

STATE OF ARIZONA
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DEPT. OF INSURANCE

**REPORT OF TARGETED EXAMINATION
OF
METLIFE INVESTORS USA INSURANCE COMPANY**

NAIC# 61050

AS OF

MARCH 31, 2005

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Department of Insurance
State of Arizona
Market Oversight Division
Examinations Section
Telephone: (602) 364-4994
Fax: (602) 364-4998

JANET NAPOLITANO
Governor

2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7269
www.id.state.az.us

CHRISTINA URIAS
Director of Insurance

Honorable Christina Urias
Director of Insurance
State of Arizona
2910 North 44th Street, Suite 210
Phoenix, Arizona 85108-7269

Dear Director Urias:

Pursuant to your instructions and in conformity with the provisions of the Insurance Laws and Rules of the State of Arizona, a targeted examination has been made of the market affairs of:

METLIFE INVESTORS USA INSURANCE COMPANY

NAIC # 61050

The above examination was conducted by James R. Dargavel, FLMI, CIE, Examiner-in-Charge, Jerry Paugh, AIE, Senior Market Examiner and Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor.

The examination covered the period of October 1, 2004 through March 31, 2005.

As a result of that examination, the following Report of Examination is respectfully submitted.


Sincerely yours,

Paul J. Hogan, JD, FLMI, ALHC, CIE
Market Oversight Administrator
Market Oversight Division

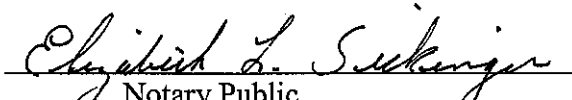
AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, James R. Dargavel, FLMI, CIE, being first duly sworn state that I am a duly appointed Market Examinations Examiner-in-Charge for the Arizona Department of Insurance. That under my direction and with my participation and the participation of Jerry Paugh, AIE, Senior Market Examiner and Helene I. Tomme, CPCU, CIE, Market Examinations Supervisor, the Examination of MetLife Investors USA Insurance Company, hereinafter referred to as the "Company." was performed at the offices of the Arizona Department of Insurance. A teleconference meeting with appropriate Company officials was held to discuss this Report, but a copy was not provided to management, as the Examination was not finalized. The information contained in this Report, consisting of the following pages, is true and correct to the best of my knowledge and belief and that any conclusions and recommendations contained in and made a part of this Report are such as may be reasonably warranted from the facts disclosed in the Examination Report.


James R. Dargavel, FLMI, CIE
Market Examinations Examiner-in-Charge

Subscribed and sworn to before me this 2nd day of November, 2006.


Notary Public

My Commission Expires Jan. 17, 2009



FORWARD

This targeted market examination of MetLife Investors USA Insurance Company (“Company” or “MLI”), was prepared by employees of the Arizona Department of Insurance (“Department”) as well as independent examiners contracting with the Department. A targeted market examination is conducted for the purpose of auditing certain business practices of insurers licensed to conduct the business of insurance in the State of Arizona. The Examiners conducted the examination of the Company in accordance with Arizona Revised Statutes (A.R.S.) §§ 20-142, 20-156, 20-157, 20-158, and 20-159. The findings in this report, including all work products developed in the production of this report, are the sole property of the Department.

The examination consisted of a review of the following components of the Company’s life and annuity business:

1. Provide a proper “free look period” for annuity contracts.
2. Communicate all of the required disclosures relative to annuity contracts.
3. Use of proper replacement practices.

SCOPE AND METHODOLOGY

The examination of the Company was conducted in accordance with the standards and procedures established by the National Association of Insurance Commissioners (NAIC) and the Department. The targeted market examination of the Company covered the period from October 1, 2004 through March 31, 2005 for the business reviewed. The purpose of the examination was to determine: (1) if the Company uses annuity applications and contracts that contain the appropriate notice regarding Free Look and premium refund requirements; (2) if the Company utilizes annuity replacement procedures and practices, and provides training to its producers that complies with the applicable statutes; (3) if the Company uses compliant procedures for processing annuity refunds requested during the Free Look and 30 day option period; and (4) if the Company provides the required disclosure documents, buyer’s guide and annual reports on all annuity applications in compliance with the applicable statutes. This examination targeted the top 75% of the Arizona individual life and annuity insurance market.

The Examiners utilized both examinations by test and examination by sample. Examination by test involves review of all records within the population, while examination by

sample involves the review of a selected number of records from within the population. Due to the small size of some populations examined, examination by test and by sample were completed without the need to utilize computer software.

File sampling was based on a review of annuity new business files that were systematically selected by using Audit Command Language (ACL) software and computer data files provided by the Company's Representative, Robert DiLorenzo, Assistant Vice President, Regulatory Matters. Samples are tested for compliance with standards established by the NAIC and the Department. The tests applied to sample data will result in an exception ratio, which determines whether or not a standard is met. If the exception ratio found in the sample is, generally less than 5%, the standard will be considered as "met". The standard in the areas of procedures, forms and policy forms use will not be met if any exception is identified.

EXECUTIVE SUMMARY

This examination was completed by applying tests to each examination standard to determine compliance with the standard. Each standard applied during the examination is stated in this report and the results are reported beginning on page eight.

The Company failed Standard No. 1 by using 15 annuity application forms and one annuity contract form that failed to contain:

1. A free look notice prominently printed on or attached to the first page of the application or contract, or:
2. A free look notice that included a statement notifying contract holders that, upon written request, the insurer is required to provide within reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder.

The Company failed Standard No. 2 because the Company failed to maintain a system for supervision and control of insurance producers that ensures compliance with this article including a method to inform insurance producers of the requirements of this article and to incorporate those requirements into the Company's relevant insurance producer training manuals.

The Company failed Standard No. 3 because:

1. It failed to maintain a system for the supervision and control of insurance producers including a system to provide each insurance producer with written statement of the Company's position on the acceptability of replacements to guide the insurance producer as to the appropriateness of each replacement transaction.
2. It failed to maintain a system for supervision and control of its insurance producers that ensured compliance with the article including a system to review the appropriateness of each fixed annuity replacement transaction for compliance with the Company's replacement policy.
3. It failed to maintain a system for supervision and control of its insurance producers that ensured compliance with article including a procedure to confirm that the requirements of the article have been met.
4. It failed to have procedures in place to send contract owners a letter, within five business days of receiving a replacement notice from another insurer, advising the owner of the right to receive information about existing contracts or values including, if available, an in-force illustration or a policy summary if and in-force illustration cannot be produced and to provide the contract owner with this information within five business days of the receipt of a request from the contract owner.
5. It failed on 21 applications to require, with or as a part of the application, a statement signed by the applicant and insurance producer as to whether the applicant had an existing policy or contract.
6. It failed on five applications to require, with the application for a replacement contract, the notice prescribed in section 20-1241.03, subsections C and D or failed to require a notice in the form approved by Director.
7. It failed on six applications to determine if the sales material and illustration used in connection with the replacement met the requirements of the article and were complete and accurate for the proposed policy.
8. It failed on 34 applications, which failed to meet the requirements of the article, to notify the producer and applicant and fulfill the outstanding requirements.

9. It failed on 55 applications to notify any existing insurer that may be affected by the proposed replacement within five business days of receipt of a completed application indicating replacement.

The Company failed Standard No. 5 because:

1. It failed to provide a buyer's guide and disclosure document, at or before the time of application when applications were taken in face to face meetings.
2. It utilized one disclosure document form which failed to provide all of the information required under A.R.S. § 20-1242.02 (G).

The Company passed Standard No. 4.

STANDARD 1

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.	A.R.S. § 20-1233(A), (B) & (C)

The Examiners reviewed MLI's annuity application and policy forms to determine if those forms contained notices that state the policyholder's right to request information regarding benefit and contract provisions, and the right to return the contract for a refund of premium.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed 16 annuity application forms, three annuity contact forms and a random sample of 20 of 265 MLI annuity new business application files. During the Phase II Examination, the Examiners reviewed an additional 97 annuity new business issued and external replacement files selected randomly from the above listed population.

Finding:

The Examiners issued a preliminary finding on seven annuity application forms that failed Standard 1. Each of the criticized application forms failed to contain a free look notice prominently printed on or attached to the first page of the application.

The Examiners issued a preliminary finding on one annuity contract form that failed Standard 1 because the free look notice on this form failed to contain a statement notifying

contract holders that, upon written request, the insurer is required to provide within a reasonable time reasonable factual information regarding the benefits and provisions of the annuity contract to the contract holder.

During their review of 117 annuity files the Examiners identified eight additional annuity application forms that failed to contain the required free look notice.

Form Number	Form Number
8229 (12/01) APPFA-USAARSRXR	8229 (12/01) APPFA-USAFAML
8229 (12/01) APPFA-USAPGAS	APPLESS ISSUE
8229 (12/01) APPFA-USAXRWF	WELLS FARGO INVESTMENTS
8329 (8/04) NOMVA-USAXG	NO APPLICATION IN FILE
8230 (12/01) APPFA-ARXRII	8029 (7/04) APPVA704USAXC
8230 (12/01) APPFA-PGASII	8029 7/04 USAC
8330 (8/04) APPFA-USAXGII	7229 (12/01) APPFA-FA
8010.30 (11/00)	7229 (12/01) APPFA-ARSRXR

ANNUITY CONTRACTS AND APPLICATION FORMS

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
16	Application and Contract forms	N/A	A.R.S. §20-1233(A)

Recommendation No. 1

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company uses annuity contract forms that contain a compliant Free Look notice.

Subsequent Events

The Company provided a copy of the revised annuity application forms listed in the table below with their response to the preliminary findings. No information or revised application form was provided for the Appless Issue or the Wells Fargo application forms. No information or revised contract form was provided for annuity contract form 8010.30 (11/00).

<i>Application Form Number</i>	<i>Application Form Number</i>
<i>8029 (4/05) APPVACMLAZ 606</i>	<i>8029 (4/05) APPVAVAMLAZ 606</i>
<i>8029 (4/05) APPVALMLAZ 606</i>	<i>8029 (4/05) APPVAXCMLAZ 606</i>
<i>8029 (1/06) APPVAUSACAZ 606</i>	<i>8029 (4/05) APPVACMLAZ 606</i>
<i>8029 (1/06) APPVAUSALAZ 606</i>	<i>8029 (4/05) APPVALMLAZ 606</i>
<i>8029 (1/06) APPVAUSAVAAZ 606</i>	<i>8029 (4/05) APPVAVAMLAZ 606</i>
<i>8029 (1/06) APPVAUSAXCAZ 606</i>	<i>8029 (4/05) APPVAUSAMPVAAZ 506</i>

STANDARD 2

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
2	Company internal producer training procedures and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.	A.R.S. § 20-1241.04(B)(1), (2) and (3)

The Examiners reviewed MLI's procedures pertaining to training and other materials used by the Company for the management of new business and replacement of existing business.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories, and follow-up requests.

Finding:

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 2 because the Company failed to maintain a system for supervision and control of insurance producers that ensures compliance with this article including a method to inform insurance producers of the requirements of this article and to incorporate those requirements into the Company's relevant insurance producer training manuals.

COMPANY REQUIREMENTS REGARDING PRODUCER TRAINING MATERIALS

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
1	Company Procedures	N/A	A.R.S. §20-1241.04(B)(1)

Recommendation No. 2

Within 90 days of the filed date of this report, provide documentation that the Company has informed its Broker/Dealers and insurance producers of the requirements of A.R.S. § 20-1241 et al.

STANDARD 3

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
3	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.	A.R.S. § 20-1241.02; 20-1241.04, 20-1241.05, 20-1241.06, and 1241.07.

The Examiners reviewed MLI's procedures pertaining to producer and Company requirements in connection with replacement of annuity contracts.

Procedures Performed:

During the Phase I Examination, the Examiners reviewed the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories, and follow-up requests.

The Examiners reviewed a random sample of 20 of 265 MLI annuity new business application files selected from the issued new business and external replacement new business populations.

A Phase II examination review was conducted to determine if additional annuity new business replacement files were improperly processed. The Examiners reviewed an additional 97 annuity issued new business and external replacement files selected from the above listed populations.

Finding:

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 3 because the Company failed to maintain a system for the supervision and control of insurance producers including a system to provide each insurance producer with written statement of the Company's position on the acceptability of replacements to guide the insurance producer as to the appropriateness of each replacement transaction.

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 3 because the Company failed to maintain a system for supervision and control of its insurance producers that ensured compliance with the article including a system to review the appropriateness of each fixed annuity replacement transaction for compliance with the Company's replacement policy.

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 3 because the Company failed to maintain a system for supervision and control of its insurance producers that ensured compliance with article including a procedure to confirm that the requirements of the article have been met.

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 3 because the Company failed to have procedures in place to send contract owners a letter, within five business days of receiving a replacement notice from another insurer, advising the owner of the right to receive information about existing contracts or values including, if available, an in-force illustration or a policy summary if and in-force illustration cannot be produced and to provide the contract owner with this information within five business days of the receipt of a request from the contract owner.

Twenty-one of 117 (17.9%) annuity new business issued and external replacement files failed Standard 3 because the Company failed to require, with or as a part of the application, a statement signed by the applicant and insurance producer as to whether the applicant had an existing policy or contract.

Five of 56 (8.9%) annuity external replacement files failed Standard 3 because the Company failed to require, with the application for a replacement contract, the notice prescribed in section 20-1241.03, subsections C and D or failed to require a notice in a form approved by Director..

Six of 56 (10.7%) external replacement files failed Standard 3 because the Company failed to determine if the sales material and illustration used in connection with the replacement met the requirements of the article and were complete and accurate for the proposed policy.

Thirty-four of 117 (29.1%) annuity new business issued and external replacement files failed Standard 3 because the applications failed to meet the requirements of the article but the Company failed to notify the producer and applicant and fulfill the outstanding requirements.

Fifty-five of 56 (98.2%) annuity external replacement files failed Standard 3 because the Company failed to notify any existing insurer that may be affected by the proposed replacement within five business days of receipt of a completed application indicating replacement.

COMPANY AND PRODUCER REQUIREMENTS REGARDING REPLACEMENT

PHASE I and PHASE II

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
1	Procedures	N/A	A.R.S. § 20-1241.04(B)(2)
1	Procedures	N/A	A.R.S. § 20-1241.04(B)(3)
1	Procedures	N/A	A.R.S. § 20-1241.04(B)(4)
1	Procedures	N/A	A.R.S. §20-1241.06(A)(2)
21	117	17.9%	A.R.S. § 20-1241.04(D)
5	56	8.9%	A.R.S. § 20-1241.04(E)
6	56	10.7%	A.R.S. § 20-1241.04(G)
34	117	29.1%	A.R.S. § 20-1241.04(H)
55	56	98.2%	A.R.S. § 20-1241.05(C)

An error ratio greater than 5% does not meet standards; therefore recommendations are warranted.

Recommendation No. 3

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company: a) maintains a system for the supervision and control of insurance producers including a system to provide each insurance producer with written statement of the Company's position on the acceptability of replacements to guide the insurance producer as to the appropriateness of each replacement transaction, b) maintains a system for supervision and control of its insurance producers that ensured compliance with article including a procedure to confirm that the requirements of the article have been met, c) maintains a system for supervision and control of its insurance producers that ensures compliance with article including a procedure to confirm that the requirements of the article have been met, d) provides a complete and compliant advisory notice to contract owners upon receiving a notice with respect to annuity replacements, e) requires, with or as a part of the application, a statement signed by the applicant and insurance producer as to whether the applicant had an existing policy or contract, f) requires with applications for replacement contracts the notice prescribed in section 20-1241.03, subsections C and D or in a form approved by the Director; g) determines if the sales material and illustration used in connection with replacements meet the requirements of the article and are complete and accurate for the proposed

policy, h) notifies the producer and applicant and fulfills outstanding requirements when applications fail to meet the requirements of the article, and i) notifies any existing insurer that may be affected by the proposed replacement within five business days of receipt of a completed application indicating replacement.

STANDARD 5

The following Life Insurance and Annuity Replacement and Disclosure Standard Failed:

#	STANDARD	Regulatory Authority
5	Company rules pertaining to providing disclosure documents, buyer's guides, and annual reports to contract owners are in compliance with applicable statutes, rules and regulations.	A.R.S. § 20-1242.02 and 20-1242.03.

The Examiners reviewed MLI's procedures regarding the Company providing compliant disclosure documents, buyer's guides and annual reports to contract owners.

Procedures Performed:

The Department's procedures included a review of the information provided by the Company in response to the Coordinator's Handbook Attachments A and B, Interrogatories and follow-up requests sent to the Company by the examiner regarding the Attachment A and B materials.

Finding:

During the Phase I portion of the examination, in response to the Department's inquiry, it was determined that the Company failed Standard 5 because the Company failed to provide a buyer's guide and disclosure document, at or before the time of application when applications were taken in face to face meetings.

One disclosure document form utilized by the Company failed Standard 5 since it did not contain the required information. *Disclosure Document 8228 (01/01/02)* failed to contain: 1) The generic name of the contract and the Company product name if different; 2) The death benefit, if available, and how it will be calculated; 3) A summary of the federal tax status of the contract and any penalties applicable on withdrawal of values from the contract; and 4) The impact of any rider such as the long-term care rider, maximum terminal illness rider, maximum disability waiver rider and other riders which may be attached to the contract.

COMPANY AND PRODUCER REQUIREMENTS REGARDING REPLACEMENT

Number of Exceptions	Population Reviewed	Percentage	Applicable Statute
1	Company Procedures	N/A	A.R.S. §20-1242.02(A)
1	Forms	N/A	A.R.S. §20-1242.02(G)

Recommendation No. 4

Within 90 days of the filed date of this report, provide documentation that procedures and controls are in place to ensure that the Company: a) provides a disclosure document and buyers guide to applicants for fixed annuities at or before the time of application when applications are taken in face to face meetings and b) utilizes compliant disclosure documents which contain all of the information required under A.R.S. § 20-1242.02(G).

SUMMARY OF STANDARDS

#	STANDARD	PASS	FAIL
1	Company annuity application and policy forms contain compliant notices concerning the policyholder's right to request benefit and contract provision information and the right to return the contract for a refund of premium.		X
2	Company producer training procedures and materials regarding replacement of existing coverage are in compliance with applicable statutes, rules and regulations.		X
3	Company rules pertaining to producer and company replacement requirements are in compliance with applicable statutes, rules and regulations.		X
4	Company procedures for processing refunds under the "Free Look" option, or the 30 day option, if the application involved replacement of existing coverage, are in compliance with applicable statutes, rules and regulations.	X	
5	Company procedures that require disclosure documents, buyer's guides and annual reports be provided to contract owners are in compliance with applicable statutes, rules and regulations.		X