STATE OF MICHIGAN

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES

MARKET CONDUCT EXAMINATION

NUMBER 2015C-0087

November 9, 2015

TARGETED MARKET CONDUCT EXAMINATION REPORT

OF

PACIFIC LIFE INSURANCE COMPANY

NEWPORT BEACH, CALIFORNIA

NAIC COMPANY CODE 67466

For the Period January 1, 2013 through December 31, 2014

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I. EXECUTIVE SUMMARY

This examination was conducted by the Michigan Department of Insurance and Financial Services (DIFS) in conformance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2013) (*Handbook*) and the Michigan Insurance Code (Code), MCL 500.100 et seq.

Pacific Life Insurance Company (Pacific or Company) is a Nebraska domiciled company, authorized to do insurance business in Michigan, since July 29, 1936.

This targeted desk examination was called pursuant to analysis findings of the Company's NAIC Market Conduct Annual Statement (MCAS) submission. According to Pacific's MCAS data, the Company exceeded Michigan and national averages for a number of tracked ratios related to individual variable annuities sold in Michigan, including total replacement sales, replacement contracts sold to individuals over the age of 80, deferred contracts sold to individuals over the age of 80, and early surrenders (less than ten (10) years).

The purpose of the exam was to conduct a risk assessment and evaluate the Company's compliance with applicable Michigan statutes, NAIC Guidelines and DIFS regulations, as related to the Company's individual variable annuity line of business written in Michigan.

The exam period covered January 1, 2013 through December 31, 2014. The scope of the exam included Marketing and Sales, Underwriting & Rating, and Producer Licensing.

This summary of this targeted market conduct examination of the Company is intended to provide a high-level overview of the examination results. The body of the report provides details of the scope of the examination, Company responses, response/data testing details, findings and DIFS recommendations, if any, as well as Company responses to DIFS findings, recommendations and comments (Final Report only).

Pacific responded timely to the examination and data requests. The Company's responses to the interrogatories were satisfactory to explain the ratio deviations and allay any concerns with its suitability programs. There were no substantive issues or findings for this examination.

DIFS considers a substantive issue one in which a "finding" or violation of Code was found to have occurred, or one in which corrective action on the part of the Company is deemed advisable.

Findings:
There are no substantive issues or findings from this targeted examination.

Recommendations:
There are no recommendations for the Company at this time.

Company Response:
Pacific Life has no formal comment to the Final Draft Report.

DIFS's Supplement to the Company Response:
DIFS accepts Pacific's response to the Draft Report as broadly covering the report as a whole and it will be relied upon as such, as documented in the section immediately above; therefore, all other response sections intended for the Company to comment on the Draft Report have been removed from the Final Report.

II. OBJECTIVES, SCOPE AND METHODOLOGY

This report is based on a targeted market conduct examination of Pacific. The examination was a desk examination conducted remotely from the offices at DIFS. The Company contact for this exam was Russell W. Davis, Pacific Life Insurance Company, Newport Beach, California. The Examiner-in-Charge (EIC) for DIFS was Michael Draminski, MCM, assisted by Zachary Dillinger, MCM, Examiner, and was conducted under the supervision of Sherry J. Bass-Pohl, Manager of the Market Conduct Company Examination Unit.

DIFS conducted this examination in accordance with statutory authority of MCL 500.222 et seq. All Michigan laws, regulations and bulletins cited in this report may be viewed on the DIFS website at www.michigan.gov/difs or http://www.legislature.mi.gov. Note: Code citations may be sans specific statutory language when a statute is significantly long or a chapter is applied broadly to one or more standards ("et seq." will then be used). However, statutory language may be included with certain citations, when and if there are findings, observations or discussion points within the report or management letter that benefit from specific reference.

The purpose of the exam was to conduct a risk assessment and evaluate the Company's compliance with applicable Michigan statutes, NAIC Guidelines and DIFS regulations, as related to the Company's individual variable annuity line of business written in Michigan.

This examination includes reviews of Marketing and Sales, Underwriting & Rating, and Producer Licensing. The examination covers the period January 1, 2013 through December 31, 2014.

The examination was called and conducted pursuant to analysis findings of the Company's NAIC Market Conduct Annual Statement (MCAS) submission. According to the Company's MCAS data, Pacific exceeded Michigan averages for a number of tracked ratios related to individual variable annuities sold in Michigan, including total replacement sales, replacement contracts sold to individuals over the age of 80, deferred contracts sold to individuals over the age of 80, and early surrenders (less than ten (10) years).

Pacific ranks in the top six (6) outlying companies determined by MCAS factors and ratios, exceeding Michigan and national averages for four (4) of five (5) issues of concern, including:
- Ratio 1: 39.69% of all individual variable annuities issued by Pacific were replacements – exceeds the Michigan and national averages of 24.62% and 24.74%, respectively.
- Ratio 2: 13.08% of all Pacific individual variable annuity replacement contracts were issued to annuitant age 80 and older – exceeds the Michigan and national averages of 4.26% and 4.99%, respectively.

- Ratio 3: 6.9% of all Pacific individual variable annuity deferred contracts were issued to annuitants age 80 and older – exceeds the Michigan and national averages of 2.35% and 2.34%, respectively.
- Ratio 4: 89.77% of Pacific's surrendered contracts were surrendered less than 10 years from contract issuance – exceeds the Michigan and national averages of 63.05% and 63.78%, respectively.

On June 8, 2015, pursuant to the analysis of Pacific's 2014 MCAS submission of individual variable annuities sold in Michigan during the year of 2013, the Market Conduct Section initiated an examination of Pacific. The exam included interrogatories tailored to assess risk and evaluate the Company in the areas of Marketing and Sales, Producer Licensing, and the Suitability of Annuity Sales for the Individual. The overarching goal was to ascertain if Pacific has adequate systems in place to ensure proper suitability of, and suitability oversight for, the sale of individual variable annuities sold to Michigan consumers, in compliance with Michigan's insurance laws and regulations, and industry best practices.

DIFS employed only interrogatories, and data requests (related to underwriting and producer licensing) for sales during the examination period.

This examination report is a report by test. The report contains a summary of pertinent information about the lines of business examined. This includes each NAIC *Handbook* source and Standard; Code citation; any examination findings detailing the non-compliant or problematic activities discovered during the exam; the Company response, including proposing methods for correcting the deficiencies; and recommendations to the Company or for any further action by DIFS.

III. COMPANY OPERATIONS AND PROFILE

Pacific Life Insurance Company (Pacific or Company), a Nebraska domiciled company, is owned by Pacific LifeCorp, an intermediate holding company whose ultimate parent is Pacific Mutual Holding Company. Pacific operates in conjunction with its subsidiary, PL&A, and is collectively referred to as Pacific Life. The Company's national distribution system includes Edward Jones, UBS, Morgan Stanley Smith Barney, Wells Fargo Advisors, Merrill Lynch, JP Morgan, US Bank and LPL. The variable annuity products include institutional money management, asset allocation strategies and asset-based compensation, with an emphasis on service.

Pacific has been authorized to write in Michigan since July 29, 1936. Authorized lines include Life and Annuities, Disability, Separate Account –Variable Annuities and Separate Account – Variable Life. Pacific is licensed to do business in 49 states and the District of Columbia.

Pacific's direct written premium (DWP) has increased over the last five (5) years nationally, with a slight decrease in 2014. Pacific's Michigan DWP decreased from $273.4 million in 2013 to $234.7 million in 2014. As of 2014, Pacific ranked as the 12th largest seller of individual annuities in Michigan.

IV. EXAMINATION FINDINGS AND RECOMMENDATIONS

A. MARKETING AND SALES

Standard 1: All advertising and sales materials are in compliance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 2: The insurer's rules pertaining to producer requirements in connection with replacements are in compliance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 3: The insurer's rules pertaining to replacements are in compliance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 5: The insurer has suitability standards for its products, when required by applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 9: Insurer rules pertaining to producer requirements with regard to suitability in annuity transactions are in compliance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 10: Insurer rules pertaining to suitability in annuity transactions are in compliance with applicable statutes, rules and regulations. NAIC *Handbook*, Chapter 19.

Standard 11: The insurer has procedures in place to educate and monitor compliance with insurer-specific education and training requirements and with applicable statutes, rules and regulations regarding the solicitation, recommendation and sale of annuity products. NAIC *Handbook*, Chapter 19.

Standard 12: The insurer has product-specific training standards and materials designed to provide producers with adequate knowledge of the annuity products recommended prior to soliciting the sale of annuity products. The insurer must also have reasonable procedures in place to require its producers to comply with applicable producer training requirements. NAIC *Handbook*, Chapter 19.

Michigan Statute: MCL 500.4151 et seq.

The examiners asked the Company to respond to a series of interrogatory questions designed to assess the strength of the Company's annuity suitability verification program. Below, each question, the Company's response, and the examiner's analysis of that response is presented.

1. After reviewing the 2013 Market Conduct Annual Statement (MCAS) data, it appears that approximately 39.69% of all individual variable annuity contracts issued were replacement contracts (Ratio #1). This significantly exceeds both the Michigan and national averages of 24.62% and 24.74%, respectively. Explain the circumstances under which the Company allows

a replacement contract to be sold and why the Company is so much higher than the state average.

Company Response Note: Pacific provided a lengthy narrative describing their suitability and exchanges system, along with supporting documents, policies, procedures and internal reports, as well as specific narrative responses to the interrogatory questions. Some general narrative and proprietary information is comingled within specific responses; therefore, Company Response sections for specific interrogatory questions are pared down to include only pertinent parts of their responses. DIFS takes into consideration all of the provided information when evaluating the Company's response and position for each interrogatory and will include reference to other information in the DIFS Comment on Company Response sections to those specific questions.

Company Response to Question 1:

[In pertinent part:] The Company's variable annuity replacement ratio may be the result of changes in the variable annuity marketplace since the 2008-2009 market downturn, as several large insurers have exited the variable annuity business in recent years.

With respect to variable annuity contracts, the Company allows a variable annuity replacement contract to be sold through the independent third-party FINRA member selling broker-dealer firm which evaluates the annuity replacement/exchange recommendation of its registered representative (producer) and determines whether the registered representative has reasonable grounds to believe the replacement/exchange recommendation is suitable for the consumer.

Through our replacement monitoring we did not find any instances of a Michigan producer engaging in inappropriate replacement/exchange conduct. We also monitor sales complaint allegations involving "inappropriate replacement" and we found no indication of consumer harm through inappropriate replacement conduct. In Michigan, our total annuity (fixed and variable) complaint numbers were 1 in 2013, and 2 in 2014. Our total variable annuity complaints, by number and as a percentage of issued and in-force Michigan contracts, during the exam period were as follows:

Year	Complaints	As a % of Issued Contracts	As a % of In-force Contracts
2013	1	0.07%	0.003%
2014	1	0.08%	0.004%

We believe our variable annuity replacement ratio should be considered in the overall context of our annuity suitability supervision system and our low complaint numbers which in our view serve as a strong indicator of the Company's annuity customer satisfaction.

DIFS Comment on Company Response to Question 1:

The Company's responses to Q1, in addition to their overall suitability program as substantiated by the documentation provided by the Company, demonstrate adequate suitability and suitability oversight, according to Michigan Code standards and industry best practices. DIFS will continue to review replacement ratios on future MCAS filings in anticipation of lower ratios.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

2. The MCAS data indicates that 13.08% of the Company's total individual variable annuity replacement contracts are sold to annuitants over the age of 80 (Ratio #2). This significantly exceeds both the Michigan and National averages of 4.26% and 4.99%, respectively. Provide an explanation as to why the Company sells so many replacement contracts to annuitants over the age of 80 and why it's average is so much higher than the state and national averages.

Company Response to Question 2:

Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments, and also our response to Question #1 above.

In addition, the Company confirms that we did not and do not have targeted marketing campaigns which focus solely on older age consumers. We do offer annuity products to consumers subject to product maximum issues ages, and subject to our annuity suitability supervision system as explained more fully in our introductory description of this system.

Our variable annuity products are designed for long-term retirement planning and sold through independent third-party FINRA member broker-dealer firms. Although not appropriate for every older age consumer, they can be appropriate for an older age consumer depending upon all of the suitability information, including age, gathered and considered by the selling producer in the selling producer's determination of suitability for his or her client, and importantly, as independently evaluated by a principal of the producer's broker-dealer firm who is responsible for evaluating the producer's recommendation for suitability.

We also note that none of the variable (or fixed) annuity complaints we received during the examination period were received from annuitants/consumers over the age of 80 or anyone acting on their behalf. We believe our variable annuity replacement ratio should be considered in the overall context of our annuity suitability supervision system and our low complaint numbers which in our view serve as a strong indicator of the Company's annuity consumer satisfaction.

DIFS Comment on Company Response to Question 2:
The Company's responses to Q2, in addition to their overall suitability program as substantiated by the documentation provided by the Company, demonstrate adequate suitability and suitability oversight with regard to consumers over 80 years of age, according to Michigan Code standards and industry best practices.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

3. The MCAS data indicates that 6.9% of the Company's deferred individual variable annuities are sold to annuitants over the age of 80 (Ratio #3). This significantly exceeds both the Michigan and National averages of 2.35% and 2.34%, respectively. Provide an explanation as to why the Company sells so many deferred contracts to annuitants over the age of 80 and why its average is so much higher than the state and national averages.

Company Response to Question 3:

Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments, and also to our responses to Questions #1 and #2 above.

As explained in our response to Question #2 above, we did not and do not have targeted marketing campaigns which focus solely on older age consumers. We do offer annuity products to consumers subject to product maximums issues ages, and subject to our annuity suitability supervision system as explained more fully in our introductory description of this system.

Our variable annuity products are designed for long-term retirement planning and sold through independent third-party FINRA member broker-dealer firms. Although not appropriate for every older age consumer, they can be appropriate for an older age consumer depending upon all of the suitability information, including age, gathered and considered by the selling producer in the selling producer's determination of suitability for his or her client, and importantly, as independently evaluated by a principal of the producer's broker-dealer firm who is responsible for evaluating the producer's recommendation for suitability.

We again note that none of the annuity complaints we received during the examination period were received from annuitants/consumers over the age of 80 or anyone acting on their behalf. We believe our ratio of variable annuity sales to annuitants over the age 80 relative to all variable annuity sales should be considered in the overall context of our annuity suitability supervision system and our low complaint numbers which in our view serve as a strong indicator of the Company's annuity customer satisfaction.

DIFS Comment on Company Response to Question 3:
The Company's responses to Q3, in addition to their overall suitability program as substantiated by the documentation provided by the Company, demonstrate adequate suitability and suitability oversight with regard to consumers over 80 years of age, according to Michigan Code standards and industry best practices.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

4. The MCAS data also indicates that 89.77% of the Company's total surrendered individual variable annuity contracts are surrendered after less than ten (10) years in force (Ratio #4). This significantly exceeds both the Michigan and National averages of 63.05% and 63.78%, respectively. Please provide an explanation as to why the Company has so many surrendered contracts less than ten (10) years in force and why its average is so much higher than the state and national averages. Describe what plans, if any, you have in place to bring this number down.

Company Response to Question 4:

The Company monitors the number of individual variable annuity surrenders under 10 years. We perform regular experience studies including lapse/surrender experience by contract duration in the aggregate. The aggregate experience has been within pricing expectations. 90% of the variable annuity contracts issued have a [contingent deferred sales charge (CDSC)] of 6 years or less.

DIFS Comment on Company Response to Question 4:
Although Pacific's response does not completely assuage the concerns of having a significantly higher ratio than average Michigan and National average, the concern is mitigated by the Company's answer and their overall suitability program as substantiated by the documentation provided by the Company, which demonstrates adequate suitability and suitability oversight with regard to replacements and surrender situations according to the Code, standards, and industry best practices. DIFS will continue to monitor the Company's ratios.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

5. Please give a brief description of the product development process currently in place in the Company. Describe what measures you take during the product development phase to help ensure that the products developed will be sold to suitable clients.

Company Response to Question 5:
Note: Pacific provided an explanation outlining the Company's product design systems, processes and oversight towards developing products that meet consumer needs while maintaining suitability concerns, which include, but are not limited to, replacement products. Proprietary statements are omitted from this report.

DIFS Comment on Company Response to Question 5:
DIFS has no comment to the Company's response to this question.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

6. Describe what specific factors the Company considers when determining if an annuity is suitable for a specific applicant?

Company Response to Question 6:

> Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments. Our Writing the Business Compliance Guide includes our statements on Suitability… and Replacements… as well as other important market conduct considerations. Where the Company conducts the suitability evaluation and determination in-house, please refer to our Fixed Annuity Suitability Procedure… and our Suitability Questionnaire…

Note: references are omitted and supporting documents are not reproduced within this report.

DIFS Comment on Company Response to Question 6:
The specific suitability factors listed by the Company meet the requirements of the Code, specifically those factors required in Section 4151(e).

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

7. Does the Company allow the sale of an annuity if the applicant refuses to provide the necessary suitability information on the application? Please explain and attach the Suitability form that the Company uses for individual variable annuity sales in Michigan.

Company Response to Question 7:

> Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments. Where the Company conducts the suitability evaluation and determination in-house, as for example with our fixed annuity products sold through our Producer Alliance, or in the case where the Company specifically contracts with an independent third-party FINRA member broker-dealer specifically that the Company shall conduct the suitability evaluation and determination in-house for the broker-dealer's sales of the Company's fixed annuity products, the Company declines the application and does not allow the sale of the fixed annuity if the applicant refuses to provide us with the necessary suitability information. Please see our Suitability Questionnaire (Exhibit…).
>
> Where the independent third-party FINRA member selling broker-dealer firm conducts the suitability evaluation and determination, as is the case with the Company's individual

variable annuity sales in Michigan, we note that there is no one uniform Suitability form used by FINRA member broker-dealer firms. While each broker-dealer is guided by a similar regulatory scheme under FINRA as to suitability and supervision, in our experience we have found that they approach compliance with these requirements in a variety of ways. We have approximately… Selling Agreements with independent broker-dealer firms, each with several to several thousand registered representatives that may sell variable insurance products, may or may not sell Pacific Life products, as well as sell other securities products with other unique issues. Generally speaking, all broker-dealers have good procedures in place (FINRA does check up on them on this issues with particular frequency), but as a practical matter, it is not possible for Pacific Life, or any particular insurance company for that matter, to impose its will and dictate precisely how a particular broker-dealer goes about determining suitability for each variable annuity sale or to dictate the suitability form or forms used by the broker-dealer. Therefore, we do rely on the broker-dealer's internal suitability procedures and supervisory system to ensure that a particular variable annuity sale is suitable.

DIFS Comment on Company Response to Question 7:
The Code does not specifically prohibit the sale of an annuity product to an individual who refuses to provide suitability information; however, the obvious opportunity for disguising an unsuitable sale makes this practice questionable. Refusing to sell an annuity contract in that situation could be considered a best practice for the industry.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

8. Does the Company utilize a computer system with built-in suitability "red flags" to screen applications or is every application manually screened for suitability? Describe under what circumstances the Company would automatically reject an application or hold it for further review.

Company Response to Question 8:

Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments. Where the Company conducts the suitability evaluation and determination of fixed annuity sales in-house, the Company does not presently utilize a computer system with built-in suitability "red flags" to screen applications; rather, we conduct a suitability evaluation and determination of each fixed annuity application manually using our Suitability Questionnaire.

DIFS Comment on Company Response to Question 8:
The Company's manual policy, procedures, and standards, including their overall suitability program as substantiated by the documentation provided by the Company, demonstrate adequate suitability and suitability oversight, according to Michigan Code standards and industry best practices.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

9. Does the Company currently create a report to senior management with regards to the internal annuity suitability supervision system in Michigan? If so, attach a copy of the most recent report. If not, attach a copy of the most recent internal audit report relevant to this line of business in Michigan. In this case, detail why the Company does not currently produce a report to senior management for Michigan. Include if the Company has plans to generate this report in the future.

Company Response to Question 9:

Yes. Please see the Company's Suitability in Annuity Transactions Model Regulation, Report to Senior Management, January 30, 2015 (Exhibit…).

DIFS Comment on Company Response to Question 9:
The Company's report, as provided, appears to meet the requirements of the Code, specifically Section 4158(f).

Note: the Company's internal report has not been reproduced within this examination Report.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

10. Describe how the Company provides product-specific training to producers in Michigan.

Company Response to Question 10:

[Retirement Solutions Division] requires producers in Michigan to complete product-specific training pursuant to Michigan Insurance Code MCL 500.4160(1). Product-specific training is required to be completed prior to the sale of a Pacific Life Annuity product. Training is available through approved continuing education providers, [redacted] and [redacted] as well as through a web based training module on the Pacific Life producer website. Completion of the required training is verified through the continuing education vendor or through the Pacific Life web portal. The commercial providers send a daily [Depository Trust & Clearing Corporation] data feed that streamlines into our systems, which is used to verify that the annuity producer has completed all applicable training required in Michigan. Product training completed on our company website for producers is also auto-uploaded to our systems for verification of completion.

DIFS Comment on Company Response to Question 10:
The Company's response and practices adequately demonstrate compliance with the requirements of the Code.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

11. Does the Company require continuing education with regard to the products offered? Describe your supervision system which ensures that requirements are met, and that the producers are adequately explaining the terms and conditions of an annuity before submitting the application.

Company Response to Question 11:

The product training modules are updated when new products or riders are released and if there are material changes to a product's design or features. Producers are required to complete the updated training modules before selling the new or amended product. In addition, product-related notices and communications about regulatory changes are sent to producers, broker-dealers and agencies in a timely manner.

Training is available through approved continuing education providers, [redacted] and [redacted] as well as through a web based training module on the Pacific Life producer website. Completion of the required training is verified through the continuing education vendor or through the Pacific Life web portal. The commercial providers send a daily DTCC data feed that streamlines into our systems, which is used to verify that the annuity producer has completed all applicable training required in Michigan. Product training completed on our company website for producers is also auto-uploaded to our systems for verification of completion

In order to ensure that producers are adequately explaining the terms and conditions of an annuity before submitting an application, Pacific Life instructs producers to provide specific annuity product disclosure documents to the client. These documents include the contract summary for a fixed annuity application, or product and fund prospectuses for a variable annuity application. The annuity applicant acknowledges receipt of the applicable disclosure document (contract summary or prospectuses) in the application.

DIFS Comment on Company Response to Question 11:
The Company's response and practices adequately demonstrate compliance with the requirements of the Code.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

12. Does the Company monitor its producers in terms of the suitability of applicants on applications they turn in to the Company, including those which frequently withdraw applications instead of allowing them to be rejected? Does the Company maintain a list of those producers with a higher than average number of unsuitable applications or withdrawals? Does the Company require additional product training for those producers to help them match the appropriate product with its target demographic, including those which may require additional automatic scrutiny of their submitted applications? Please explain.

Company Response to Question 12:

Please refer to our introductory description of our annuity suitability supervision system provided above with relevant attachments. The Company monitors the independent producers who sell our annuity products, including monitoring of replacements, complaints, regulatory actions, and in the case of our described distribution channels where we conduct the suitability evaluation and determination in-house, we do monitor those producers for whom we have declined an application or applications as a result of our in-house suitability evaluation process. Any trends involving individual producer sale practices are reviewed with our Director, Business Evaluation within RSD Compliance, and consideration is given to any additional action that may be necessary, including additional product training, up to and including termination of the producer’s appointment or sales contract, if applicable. There were no Michigan appointed annuity producers identified by the Company during the examination period for whom the Company determined either additional product training or appointment termination was appropriate.

DIFS Comment on Company Response to Question 12:

The Company’s response to Q12, in addition to their overall suitability program as substantiated by the documentation provided by the Company, demonstrates adequate suitability and suitability oversight, according to Code, standards and industry best practices.

Findings:

There are no substantive issues or findings from this question.

Recommendations:

There are no recommendations for the Company related to this question.

13. Please describe the commission structure used to pay producers who sell individual variable annuities for the Company. Include if the commissions vary depending on type of product sold or the manner in which it is funded, e.g. deferred versus immediate, 1035 exchange, etc.

Company Response to Question 13:

We contract with independent third-party FINRA member broker-dealer firms for the sale of our variable annuity products. We do not have a sales contract with the individual producers who are registered representatives with their respective broker-dealer firms. These producers/registered representatives are insurance licensed and appointed annuity producers with Pacific Life. The commissions for variable annuities are paid to the producer’s broker-dealer firm and the broker-dealer pays the producer in accordance with the broker-dealer’s commission arrangement with its producers. The manner in which a variable annuity contract is funded does not impact the amount of commissions we pay to the broker-dealer. The commission amount that we pay the broker-dealer can differ based upon the product sold and the commission option chosen. There are usually a couple of options for a producer to chose from for each product, all upfront commission amount and an option to chose a more levelized amount with a reduced upfront payment amount and ongoing trails commissions.

DIFS Comment on Company Response to Question 13:
Because the Company does not alter commission based on how the annuity is funded, it is likely to aid the Company in reducing the problems of "twisting" and "churning" in the annuity sales industry.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

14. Describe how advertising pieces for individual variable annuities are created by the Company or by the Company's producers. If created by producers, describe the approval process utilized by the Company to ensure compliance with Michigan rules and regulations, including the Michigan Insurance Code, MCL 500.001 et seq. Include web site approval of producers if Company products are mentioned.

Company Response to Question 14:
The Company's Retirement Solutions Division's Marketing Communications Department ("Marketing Communications") is responsible for creating individual variable annuity advertising pieces. The Marketing Communications Guidelines and Procedures ("Guidelines") detail the creation process for advertising in all formats (print and electronic), including the review responsibilities for each department/area involved. Please see Exhibit… for our Guidelines.

The Guidelines have been published since the creation of the Division in January 1994. The Guidelines are revised periodically to refine the routing and review process and in response to new legislation and organizational changes. Division employees have access to the most current Guidelines via the Intranet. Marketing Communications is responsible for assuring all advertising is routed to the areas indicated in the Guidelines, to Pacific Select Distributors ("PSD"), which is the product distributor and FINRA filing entity, and the corporate legal and compliance review panel (Registered Products Review Committee) prior to print and distribution.

The Guidelines require variable annuity advertising to be filed with FINRA (through PSD) within ten days of first use, preferably prior to print and distribution. The guidelines also require the materials to be submitted by the Compliance Department to all required state insurance departments for approval.

> Distributors are required by the Selling Agreement to submit any advertising and sales material that relates to Pacific Life annuity products to our home office (PSD) for review and written approval prior to use. Independent appointed producers contracted with Pacific Life under a Non-Variable Producer Agreement have the same submission and written approval prior to use requirements. These requirements are stated in the Writing the Business Compliance Guide available on our producer website… We periodically remind our broker-dealers and independent appointed producers about the requirement and the consequences for failure to comply in our field bulletins. Failure to comply may result in disciplinary action up to and including termination of the producer's appointment and, if applicable, termination of the producer's Non-Variable Producer Agreement. Please see… for or most recent annual Advertising Reminder field bulletin.

DIFS Comment on Company Response to Question 14:
Company procedures and practices may be bolstered by an internal/external advertising auditing program, which takes into consideration current marketing and social media trends by agent and agency producers, to ensure compliance with Company policies and regulatory requirements.

Findings:
There are no substantive issues or findings from this question.

Recommendations:
There are no recommendations for the Company related to this question.

B. UNDERWRITING AND RATING

Standard 5: All forms, including policies, contracts, riders, amendments, endorsement forms and certificates are filed with the insurance department, if applicable.

Michigan Statute: MCL 500.2236

Michigan Statute: MCL 500.4151 et seq.

The examiners asked the Company to respond to a series of interrogatory questions designed to assess the strength of the Company's annuity suitability verification program. Below, each question, the Company's response, and the examiner's analysis of that response is presented.

15. (The examiners requested a description of all individual variable annuity products available for purchase in Michigan during the exam period. This listing was used to verify that all products had been properly filed for use with DIFS.)

Findings:
There are no findings or recommendations related to Underwriting and Rating. All Company contracts in use in Michigan during the exam period were properly filed with DIFS.

The examiners also asked the following interrogatory question with regards to the area of Underwriting and Rating:

16. For rejected applications, describe the process the Company utilizes to verify the information provided on the applications. Include if the Company ever contacts the applicant or if the Company solely relies on the producer or a third party to verify information. If no direct contact is made with the applicant, describe how the Company ensures that the applicant does not have diminished capacity, especially with regard to seniors, which may prevent them from fully understanding the terms of the contract.

Company Response to Question 16:

We work directly with insurance licensed and appointed independent annuity producers in the application process. These producers are subject to Michigan's one-time 4-credit annuity training course requirement. Our selling agreements with independent third-party broker-dealer firms, and our Non-Variable Producer Agreements with independent annuity producers, include in each case the distributors' obligations for ensuring the annuity recommendation is suitable for the applicant at the time the recommendation is made. Our expectations of all independent annuity producers when they work with their senior clients are set forth in our Writing the Business Compliance Guide… Our Guide specifically reminds producers of their FINRA obligations in Regulatory Notice 07-43 as well as their responsibility to abide by any state specific laws or regulations that may apply to their conduct with seniors. For variable and fixed annuities sold through broker-dealer firms, each producer is also subject to his/her broker-dealer's supervisory procedures when working with senior consumers. We monitor the broker-dealers as elsewhere more fully described in our responses to these targeted market conduct examination questions.

We also monitor annuity customer complaints, including complaints from anyone representing the annuity owner, such as attorneys or family members. Our historical and current complaint numbers are low, both in absolute numbers and as a percentage of issued contracts and in-force contracts. We view this as a strong indicator of the satisfaction of our customers, including our senior customers, with their annuity contracts.

DIFS Comment on Company Response to Question 16:

When an application is rejected, the possibility that a producer may simply modify the application to comply with the suitability check is of concern to DIFS. This may be especially prevalent in circumstances when the applicant may not have the capacity to understand all of the terms and conditions of the product they are being sold. DIFS considers it a best practice to make an effort to verify the application information with the applicant when the application is rejected.

Findings:

There are no findings for this question.

Recommendations:

There are no recommendations for the Company related to this question.

C. PRODUCER LICENSING

Standard 1: Regulated entity records of licensed and appointed (if applicable) producers and in jurisdictions where applicable, licensed company or contracted independent adjusters agree with insurance department records. NAIC *Handbook*, Chapter 16.

Standard 2: The producers are properly licensed and appointed and have appropriate continuing education (if required by state law) in the jurisdiction where the application was taken. NAIC *Handbook*, Chapter 16.

Michigan Statute: MCL 500.4151 et seq.

Michigan Statute: MCL 500.460:

> An insurer authorized to transact business in this state shall not write, place or cause to be written or placed, any policy or contract of insurance in this state, except through an agent duly licensed by the commissioner.

Michigan Statute: MCL 500.1208a

> (1) An insurance producer shall not act as an agent of an insurer unless the insurance producer becomes an appointed agent of that insurer. An insurance producer who is not acting as an agent of an insurer is not required to become appointed.
>
> (2) To appoint a producer as its agent, the appointing insurer shall file, in a format approved by the commissioner, a notice of appointment for the qualifications held by that insurance producer within 15 days from the date the agency contract is executed or the first insurance application is submitted. An insurer may also elect to appoint an insurance producer to all or some insurers within the insurer's holding company system or group by the filing of a single appointment request.
>
> (3) Upon receipt of the notice of appointment, the commissioner shall verify within a reasonable time not to exceed 30 days that the insurance producer is eligible for appointment. If the insurance producer is determined to be ineligible for appointment, the commissioner shall notify the insurer within 5 days of that determination.
> (4) An insurer shall pay an appointment fee and a renewal appointment fee as provided under section 240(1)(c) for each insurance producer appointed or renewed by the insurer.

Michigan Statute: MCL 500.1240(1)

> (1) An insurer or insurance producer shall not pay a commission, service fee, or other valuable consideration to a person for selling, soliciting, or negotiating insurance in this state if that person is required to be licensed under this chapter and is not so licensed.

The examiners asked the Company to provide data related to producer licensing Code standards. The results of and an explanation of the methodology for the examiner's analysis of that data is summarized below.

17. The examiners requested a listing of all Michigan producers from whom the Company accepted applications during the exam period.

File Data	Population Size	Maximum Number of Failures Permitted in Sample	Maximum % of Failures Permitted in Sample	Stage 1 Sample Size	Errors Found
Michigan producers from whom the Company accepted applications during the examination period	848	4	4.5%	86	0

The examination team conducted a sample review of all Michigan producers from whom the Company accepted business during the examination period by comparing Company-provided data against the DIFS internal producer licensing database. There were no errors found.

For statistical purposes, an error tolerance of 4.5 percent (4.5%) was used. The sampling techniques used are based on a 95 percent (95%) confidence level, meaning there is 95 percent (95%) confidence that the error percentages shown in the standard are representative of the entire set of records from which it was drawn. An error rate in excess of the tolerance level in these sections of the report is indicative of a general business practice of engaging in that type of conduct. Note that the statistical error tolerance is not indicative of the actual tolerance of DIFS for deliberate or systematic error.

Findings:
There are no substantive issues or findings from this section.

Recommendations:
There are no recommendations for the Company related to this section.

V. ACKNOWLEDGEMENT

This examination report of Pacific Life Insurance Company is respectfully submitted to the Director of the Department of Insurance and Financial Services, State of Michigan.

The courteous cooperation and assistance of the officers and employees of the Company extended to the examiners during the course of the examination is hereby acknowledged.

In addition to the undersigned, Zachary Dillinger, Market Conduct Examiner, participated in the examination.

Michael Draminski, MCM
Examiner-in-Charge
Department of Insurance and Financial Services
Market Conduct Section