
Allianz Life to pay \$10 million to settle index annuity complaints

By Editor Test Sat, Sep 8, 2012

Through years of controversy, the German-owned insurer has remained a leading seller of fixed indexed annuities, marketing them primarily through insurance agents.

Allianz Life Insurance Co. has [agreed](#) to take corrective action, continue a remediation plan, and pay \$10 million to 23 states to settle charges that actions by agents selling its popular fixed indexed annuities (FIAs) from 2001 to 2008 led to unsuitable sales or sales based on misrepresentations, the Florida Office of Insurance Regulation has announced.

Insurance commissioners and other state officials in Florida, Iowa, Minnesota, and Missouri led the regulatory action against Allianz Life. Florida alone will receive over \$1 million, according to a release.

“Some consumers who purchased annuities during these years complained to Allianz regarding the suitability of the annuities for their circumstances or representations made by Allianz or its agents during the sale of an annuity,” the release said. “Under the remediation plan, Allianz will implement a review process addressing new and previously filed complaints by customers who purchased an eligible fixed annuity product between 2001 and 2008. A list of the eligible fixed annuity products covered in this agreement can be viewed [here](#).”

The products named in the agreement include annuity contracts that have been and continue to be among the most popular FIAs on the market. Allianz Life was the top seller of fixed annuities in the second quarter of 2012, with about \$1.4 billion in sales, and its MasterDex X fixed indexed annuity was the third best-selling fixed annuity and the second-highest selling fixed indexed annuity, according to Beacon Research.

Fixed indexed annuity, or equity-indexed annuities as they were once called, are widely agreed to be highly complex products that are difficult to understand, even for the independent insurance agents who sell them.

Essentially, they are low-risk structured products consisting of bonds with a minor investment in options on common equity indexes. They are characterized as all-weather products, because the options offer upside when stocks do well and principal is guaranteed by the insurer. Their complexity comes from the fact that many different “crediting methods” can be used to translate the equity gains into higher contract value. It is difficult if not impossible for a layperson to make meaningful comparisons between the crediting methods.

The products were aggressively marketed with rich incentives and principal bonuses through independent insurance agents, and began drawing complaints from older people or their relatives who did not understand exactly what had been purchased. A television expose helped motivate then-SEC chairman Christopher Cox to lead an ultimately unsuccessful campaign to have FIAs regulated as securities.

The sales of FIAs have been boosted recently by the addition of lifetime income riders to the contracts.

Since these bond-based products entail less downside risk to principal than variable annuities, where the underlying investments include stocks, the FIA income riders can sometimes be more generous than the variable annuity income riders, giving the FIAs a competitive advantage.

Under the multi-state agreement, consumers can have a re-review of their complaints based on the criteria spelled out in the agreed order. A new complaint can be filed by affected consumers until March 31, 2013, either through the “Contact Us” feature on the Allianz Life website or by telephone at 866-604-7488. If a complaint is found to be justified, the consumer will be offered a retroactive cancellation of their policy and a full refund.

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