



Illinois Department of Insurance

JB Pritzker
Governor

Dana Popish Severinghaus
Director

VIA ELECTRONIC MAIL

July 5, 2022

Mr. Charles F. Lowrey, President
c/o Jonathan P. Morris
Prudential Annuities Life Assurance Corporation
751 Broad Street
Newark, NJ. 07102

Re: Prudential Annuities Life Assurance Corporation, NAIC 86630
Market Conduct Examination Report Closing Letter

Dear Mr. Lowrey:

The Department has received your Company's proof of compliance. Therefore, the Department is closing its file on this exam.

I intend to ask the Director to make the Examination Report and Stipulation and Consent Order available for public inspection as authorized by 215 ILCS 5/132. At the Department's discretion, specific content of the report may be subject to redaction for private, personal, or trade secret information prior to making the report public. However, any redacted information will be made available to other regulators upon request.

Please contact me if you have any questions.

Sincerely,

Erica Weyhenmeyer
Chief Market Conduct Examiner
Illinois Department of Insurance
320 West Washington St., 5th Floor
Springfield, IL 62767
Phone: 217-782-1790
E-mail: Erica.Weyhenmeyer@Illinois.gov

**Illinois Department of Insurance
Market Conduct Examination of**

Prudential Annuities Life Assurance Corporation

MARKET CONDUCT EXAMINATION REPORT

DATE OF EXAMINATION: August 27, 2021

EXAMINATION OF: Prudential Annuities Life Assurance Corporation
NAIC Number: 86630

STATUTORY HOME
OFFICE: 8601 North Scottsdale Road, Suite 300
Scottsdale, AZ 85253-2738

PERIOD COVERED
BY EXAMINATION: September 1, 2019 through August 31, 2020
COMPLAINTS: March 1, 2019 through August 31, 2020

EXAMINERS: Alan Klinc, MCM
John Drake, AIE, MCM, APIR, ChFC, CLU, RHU, FLMI, HIA
Chris Heisler, Examiner-in-Charge, CIE, MCM, FLMI, ARC

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I. FOREWORD

This is a comprehensive market conduct examination report of the Prudential Annuities Life Assurance Corporation (PALAC) (NAIC Code 86630). The Illinois Department of Insurance (“Department”) also examined Prudential Insurance Company of America (PICA) (NAIC Code 68241) and Pruco Life Insurance Company (PRUCO) (a wholly owned subsidiary of PICA) (NAIC Code 79227) at the same time. Separate market conduct exam reports were prepared for each company. This report is specifically for Prudential Annuities Life Assurance Corporation. Samples were selected *pro rata* across the three companies.

This examination report is generally a report by exception. However, failure to criticize specific practices, procedures or files does not constitute approval thereof by the Illinois Department of Insurance.

During this examination, examiners cited errors made by the Company. Statutory citations were as of the examination period unless otherwise noted.

II. SCOPE OF THE EXAMINATION

The Department has the authority to conduct this examination pursuant to, but not limited to, 215 ILCS 5/132.

The purpose of the examination was to determine if the Company complied with Illinois statutes, the Illinois Administrative Code and to consider whether the Company's operations are consistent with public interest. The primary period covered by this review was September 1, 2019 through August 31, 2020 for claims and March 1, 2019 through August 31, 2020 for complaints unless otherwise noted. Errors discovered outside the time period of the examination may also be included in the report.

The examination was a comprehensive examination involving the following business functions of the individual life insurance and individual annuity lines of business: new business, replacements, policy service, claims handling practices and handling of consumer and Department complaints.

In performing this examination, the examiners reviewed a sample of the Company's practices, procedures, extra-contractual claim adjudication guidelines and files. Therefore, some noncompliant events may not have been discovered. As such, this report may not fully reflect all the practices and procedures of the Company. As indicated previously, failure to identify or criticize improper or noncompliant business practices in this state or other jurisdiction does not constitute acceptance of such practices.

III. COMPANY PROFILE

History:

Prudential Financial, Inc. (“Prudential Financial”) with over 145 years in financial services, has operations in the United States, Asia, Europe and Latin America. Through its subsidiaries and affiliates, they offer a wide array of financial products and services, including life insurance, annuities, retirement-related products and services, mutual funds and investment management. They offer these products and services to individual and institutional customers through proprietary and third-party distribution networks. Their principal executive offices are located in Newark, New Jersey, and Prudential Financials’ Common Stock is publicly traded on the New York Stock Exchange under the ticker symbol “PRU”.

Prudential Annuities Life Assurance Corporation (“PALAC”), with its principal offices in Shelton, Connecticut, is a wholly-owned subsidiary of Prudential Annuities, Inc. (“PAI”), which in turn is an indirect wholly-owned subsidiary of Prudential Financial. PALAC has sold long-term savings and retirement products, which are distributed through its affiliated broker-dealer company, Prudential Annuities Distributors, Inc. (“PAD”), and third-party distribution networks. The Company issues variable and fixed deferred and immediate annuities for individuals and groups in the U.S. and Puerto Rico. PALAC surrendered its New York license effective December 31, 2015, and reinsured the majority of its New York business to PICA.

Operations:

The Company maintains operations globally with policy services being performed domestically and internationally.

Written premium and market share in Illinois per the NAIC Market Analysis Review System for PALAC are as follows:

Line of Business	2019 Premiums Written	2019 Market Share	2018 Premiums Written	2018 Market Share
Individual Life	\$32,386	0.001%	\$37,269	0.001%
Individual Annuity	\$38,999,380	0.471%	\$16,187,700	0.221%

IV. SUMMARY

A comprehensive market conduct examination of Prudential Annuities Life Assurance Corporation was performed to determine compliance with Illinois statutes and Illinois Administrative Code.

During the examination, the Department noted a consistent failure of the Company to notify beneficiaries of the death of the insured/annuitant for Life and Annuity claims, in violation of 215 ILCS 5/154.6(c)(d).

The following represents a summary of findings; however specific details are found in each section of the report.

TABLE OF TOTAL VIOLATIONS						
Prudential Annuities Life Assurance Corporation						
Crit #	Statute /Rule	Description of Violations	Files Reviewed	Number of Violations	Findings Section	Error %
12	IAC 919.70(a)(2)	Paid Claims Indiv Annuity - Failure to provide delay letter within 45 days.	20	6	A1	30%
13	IAC 919.70(a)(2); 919.40	Paid Claims Indiv Annuity - Failure to provide Notice of Availability of the Department of Insurance on delay letter.	20	3	A1	15%
14	215 ILCS 5/154.6 (c) (d)	Paid Claims Individual Annuity - Failure to adopt reasonable standards to fulfil contractual obligations by contacting beneficiaries.	20	11	A1	55%
5	IAC 917.70(a)	New Business Indiv Annuity - Failure to require a statement signed by the agent and the applicant as to whether or not any existing life insurance or annuity will be replaced by the new policy.	18	1	B1	6%

V. METHODOLOGY

The market conduct examination covered the business written for the period of September 1, 2019 through August 31, 2020. Complaints covered the period of March 1, 2019 through August 31, 2020. Specifically, the examination focused on a review of the following areas:

1. Claims Analysis
2. New Business
3. Policy Service (policy loans, cash surrenders and non-forfeitures)
4. Consumer Complaints, Insurance Department Complaints and Litigation

The review of these categories was accomplished through examination of paid and denied claim files, underwritten and declined new business files, policy loans, cash surrendered policy files, extended term and reduced paid-up policy files, Insurance Department and consumer complaint files. Each of these categories was examined for compliance with Department Regulations and applicable State Laws.

The report concerns itself with improper practices performed by the Company, resulting in a failure to comply with Illinois statutes and/or administrative rules. Criticisms were prepared and communicated to the Company addressing violations discovered in the review process. All valid criticisms were incorporated in this report.

The following methods were used to obtain the required samples and to assure a methodical selection. Samples were selected *pro rata* across the three companies.

Claims Analysis

Claim surveys were selected using the following criteria:

1. Paid Claims - Payment for claims made during the examination period.
2. Denied Claims - Denial of benefits during the examination period for losses not covered by policy provisions.

All claims were reviewed for compliance with policy contracts and endorsements, applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*).

All median payment periods were measured from the date necessary proofs of loss were received to the date of payment or denial to the insured or the beneficiary. The examination period for the claims review was September 1, 2019 through August 31, 2020.

New Business

New Business surveys were selected using the following criteria:

1. Issued New Business – New policies underwritten and issued during the examination period.
2. Not Issued – Applications taken but not issued with a declination letter.

All files were reviewed for compliance with applicable sections of the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and the Illinois Administrative Code (50 Ill. Adm. Code 101 *et seq.*).

Policy Service

Policy service surveys were selected using the following criteria:

1. Policy Loans – Loans made during the examination period.
2. Cash Surrenders – Surrenders made during the examination period.
3. Non-forfeiture Options – Policies that lapsed due to non-payment of premiums and exercised the option to Reduced Paid-Up Insurance or Extended Term Insurance.

Consumer, Insurance Department Complaints and Litigation

The Company provided all files relating to complaints received via the Department of Insurance as well as those received directly by the Company from the insured or his/her representative. A copy of the Company's complaint register was also reviewed.

The Company provided a listing of all open and closed litigation files. A review was performed on the closed litigation files.

Median periods were measured from the date of notification of the complaint to the date of response by the Company. The period of review was March 1, 2019 through August 31, 2020.

VI. SELECTION OF SAMPLES

Prudential Annuities Life Assurance Corporation

<u>Survey</u>	<u>#Reviewed</u>	<u>%Reviewed</u>
CLAIMS ANALYSIS		
Paid Individual Annuity	20	10%
NEW BUSINESS		
Individual Annuity Issued	18	5%
Individual Annuity Replacements	5	5%
Individual Annuity Declined	6	100%
Individual Annuity Withdrawn	5	56%
POLICY SERVICES		
Cash Surrenders Individual Annuity	26	4%
CONSUMER COMPLAINTS	5	50%
CLOSED LITIGATION (Company-wide)	16	100%

VII. FINDINGS

A. Claims Practices

The examiners reviewed the Company's claim practices to determine its efficiency in handling complaints, accuracy of payment, adherence to contract provisions and compliance with Illinois laws and regulations.

1. Paid Individual Annuity

A review of 205 paid individual annuity claims produced three (3) criticisms. Criticism 12 was issued to the Company. The Company failed to notify the insured's beneficiary with a reasonable written explanation for the delay beyond 45 days for six (6) claim as required by 50 Ill. Adm. Code 919.70(a)(2).

Criticism 13 was issued to the Company. The Company failed to provide the Notice of Availability of the Department of Insurance on the delay letter for three (3) claims as required by 50 Ill. Adm. Code 919.70(a)(2).

Criticism 14 was issued to the Company for 11 instances of failure to adopt reasonable standards to fulfil contractual obligations when the Company was aware of a deceased policyholder and did not contact the beneficiary on file to begin claims processing in violation of prompt investigation under 215 ILCS 5/154.6 (c) (d).

The median for payment was one (1) day.

B. New Business

The examiners reviewed the Company's new business issued, declination and withdrawn practices to determine its compliance with Illinois laws and regulations.

1. Individual Annuity Issued

A review of 18 individual annuity contracts issued produced one (1) criticism. Criticism 5 was issued to the Company for failure to require a statement signed by the agent and the applicant as to whether or not any existing life insurance or annuity will be replaced as required by 50 Ill. Adm. Code 919.70(a).

2. Individual Annuity Replacements

A review of five (5) replacement contracts produced no criticisms.

3. Individual Annuity Declined applications

A review of six (6) declined applications produced no criticisms.

4. Individual Annuity Withdrawn

A review of five (5) withdrawn annuity applications produced no criticisms.

C. Policyholder Services

1. Individual Annuity Cash Surrender

A review of 26 individual annuity cash surrender files produced no criticisms.

The median for surrender was three (3) days.

D. Complaints and Litigation

A review of five (5) consumer complaints produced no criticisms.

A review of 16 company-wide closed litigation files produced no criticisms.

STATE OF ILLINOIS

DEPARTMENT OF INSURANCE



IN THE MATTER OF:

PRUDENTIAL ANNUITIES LIFE ASSURANCE CORPORATION
10 EXCHANGE PLACE, 22 FLOOR
JERSEY CITY, NJ 07302

STIPULATION AND CONSENT ORDER

WHEREAS, the Director of the Illinois Department of Insurance (“Department”) is a duly authorized and appointed official of the State of Illinois, having authority and responsibility for the enforcement of the insurance laws of this State; and

WHEREAS, Prudential Annuities Life Assurance Corporation, NAIC 86630 (“the Company”) is authorized under the insurance laws of this State and by the Director to engage in the business of soliciting, selling and issuing insurance policies; and

WHEREAS, a Market Conduct Examination of the Company was conducted by a duly qualified examiner of the Department pursuant to Sections 132, 401, 402, 403, and 425 of the Illinois Insurance Code (215 ILCS 5/132, 5/401, 5/402, 5/403, and 5/425); and

WHEREAS, as a result of the Market Conduct Examination, the Department examiner filed a Market Conduct Examination Report covering the examination period of March 1, 2019 to August 31, 2020, which is an official document of the Department; and

WHEREAS, the Market Conduct Examination Report cited various areas in which the Company was not in compliance with the Illinois Insurance Code (215 ILCS 5/1 *et seq.*) and Department Regulations (50 Ill. Adm. Code 101 *et seq.*); and

WHEREAS, nothing herein contained, nor any action taken by the Company in connection with this Stipulation and Consent Order, shall constitute, or be construed as, an admission of fault, liability or wrongdoing of any kind whatsoever by the Company; and

WHEREAS, post closure of the examination, the Company (to be renamed Fortitude Life Insurance & Annuity Company) was acquired on April 1, 2022 by Fortitude Group Holdings, LLC (“Fortitude Re”), the parent company of Bermuda’s largest multi-line reinsurer. As a result of the acquisition by Fortitude Re, PALAC is no longer affiliated with Prudential Financial Inc. (“Prudential”) or any of its subsidiaries. A Prudential entity will continue to service and administer (or oversee administration of) all the Company’s contracts; and

WHEREAS, the Company is aware of and understands their various rights in connection with the examination and report, including the right to counsel, notice, hearing and appeal under Sections 132, 401, 402, 407, and 407.2 of the Illinois Insurance Code and 50 Ill. Adm. Code 2402; and

WHEREAS, the Company understands and agrees that by entering into this Stipulation and Consent Order, they waive any and all rights to notice and hearing; and

WHEREAS, the Company and the Director, for the purpose of resolving all matters raised by the report and in order to avoid any further administrative action, hereby enter into this Stipulation and Consent Order.

NOW, THEREFORE, IT IS AGREED by and between the Company and the Director as follows:

1. The Market Conduct Examination indicated various areas in which the Company was not in compliance with provisions of the Illinois Insurance Code and Department Regulations; and
2. The Director and the Company consent to this Order requiring the Company to take certain actions to come into compliance with provisions of the Illinois Insurance Code and Department Regulations.

THEREFORE, IT IS HEREBY ORDERED by the undersigned Director that the Company shall:

1. Institute and maintain policies and procedures whereby the Company shall provide delay letter within 45 days. Ill. Admin Code 919.70(a)(2)
2. Institute and maintain policies and procedures whereby the Company shall provide Notice of Availability of the Department of Insurance on delay letter. Ill. Admin. Code 919.70(a)(2) and Ill. Admin Code 919.40.
3. Institute and maintain policies and procedures whereby the Company shall adopt reasonable standards to fulfil contractual obligations to begin the claims process by contacting beneficiaries. 215 ILCS 5/154.6(c)(d)
4. Submit to the Director of Insurance, State of Illinois, proof of compliance with the above three (3) orders within thirty (30) days of execution of this Order.
5. Pay to the Director of Insurance, State of Illinois, a civil forfeiture in the amount of \$5,945.00 to be paid within ten (10) days of execution of this Order.

NOTHING contained herein shall prohibit the Director from taking any and all appropriate regulatory action as set forth in the Illinois Insurance Code including, but not limited to, levying additional forfeitures, should the Company violate any of the provisions of this Stipulation and Consent Order or any provisions of the Illinois Insurance Code or Department Regulations.

On behalf of PRUDENTIAL ANNUITIES LIFE ASSURANCE CORPORATION



Signature


Sean Coyle

Name

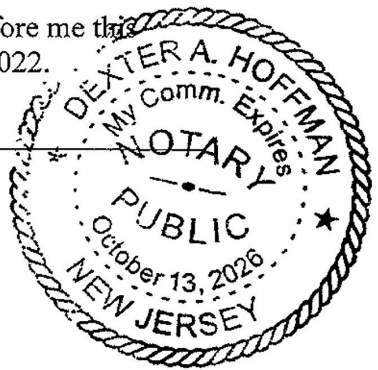
SVP & Chief Operating Officer

Title

Subscribed and sworn to before me this
10 day of May 2022.



Notary Public
Dexter Hoffman



DEPARTMENT OF INSURANCE of the
State of Illinois:

DATE _____

Dana Popish-Severinghaus

Dana Popish-Severinghaus
Director

