate. No issues were identified.

2. j. **Requirements:** No later than the time of delivery of a Policy or Annuity Contract or establishment of a Retained Asset Account, and upon any change of a Policyholder or Beneficiary, the Company shall request information sufficient to ensure that all benefits are paid to Beneficiaries upon the death of the Policyholder, including as a minimum, the name, address, social security number and telephone number of every Policyholder and Beneficiary of such Policy, Annuity Contract or Retained Asset Account, as applicable.

Finding: The Companies did not provide sufficient documentation to support the following:

- a. Policies and procedures were implemented or implemented timely.
- b. The annuity application and claim forms included a request for the required information for a beneficiary by January 1, 2016.
- c. The policies and procedures were implemented for the handling of retained asset accounts to comply with this RSA requirement.

The Examiners inspection of certain Information Technology (IT)-related documentation associated with the RSA focused on the Companies' procedures and technologies asserted to be in-place for the purposes of supporting ongoing compliance with the RSA.

Examination procedures revealed that the Companies employ a third party vendor to support its updated procedures relative to meeting the requirements of the RSA.

Based on the procedures performed during this focused IT review of the Companies' technical approach to RSA compliance, it was concluded that the Companies appears to have adequate technology and supporting technical procedures in-place to adequately support its ongoing RSA compliance efforts.

RECOMMENDATIONS

The recommendations made below identify corrective measures the Lead States find necessary as a result of the findings in the Report.

1. The Companies should establish, implement and complete procedures to ensure compliance with RSA Section 2 §§ a, f, g and j within 60 days of the issuance of the final examination report.
2. The Companies should provide the Lead States the additional procedures within 90 days of the issuance of the final examination report to support compliance with RSA Section 2 §§ a, f, g and j.
3. The Companies should submit to the Lead States quarterly reports showing the results of all work performed by the Companies to address the findings included in this Report. The Companies will provide a total of four (4) quarterly reports to the Lead States. The first quarterly report should be submitted to the Lead States within 90 days of the issuance of the final examination report.

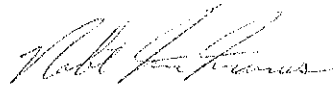
ACKNOWLEDGMENT

An Examination has been conducted on the market conduct affairs of Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York as of June 30, 2018. This Examination was conducted in accordance with the North Dakota Insurance Department procedures, the requirements of the Regulatory Settlement Agreement dated December 22, 2014 and the Market Regulation Handbook.

An examination report was provided to the Company on September 17, 2019. During the rebuttal period, the Company was given the opportunity to provide additional information and documentation for the Examiners consideration regarding the report Findings. After reviewing the additional information and documentation provided by the Company, the Examiners modified the examination report Findings in accordance with N.D.C.C. § 26.1-03-19.4(3)(a).

The Examiners wish to express appreciation for the courteous cooperation and assistance given by the officers and employees of the Companies during the course of this Examination.

Sincerely,



Robert W. McManus, CIE, MCM
Examiner-In-Charge
Risk & Regulatory Consulting, LLC

APPENDIX 1

Participating Jurisdictions		
Alabama		Montana
Alaska		Nevada
Arizona		New Hampshire
Arkansas		New Jersey
California		New Mexico
Colorado		North Carolina
Connecticut		North Dakota
Delaware		Ohio
District of Columbia		Oklahoma
Florida		Oregon
Georgia		Pennsylvania
Hawaii		Rhode Island
Idaho		South Carolina
Illinois		South Dakota
Indiana		Tennessee
Iowa		Texas
Kansas		Utah
Kentucky		Vermont
Louisiana		Virginia
Maine		Washington
Maryland		West Virginia
Massachusetts		Wyoming
Michigan		Puerto Rico
Mississippi		Northern Mariana Islands
Missouri		

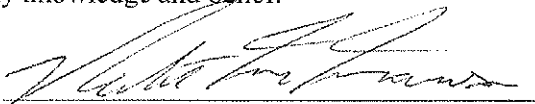
North Dakota Insurance Department
Market Conduct Examination
Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

AFFIDAVIT

STATE OF NORTH DAKOTA

COUNTY OF BURLEIGH

Robert W. McManus, of lawful age, being first duly sworn, upon oath state that I have been charged with examining Allianz Life Insurance Company of North America and Allianz Life Insurance Company of New York, as of August 28, 2018. I have prepared and read the foregoing Report of Market Conduct Examination, that I am knowledgeable of the matters set forth therein, and I certify the Report is true and complete to the best of my knowledge and belief.

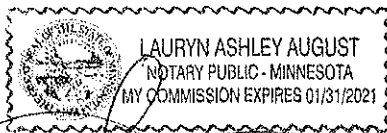


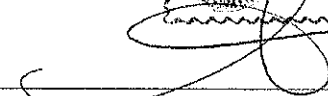
Robert W. McManus

Subscribed and sworn before me by Robert W. McManus

On this 14 day of November, 2019.

[SEAL]




Notary Public

My commission Expires: 1/31/2021