MARKET CONDUCT EXAMINATION REPORT

Variable Annuity Life Insurance Company
NAIC #70238
2727-A Allen Parkway
Houston, TX  77019

ETS # KS182-M15

As of

December 31, 2012

KANSAS INSURANCE DEPARTMENT
<table>
<thead>
<tr>
<th>SUBJECT</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salutation</td>
<td>1</td>
</tr>
<tr>
<td>Purpose and Scope of Review</td>
<td>2</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>Desk Examination</td>
<td></td>
</tr>
<tr>
<td>Complaint Handling</td>
<td>4</td>
</tr>
<tr>
<td>Conclusion</td>
<td>6</td>
</tr>
<tr>
<td>Appendix: Applicable Statutes and Regulations</td>
<td>A-1</td>
</tr>
</tbody>
</table>
The Honorable Sandy Praeger  
Insurance Commissioner  
Kansas Insurance Department  
420 SW Ninth Street  
Topeka, KS 66612

Dear Commissioner Praeger:

In accordance with your respective authorization, and pursuant to K.S.A. 40-222, a market conduct examination has been conducted on the business affairs of:

Variable Annuity Life Insurance Company  
NAIC #70238  
2727-A Allen Parkway  
Houston, TX 77019

hereafter referred to as “Variable Annuity Life Insurance Company” or the “Company”, the following report of such examination is respectfully submitted,

Tate Flott, AIE, AIRC  
Market Conduct Examiner  
Examiner-in-Charge
PURPOSE AND SCOPE OF REVIEW

A targeted market conduct examination of Variable Annuity Life Insurance Company, also referred to as the “Company”, was conducted pursuant to, but not limited to K.S.A. 40-222.

The Kansas Insurance Department (KID) simultaneously conducted targeted desk examinations on several companies to determine compliance of the requirements set forth in K.S.A. 40-2404 (10) regarding the recording and proper handling of complaints. The review was performed at KID on electronic files provided by the Company and was conducted according to the guidelines and procedures recommended in the 2012 NAIC Market Regulation Handbook (MRH). The exam team utilized the standards and tests recommended in the Handbook which allows an error tolerance 10%. Silence on any NAIC standard or Company practice does not imply KID acceptance or endorsement of such practices. Applicable statutes and regulations cited throughout the report may be found in the Appendix.

The examination included a review of the complaint register and the complaint files the company had received for the exam period of January 1, 2010 through December 31, 2012. This included both the complaints from KID as well as direct consumer complaints that were received during the time period. Interrogatories were submitted to the Company prior to the file review segment of the examination, and written responses were provided.

EXECUTIVE SUMMARY

A review of the complaints received by Variable Annuity Life Insurance Company revealed numerous errors. The Company had an incomplete complaint register, due to certain required fields not being listed. The register also contained inaccurate received and final disposition dates.

During the Market Conduct Exam the Company advised that a corrective action plan was being developed to address the deficiencies. Beginning October 1, 2013, the Company implemented the following changes:

1.) The Complaint Handling Procedures were revised to ensure that the complaint resolution dates in the database and on the letters match.

2.) The revised procedures were distributed to the Complaint Handling employees during a staff meeting.

3.) The staff has been directed to implement the revised procedures.
DESK EXAMINATION

COMPLAINT HANDLING

The examiners reviewed the Company’s procedures for handling complaints, the complaint register from January 1, 2010 through December 31, 2012, as well as the complaint files from that period. The “Number of Errors” included in the samples below are defined as the total number of complaints in the sample which contained errors.

**Standard 1**
All complaints are recorded in the required format on the regulated entity’s complaint register.

The complaint log did not include the total number of complaints, the line of business, or the disposition of the complaint. Additionally, seventeen of the initial complaints had an incorrect date on the log. As there are enough errors in the dates to not accurately reflect the complaints, the company is in violation of K.S.A. 40-2404(10).

Result: Fail

Recommendation: The Company must ensure that the complaint log contains all of the required fields and that the required dates are accurate.

**Standard 2**
The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders.

<table>
<thead>
<tr>
<th>Sample Type</th>
<th>Sample Size</th>
<th>Number of Errors</th>
<th>Percent Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints</td>
<td>23</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

Result: Pass

Recommendation: None

**Standard 3**
The regulated entity takes adequate steps to finalize and dispose of the complaint in accordance with applicable statutes, rules and regulations, and contract language.

<table>
<thead>
<tr>
<th>Sample Type</th>
<th>Sample Size</th>
<th>Number of Errors</th>
<th>Percent Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints</td>
<td>23</td>
<td>2</td>
<td>91%</td>
</tr>
</tbody>
</table>

Result: Pass

Recommendation: None

**Standard 4**
The time frame within which the regulated entity responds to complaints is in accordance with applicable statutes, rules and regulations.

<table>
<thead>
<tr>
<th>Sample Type</th>
<th>Sample Size</th>
<th>Number of Errors</th>
<th>Percent Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints</td>
<td>23</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

Result: Pass

Recommendation: None

**CONCLUSION**

I would like to acknowledge the cooperation and courtesy extended by Variable Annuity Life Insurance Company staff. The following examiners from the Office of the Commissioner of Insurance in the State of Kansas participated in the review:

Tate Flott  
Market Conduct Examiner

Respectfully submitted,

Tate Flott, AIE, AIRC  
Market Conduct Examiner  
Examiner-In-Charge
APPENDIX

Related Kansas Insurance Statutes and Administrative Regulations

K.S.A. 40-222. Examinations

(a) Whenever the commissioner of insurance deems it necessary but at least once every five years, the commissioner may make, or direct to be made, a financial examination of any insurance company in the process of organization, or applying for admission or doing business in this state. In addition, at the commissioner's discretion the commissioner may make, or direct to be made, a market regulation examination of any insurance company doing business in this state.

…

(c) For the purpose of such examination, the commissioner of insurance or the persons appointed by the commissioner, for the purpose of making such examination shall have free access to the books and papers of any such company that relate to its business and to the books and papers kept by any of its agents and may examine under oath, which the commissioner or the persons appointed by the commissioner are empowered to administer, the directors, officers, agents or employees of any such company in relation to its affairs, transactions and condition.

…

(g) The refusal of any company, by its officers, directors, employees or agents, to submit to examination or to comply with any reasonable written request of the examiners shall be grounds for suspension or refusal of, or nonrenewal of any license or authority held by the company to engage in an insurance or other business subject to the commissioner's jurisdiction. Any such proceedings for suspension, revocation or refusal of any license or authority shall be conducted in accordance with the provisions of the Kansas administrative procedures act.

…

K.S.A. 40-2404. Unfair methods of competition and unfair or deceptive acts or practices

…

(10) Failure to maintain complaint handling procedures. Failure of any person, who is an insurer on an insurance policy, to maintain a complete record of all the complaints which it has received since the date of its last examination under K.S.A. 40-222, and amendments thereto; but no such records shall be required for complaints received prior to the effective date of this act. The record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of the complaints, the date each complaint was originally received by the insurer and the date of final disposition of each complaint. For purposes of this subsection, "complaint" means any written communication primarily expressing a grievance related to the acts and practices set out in this section.