

REPORT OF EXAMINATION

OF THE

MARKET CONDUCT AFFAIRS

OF

PAN AMERICAN ASSURANCE COMPANY

NEW ORLEANS, LOUISIANA

AS OF

April 30, 2006

COMPANY CODE 93459

COMPANY ETS EXAM # LA071-M65

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LOUISIANA DEPARTMENT OF INSURANCE
JAMES J. DONELON, COMMISSIONER

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February 26, 2007

Honorable James J. Donelon
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, a targeted market conduct examination has been made of the affairs of the

**PAN AMERICAN ASSURANCE COMPANY
PAN AMERICAN LIFE CENTER
601 POYDRAS STREET
NEW ORLEANS, LOUISIANA 70130**

as of April 30, 2006 and the report of examination is herewith submitted.

FOREWORD

In accordance with *LRS 22:1301, et seq.*, a “targeted” market conduct examination was performed on the activities of PAN AMERICAN ASSURANCE COMPANY from August 28, 2005 through April 30, 2006.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

The market conduct examination of PAN AMERICAN ASSURANCE COMPANY, hereinafter referred to as "Company" or “PAAC”, was a targeted market conduct examination authorized by the Louisiana Department of Insurance, hereinafter referred to as “Department”. The examination was targeted, in that not all examination procedures contained in the National Association of Insurance Commissioners “NAIC” Examiners Handbook were performed.

The examination included, but was not limited to, the following areas of the Company’s operation:

Company History,
Underwriting and Rating , and
Escheat (Unclaimed Funds) Practices.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the NAIC Guidelines. The NAIC Guidelines set the standard of conduct for insurers and promote a program of fair treatment of policyholders. Portions of the *NAIC Market Conduct Examiner’s Handbook* were used as a measure of compliance.

COMPANY HISTORY

The Company was incorporated on May 19, 1981 in Louisiana. The stipulated purpose of the corporation is to transact the business of life insurance, health insurance, accident insurance, and reinsurance of the aforesaid. The Company received a Certificate of Authority from the Department to transact the business of individual and group life, annuity, health and accident insurance, and

reinsurance of these lines of business on June 4, 1981. There have been no name changes or mergers since the Company was formed.

UNDERWRITING AND RATING REVIEW

The recent financial examination as of December 31, 2005 provided this examiner with possible market conduct issues of rebating, unfair discrimination and non-payment of interest on escheated claims.

A universal life program sold to Louisiana insureds in 1999 offered certain concessions to the purchasers in order to obtain their business. The following is a list of twelve (12) policies issued under this program along with their policy status during the examination:

<u>Policy #</u>	<u>Status</u>
9201055650	Active
9201055660	Active
9201061760	Active
9201070250	Cash Surrendered in 2005
9201069930	Cash Surrendered in 2005
9201055670	Active
9201068860	Active
9201068870	Active
9201061780	Active
9201061770	Active
9201055680	Lapsed
9201060060	Lapsed

A commitment letter dated September 24, 1999, issued by the Director of Advanced Sales, (no longer with the Company), to prospective clients, was an improper inducement to purchase by offering the following specific commitments to the Universal Life prospects:

- 1) PAAC would not load premiums.
- 2) PACC would permit an additional primary insured term rider, which would permit conversion to individual policies without evidence of insurability.
- 3) PAAC would waive surrender charges.
- 4) PAAC would guarantee a 0% net cost policy loan after the 10th policy year.

The Company responded to the above commitments as follows:

“With respect to these commitments, Pan-American notes as follows. The 0% expense charge was supported by the Policy Schedule form filing for Form 17AD.1, approved by the Department on May 15, 1993. The additional primary insured term rider is supported by Additional Insured Rider No. 43ADA5.1, approved by the Department on March 27, 1992. However, Pan-American’s commitment to waive surrender charges was not consistent with the form filing under Form 17AD.1, since Form AD.1 calls for a surrender charge to be imposed for fifteen years.”

The issuance of these twelve (12) universal life policies, for which commitments other than those stated in the policy contract were offered, is deemed to be an unfair method of competition, unfair or deceptive acts or practices and rebating in the business of insurance resulting in twelve (12) violations of Louisiana Code LRS 22:1214 (7) and twelve (12) violations of LRS 22:1214 (8) which states as follows:

“§1214. Methods, acts, and practices which are defined herein as unfair or deceptive

The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:...

(7) Unfair discrimination. (a) Making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract, provided that, in determining the class, consideration may be given to the nature of the risk, plan of insurance, the actual or expected expense of conducting the business or any other relevant factor.

(8) Rebates. Except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of insurance including life insurance, life annuity or health and accident insurance, or agreement as to such contract other than as plainly expressed in the contract issued thereon, or paying or allowing, or giving or offering to pay, allow, or give, directly or indirectly, as inducement to such insurance, or annuity, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable consideration or inducement whatever not specified in the contract; or giving, or selling, or purchasing or offering to give, sell, or purchase as inducement to such insurance or annuity or in connection therewith, any stock, bonds, or other securities of any insurer or other corporation, association, or partnership, or any

dividends or profits accrued thereon, or anything of value whatsoever not specified in the contract.”

Based on these findings, the examiner requested records of all cash surrenders and death claims for 2005 and 2006 with flexible premium universal life plan codes PLOB and 1AITUL in order to determine if any additional practices of discrimination or rebating could be detected. Upon request, the Company provided records for twenty-five (25) surrenders. A review of the policy data did not reveal any offerings of sales inducements by the Company on these surrendered policies.

It is recommended that the Company reviews its marketing procedures for possible revisions which will allow closer control and compliance with statutes regarding unfair discrimination and rebating.

THE UNIFORM DISPOSTION OF UNCLAIMED PROPERTY ACT REVIEW

The Uniform Disposition of Unclaimed Property Act was created as a consumer protection law in order to safeguard the owner’s property and provide a means for reuniting the owner with their property. By law, most accounts become unclaimed or abandoned when there is no owner contact with the holder or no client-initiated activity for a specified period of time, (typically three to five years), based on the type of property.

The Unclaimed Property Act defines “insurance company” as an association, corporation, or fraternal or mutual benefit organization, whether or nor for profit, engaged in the business of providing insurance including accident, burial, casualty, credit life, contract performance, dental, fidelity, fire, health, hospitalization, illness, life insurance, life endowments and annuities, malpractice, marine, mortgage, surety, and wage protection insurance.

In general, any debt or obligation that has gone unpaid or that remained undelivered for the required period of time after the date the owner (payee) should have received it or was entitled to claim it, will be presumed abandoned and must be reported (escheated) as unclaimed funds to the state of the last know address of the owner.

For interest bearing products, such as life endowments and annuities, which are determined to be “abandoned”, and later escheated to the state, it is recommended that the Company pay the interest rate guaranteed in the policy contract or the interest rate dictated by the Louisiana Department of the Treasury for the funds held by the Company during the period between abandonment and escheatment.

COMMENTS AND RECOMMENDATIONS

Underwriting and Rating Review

The issuance of twelve (12) universal life policies, for which commitments other than those stated in the policy contract were offered, is deemed to be an unfair method of competition, unfair or deceptive acts or practices and rebating in the business of insurance resulting in twelve (12) violations of LRS 22:1214 (7) and twelve (12) violations of LRS 22:1214 (8) which states as follows:

“§1214. Methods, acts, and practices which are defined herein as unfair or deceptive

The following are declared to be unfair methods of competition and unfair or deceptive acts or practices in the business of insurance:...

(8) Unfair discrimination. (a) Making or permitting any unfair discrimination between individuals of the same class and equal expectation of life in the rates charged for any contract of life insurance or of life annuity or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of such contract, provided that, in determining the class, consideration may be given to the nature of the risk, plan of insurance, the actual or expected expense of conducting the business or any other relevant factor.

(8) Rebates. Except as otherwise expressly provided by law, knowingly permitting or offering to make or making any contract of insurance including life insurance, life annuity or health and accident insurance, or agreement as to such contract other than as plainly expressed in the contract issued thereon, or paying or allowing, or giving or offering to pay, allow, or give, directly or indirectly, as inducement to such insurance, or annuity, any rebate of premiums payable on the contract, or any special favor or advantage in the dividends or other benefits thereon, or any valuable consideration or inducement whatever not specified in the contract; or giving, or selling, or purchasing or offering to give, sell, or purchase as inducement to such insurance or annuity or in connection therewith, any stock, bonds, or other securities of any insurer or other corporation, association, or partnership, or any dividends or profits accrued thereon, or anything of value whatsoever not specified in the contract.”

It is recommended that the Company review its marketing procedures for possible revisions which will allow closer control and compliance with statutes regarding unfair discrimination and rebating.

The Uniform Disposition of Unclaimed Property Act Review

For interest bearing products, such as life endowments and annuities, which are determined to be “abandoned”, and later escheated to the state, it is recommended that the Company pay the interest rate guaranteed in the policy contract or the interest rate dictated by the Louisiana Department of the Treasury for the funds held by the Company during the period between abandonment and escheatment.

CONCLUSION

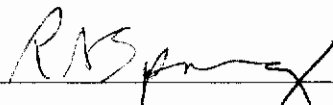
I, Richard A. Spong, do solemnly swear and affirm that I am an Examiner for the Commissioner of Insurance of the State of Louisiana and that as such I was assigned to conduct a targeted examination of the market conduct activities of

**PAN AMERICAN ASSURANCE COMPANY
NEW ORLEANS, LOUISIANA**

That I made such examination and the above and foregoing is a true and correct copy of my report of such Company and the same is true and correct to the best of my knowledge, information and belief.

I wish to thank the courteous cooperation of the Company's officers and employees during this examination process.

Respectfully submitted,


Richard A. Spong, CFE, CIE
Louisiana Department of Insurance