

**MARKET CONDUCT EXAMINATION
OF
AMERICAN LIFE INSURANCE COMPANY
AS OF
SEPTEMBER 18, 2005**

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON MARKET CONDUCT EXAMINATION, made as of SEPTEMBER 18, 2005 of the

AMERICAN LIFE INSURANCE COMPANY

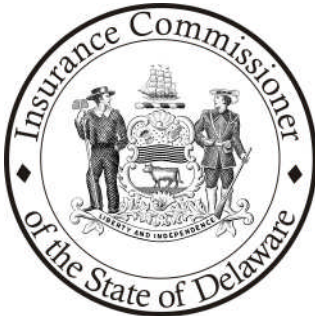
is a true and correct copy of the document filed with this Department.

ATTEST BY: _____

Antoinette Handy

DATE: 5 SEPTEMBER 2007

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 5TH DAY OF SEPTEMBER 2007.



Matthew Denn

Insurance Commissioner

REPORT ON MARKET CONDUCT EXAMINATION
OF THE
AMERICAN LIFE INSURANCE COMPANY
AS OF
SEPTEMBER 18, 2005

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matt Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 5TH day of SEPTEMBER, 2007.

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SALUTATION

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Denn:

In compliance with the instructions contained in Certificate of Examination Authority Number 06.701, and pursuant to statutory provisions including 18 Del. C. §318-322, a market conduct examination has been conducted of the affairs and practices of:

American Life Insurance Company

The examination was performed as of December 31, 2005. American Life Insurance Company, hereinafter referred to as "Company" or "ALICO," is incorporated under the laws of the State of Delaware. This examination consists of two phases, an onsite phase and an offsite phase. The onsite phase of the examination was conducted at the following Company location:

- 1 ALICO Plaza Wilmington, DE

The offsite examination phase was completed at the offices of the Delaware Department of Insurance hereinafter referred to as the "Department" or as "DDOI," and other suitable locations.

This report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The basic business areas that are subject to a Delaware Market Conduct Examination vary depending on the type of insurer. For all insurers these areas include:

- Company Operations/Management
- Complaint Handling
- Policyholder Service
- Underwriting and Rating
- Claims

Additional areas may be included for an insurer writing Health coverage. Each business area has standards that can be examined and measured, typically utilizing sampling methodologies.

This examination is a Delaware Baseline Market Conduct Examination. It is comprised of two components. The first is a review of the Company's countrywide complaint patterns. This is not a pass/fail test. It is aimed at determining if there is a detectable pattern to the complaints the Company receives from all sources.

The second component is an analysis of the management of the various business areas subject to a market conduct examination through a review of the written procedures of the Company. This includes an analysis of how the Company communicates its instructions and intentions to its lower echelons, how it measures and monitors the results of those communications, and how it reacts to and modifies its communications based on the resulting findings of the measurement and monitoring activities. The examiners also determine whether this process is dynamic and results in enhanced compliance activities. Because of the predictive value of this form of analysis, focus is then made on those areas where review indicators suggest that the process used by management does not appear to be achieving appropriate levels of statutory and regulatory compliance.

All business areas noted above are addressed to some extent by one or more of the procedures reviewed thus providing a comprehensive view of the Company and its component operations.

This examination report is a report by test rather than a report by exception. This means that all areas tested are described and the results reported. Substantial departure from the norm may result in a supplemental review focused on the area so noted.

HISTORY AND PROFILE

The Company was incorporated under the laws of the State of Delaware on August 18, 1921 as Asia Life Insurance Company, with its principal office in Shanghai, China. In 1951, the Company amended its Certificate of Incorporation, changing the corporate name to American Life Insurance Company and changing the principal office to Bermuda. In 1969, the Company relocated its principal office to Wilmington, Delaware. The Company is a wholly owned subsidiary of American International Group, Inc (AIG).

METHODOLOGY

This examination is based on the Standards and Tests for a Market Conduct Examination found in Chapter XVII of the Delaware Market Conduct Examiners' Handbook. This chapter is derived from applicable Delaware Statutes, Rules and Regulations as referenced herein and the *NAIC's Market Conduct Examiners' Handbook*.

Some standards are measured using a single type of review, while others use a combination of all of the types of review. The types of review used in this examination fall into three general categories: generic, sample and electronic.

A "generic" review indicates that a standard was tested through an analysis of general data gathered by the examiner or provided by the examinee in response to queries by the examiner.

A "sample" review indicates that a standard was tested through direct review of a random sample of files using a sampling methodology described in the Delaware Market Conduct Examiners' Handbook and the *NAIC's Market Conduct Examiners' Handbook*. For statistical purposes, an error tolerance level of seven percent (7%) is used for claim reviews and a ten percent (10%) tolerance level is used for all other types of review. The sampling techniques used are based on a ninety-five percent (95%) confidence level. This means that there is a ninety-five percent (95%) confidence level that the error percentages shown in the various standards so tested are representative of the entire set of records from which it was drawn. Note that the statistical error tolerance is not indicative of the DDOI's actual tolerance for deliberate error.

An "electronic" review indicates that a standard was tested through the use of a computer program or routine applied to a download of computer records of the examinee. This type of review typically evaluates one hundred percent (100%) of the records of a particular type.

Standards are measured using tests designed to adequately determine how the examinee met the standard. The various tests utilized are set forth in the Delaware Market Conduct Examiners' Handbook. Each standard applied is described and the result of testing is provided under the appropriate standard. The standard, its statutory authority under

American Life Insurance Company

Delaware law, and its source in the *NAIC's Market Conduct Examiners' Handbook* are stated and contained within a bold border.

Each Standard is accompanied by a "Comment" describing the purpose or reason for the Standard. The "Result" is indicated and the examiners' "Observations" are noted. In some cases a "Recommendation" is made. Comments, Results, Observations and Recommendations are reported within the appropriate Standard.

EXECUTIVE SUMMARY

The Company operates primarily as a life and health insurance carrier in more than 50 countries around the world. The Company has a composite insurance license and is authorized to write Life and Health and Property and Casualty insurance in Delaware; however, the Company does not conduct any business within the United States or the territories governed by the United States.

The focus of this examination centers on how the Company's Compliance Department develops, informs, and monitors specific procedures from their home office. Each of the Company's areas of operation is referred to as a "local office" and is noted as such throughout the examination report. There are areas covered within the report where a normal examination would have included Recommendations. However, given the Company's unique business structure, any issues of concern cited by the examiners will be brought to the Company's attention but no Recommendations will be made at this time.

Due to the fact that the Company has over fifty (50) local operations around the world, the examination team was unable to verify all aspects related to this examination without incurring the expense and time to visit each local office. Similarly, the Company relies on the local office compliance personnel to assist in the establishment of Home Office procedures and further selects outside counsel from the local office operational area to conduct compliance related reviews on the Home Offices' behalf. The management level responses and tracking initiatives were utilized by the examiners in order to obtain a sense of validity of the procedures reviewed.

A. COMPANY OPERATIONS/MANAGEMENT

This examination report is not designed to be a pass/fail report with two exceptions. Those exceptions are the standards that state:

- "The Company is licensed for the lines of business that are being written" and,
- "The Company cooperates on a timely basis with examiners performing the examinations."

Standard A 07

NAIC Market Conduct Examiners' Handbook-Chapter XV §A, Standard 7 & Chapter XVII §A, Standard 7
The Company is licensed for the lines of business that are being written.
18 Del. C. §318(a), §505(b), §508(b)

Comments: The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company’s operations are in conformance with the Company’s Certificate of Authority.

Results: Pass

Observations: The Company has a composite license and is authorized to write Life and Health and Property and Casualty insurance. The Company is able to write within the state of Delaware; however, it currently only operates on an international basis.

Recommendations: None

Standard A 09

NAIC Market Conduct Examiners Handbook - Chapter VIII §A, Standard 9
The Company cooperates on a timely basis with examiners performing the examinations.
18 Del. C. §318(a), §320(c), §508(b), §520(b)3

Comment: The review methodology for this standard is “generic.” This standard has a direct insurance statutory requirement. This standard is intended to ensure that the Company is cooperating with the state in the completion of an open and cogent review of the Company’s operations. Cooperation with the examiners in the conduct of an examination is not only required by statute it is also conducive to completing the examination in a timely fashion and thereby minimizing costs.

Results: Pass

Observations: The Company provided timely responses to the information requests submitted by the examiners.

Recommendations: None

B. COMPLAINTS/GRIEVANCES

The evaluations of the Standards in this business area are based on the Company’s response to various information requests (IR items) and complaint files at the Company. Delaware statute 18 Del. C. §2304(17) requires the Company to "... maintain a complete record of all complaints received." This statute also requires that "this record shall indicate the total number of complaints, their classification by line of insurance, the

American Life Insurance Company

nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Delaware's definition of a complaint is: "... any written communication primarily expressing a grievance."

Observations: A review of Complaint files was not performed within the limited scope of this examination. The Company does maintain procedures for responding to complaints and these procedures are discussed under Procedure 11 - Complaint Handling.

Recommendation: None

REVIEW OF PROCEDURES

The management of well-run companies generally has some processes that are similar in structure. These processes generally take the form of written procedures. While these procedures vary in effectiveness from company to company, the absence of them or the ineffective application of them is often reflected in the failure of the various Standards that follow this section. The processes usually include:

- a planning function where direction, policy, objectives and goals are formulated;
- an execution or implementation of the planning function elements;
- a measurement function that considers the results of the planning and execution; and
- a reaction function that utilizes the results of measurement to take corrective action or to modify the process to develop more efficient and effective management of its operations.

The absence of written procedures that provide direction for the Company's staff in its various operational areas tends to produce inconsistent application of the intended process. The same is generally true of the absence of a means to measure the results of the application of procedures and a means to determine that the process is performing as intended.

The reviews in this section are not pass/fail measurements. Rather, they are intended to reflect those management strengths and weaknesses that have a bearing on regulatory compliance issues.

Procedure 01 – Internal and External Audit

Observations: The Company's Compliance Group within the Home Office's Legal Department maintains the responsibility of determining local office regulatory compliance through internal and external audit procedures. The Compliance Group is charged with the development of processes and procedures required to effectively operate within local markets. The Compliance Department is assisted locally through the use of a local Compliance Officer. Any procedures developed by the Home Office will normally require the local Compliance Officer to make adjustments to the procedures to

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reflect local jurisdictional requirements. The audits within the responsibility of the Compliance Group are not financial audits.

The Company's Compliance Group within the Home Office's Legal Department utilizes multiple tools to measure the local office's procedural compliance efforts. Each month local Compliance Officers are to report any compliance related activities, including violations and remediation efforts, to the Home Office. Due to the geographical locations of the local offices the Company obtains outside legal counsel to review three or four local office operations annually. According to the Company, when local office reviews are completed and contain findings that lead to recommendations, their process requires the local Compliance Officer to develop and implement remediation plans. The Company provided a series of reports detailing compliance recommendations, whether changes were implemented and a projected implementation date. The Company also obtained implementation confirmations from the local Compliance Officer.

Recommendations: None

Procedure 02 – Assertions of Privilege

Observations: N/A

Recommendations: None

Procedure 05 – Anti-Fraud

Observations: N/A

Recommendations: None

Procedure 07 – MGA Oversight and Control

Observations: N/A

Recommendations: None

Procedure 08 – Vendor Oversight and Control

Observations: N/A

Recommendations: None

Procedure 09 – Customer and Consumer Privacy Protection

Observations: The Company maintains a Data Protection/Privacy Policy to protect individual privacy and personal data even though the ALICO Home Office is exempt from the Delaware Consumer Privacy Law. The exemption for ALICO is found in DE Reg. 904 §1.4.1.14 which exempts "... a domestic insurer transacting insurance in

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foreign countries only, under the laws and regulations of a foreign country only, and not transacting insurance in any states as defined in 18 Del. C. §103 of the Delaware Code.” The Company’s Data Protection/Privacy Policy is based on a combination of United States privacy laws, international data protection laws, and the parent company’s AIG Global Information Policy. The ALICO Data Protection/Privacy Policy sets minimum standards for data protection/privacy for the Company’s foreign operations, referred to as “local offices.” The minimum standards set by the Home Office are then adjusted to meet local jurisdictional and governmental guidelines for privacy compliance. The Company has utilized information from AIG Global Information Handling policy to assist in establishing local office standards related to, but not limited to, the sharing of customer information with third parties and safeguards against unlawful distribution of customer information.

As changes in processes occur the Company will supplement policy information through the usage of bulletins and Company intranet databases. To facilitate procedural changes the ALICO Home Office remains in contact with local office Compliance Officers to monitor adherence with Company policies. According to the Company, Compliance Officers in the local operations are required to submit monthly compliance reports, perform annual risk assessments and report any significant regulatory violation within three (3) days of its occurrence by filling out a Reportable Regulatory Compliance Incident (RRCI) Report.

In each local office the compliance officer maintains the responsibility to train local employees on privacy and data concerns. The ALICO Data Protection/Privacy Policy states that where a local privacy law is stricter than the ALICO Policy the standards for data protection and privacy that are to be observed are those found in the local law. The Compliance Officers in the local operations are required to conduct Privacy and Data Protection training. According to the Company, every month the Compliance Officers are to prepare a report on the training conducted at the local office and they attach that report to their monthly compliance reports. The Company provided privacy training reports from March of 2005 conducted by local Compliance Officers in Colombia, Panama, and Poland. Additionally, the information included privacy training conducted at the ALICO Home Office.

Recommendations: None

Procedure 10 – Production of Business

Observations: The Company does not maintain a Production of Business Procedure, per se. The Company’s international operations include considerations for anti-bribery, anti-trust, and theft of trade secrets as part of their production of business processes. The Company’s business is generated through other channels other than agents and brokers. The Company also produces business through bank distribution channels and direct marketing. The Company’s Home Office disperses policies and procedures regarding agents and brokers to the local offices. The local Compliance Officer oversees the agents’

American Life Insurance Company

and brokers' licensing requirements, training and enforcement of jurisdictional laws regarding the marketing and selling ALICO products.

According to information provided by the Company, the Production of Business Procedure controls rest with both internal and external examinations. The local Compliance Officers oversee the performance and conformity with both jurisdictional and Home Office standards. Compliance Officers submit monthly compliance reports and according to the Company the monthly reports must include any local violations of regulatory statutes, including agent and broker activity.

Recommendations: None

Procedure 11 – Complaint Handling

Observations: The Company maintains a Complaint Handling Procedure designed to effectively record, respond and manage the complaint process. The Complaint Handling Procedure dictates procedures for documenting and responding to complaints, completion of the complaint log and reporting complaint trends. As complaints are logged for resolution a determination is to be made as to the complexity of the complaint.

Compliance with Company procedures are provided through a series of monthly reports. Reports are generated to include the number and nature of the complaints received, complaint patterns, the number of resolved complaints and any outstanding complaints as of the report date. The Company provided a sample of the form used by the Home Office to gather the information required for complaint reporting. According to the Company, all reports from the local operations are available upon request.

Recommendations: None

Procedure 13 – Advertising, Sales and Marketing

Observations: N/A

Recommendations: N/A

Procedure 14 – Agent Produced Advertising

Observations: N/A

Recommendations: N/A

Procedure 15 – Producer Training

Observations: N/A

Recommendations: N/A

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Procedure 16 – Replacements

Observations: N/A

Recommendations: N/A

Procedure 17 – Illustrations

Observations: N/A

Recommendations: N/A

Procedure 20 – Producer Selection, Appointment and Termination

Observations: N/A

Recommendations: N/A

Procedure 21 – Producer Defalcation

Observations: N/A

Recommendations: N/A

Procedure 22 – Prevention of Use of Persons with Felony Conviction

Observations: N/A

Recommendations: N/A

Procedure 25 – Correspondence Routing

Observations: N/A

Recommendations: N/A

Procedure 26 – Policy Issuance

Observations: N/A

Recommendations: N/A

Procedure 27 – Reinstatement

Observations: N/A

Recommendations: N/A

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Procedure 28 – Insured or Member Requested Claim History

Observations: N/A

Recommendations: N/A

Procedure 30 – Premium Determination and Quotation

Observations: N/A

Recommendations: N/A

Procedure 31 – Policyholder Disclosures

Observations: N/A

Recommendations: N/A

Procedure 32 – Underwriting and Selection

Observations: The Company maintains an Underwriting and Selection Procedure. The Company's procedures are based upon a Company developed underwriting manual and supplemented with underwriting selection decisions with employee access to reinsurance manuals. The Company's underwriting manual may still require local operations jurisdictional adjustments to meet local compliance requirements. The Home Office staff provides updates to the underwriting manuals via underwriting bulletins.

According to the Company, audits are performed on the underwriting units within the local operations at various levels. Currently periodic audits are performed on some of the local operations. The Company has stated that in the future it is expected that all local operations will perform case audits. At the regional level, the regional underwriter is responsible for auditing the operations within his or her region on an annual basis. Finally, the Home Office underwriters perform audits on at least four (4) local operations per year. Formal audit reports were provided from three (3) of regional and Home Office reviews.

Recommendations: N/A

Procedure 33 – Rate and Form Filing

Observations: N/A

Recommendations: N/A

Procedure 34 – Terminations

Observations: N/A

American Life Insurance Company

Recommendations: N/A

Procedure 35 – Underwriting File Documentation

Observations: Adherence to the life insurance underwriting procedures is documented in the audits described in Procedure 32 above. In the case of audits, file documentation, adherence to procedures, adequacy of decision and any adverse findings are noted in the audit report.

Recommendations: None

Procedure 36 – Underwriting Training

Observations: N/A

Recommendations: N/A

Procedure 40 – Staff Training

Observations: The Company places a compliance related emphasis on their Staff Training processes. The basis for the Company's international operations focus on the establishment of corporate international policies which include anti-money laundering efforts, maintaining the AIG Code of Conduct, compliance with the United States Office of Foreign Asset Control procedures, policies for handling the media, among others. When procedures are established compliance updates and amendments are sent to local offices for implementation.

The procedures are delivered to the local office Compliance Officer who must then incorporate local laws and jurisdictional differences into the Home Office procedures. Once the local differences are accounted for the Compliance Officer is charged with all aspects of employee compliance training.

Recommendations: None

Procedure 42 – Adjuster Training

Observations: N/A

Recommendations: N/A

Procedure 43 – Claim Handling

Observations: The Company maintains Claim Handling Procedures through the use of an ALICO Claims Handling Manual which is supplemented by periodic Claims bulletins. These bulletins, which are sent via email, inform the local offices of changes in the

American Life Insurance Company

claims procedures. The local operations claims staff must incorporate the changes provided in the bulletins into local claims procedures.

The Company utilizes multiple claim review activities, including bi-annual audits performed by regional claim managers, claim authority level review reports, monthly claims reports and trending and corrective action reports. The aggregates of the claims reviewed are shared with Company management. In addition, a report called the Serious Claims Report is created when claims over a certain limit are made. That report is circulated to specific managers within the local office, the region and the Home Office.

Recommendations: None

Procedure 44 – Internal Claim Audit

Observations: N/A

Recommendations: N/A

Procedure 45 – Claim File Documentation

Observations: The Company's ability to measure the effectiveness of its Claims Handling operations is discussed above in Procedure 43 - Claims Handling. In addition, the Company provided a listing of control objectives for mitigating processes. The Company also provided a series of claims related reports which include claim approvals, authority level reviews, reviews of denied claims, and ex gratia payments. Elements of the Company's Claim File Handling Procedures noted in Procedure 43 support the Claim File documentation efforts needed for claim file adjudication.

Recommendations: None

Procedure 46 – Subrogation and Deductible Reimbursement

Observations: N/A

Recommendations: N/A

SUMMARY

American Life Insurance Company is incorporated under the laws of the State of Delaware to provide life and health insurance.

The examination is a Baseline Market Conduct examination in which reviews of procedures affecting the following business areas are conducted: Company Operations/Management, Complaint Handling, Underwriting and Rating, and Claims.

American Life Insurance Company

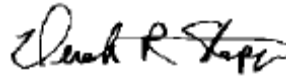
The review of written procedures includes an analysis of the controls used by the Company to manage its operations.

LIST OF RECOMMENDATIONS

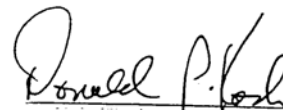
No Recommendations were issued.

CONCLUSION

The examination was conducted by Donald P. Koch, Derek R. Stepp, Sean Connolly, and Cindy Amann and is respectfully submitted.



Derek Stepp, CIE
Market Conduct Examiner-in-Charge
State of Delaware
Department of Insurance



Donald P. Koch, CIE
Market Conduct Supervising
Examiner
State of Delaware
Department of Insurance