

IN THE MATTER OF
AMERICAN NATIONAL INSURANCE COMPANY
Galveston, Texas

MULTI-STATE REGULATORY SETTLEMENT AGREEMENT

TEXAS DEPARTMENT OF INSURANCE
Lead Regulatory Negotiator

**MULTI-STATE REGULATORY SETTLEMENT AGREEMENT
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IN THE MATTER OF
AMERICAN NATIONAL INSURANCE COMPANY
Galveston, Texas

MULTI-STATE REGULATORY SETTLEMENT AGREEMENT

This Multi-State Regulatory Settlement Agreement (the “Agreement”) is entered into as of this 9th day of June, 2004 (the “Effective Date”), by and between American National Insurance Company (the “Company”), the Texas Department of Insurance (the “Lead Regulatory Negotiator”), the insurance regulators of the States of California, Georgia, Louisiana, and Oklahoma (the “Lead Regulators”), and the insurance regulators of each of the remaining states and of the District of Columbia that adopt, approve, and agree to this Agreement. Signatories to this Agreement hereinafter are “Participating Regulators.”

I. BACKGROUND AND RECITALS

A. The Company maintains its home office at One Moody Plaza, Galveston, Texas 77550. At all relevant times herein, the Company has been a licensed insurer domiciled in the State of Texas

B. In 1988, the National Association of Insurance Commissioners (“NAIC”) conducted a survey of race-based practices that asked if the Company had every charged race-based premiums, if it had discontinued issuing policies with race-based premiums, and if race-based premiums were currently being collected. The Company answered yes to all three questions and indicated that it had discontinued issuing policies with race-based premiums in 1964. Management conducted an internal study that identified 813 such policies in one plan code in a premium paying status. The Company, on its own initiative, responded by proportionally increasing the face amount of each of the 813 policies to the amount of insurance the premiums paid would have purchased at rates without any racial differential.

C. In 2000, several states, including Texas, conducted race-based surveys. As these state surveys were not limited to policies in a premium paying status, the Company's analysis identified a larger number of affected policies than the 1988 NAIC survey. In June 2000, the Company reported 21,235 in-force affected Industrial policies. (This number excluded the 813 policies identified and reported in 1988, which had already been remediated by the Company.) In August 2000, the Company amended several state surveys to include 241 additional affected paid up Industrial policies that the Company had discovered as a result of further research. In June 2002, as a result of the Company's self-analysis of Ordinary policies with substandard table ratings, the Company further amended their state surveys to report 68 affected paid up Ordinary policies.

D. Commencing in 2002, the Texas Department of Insurance conducted a thorough market conduct examination of the Company concerning the issues set forth herein. A copy of the Target Market Conduct Examination Report (the "Examination Report") is attached to this Agreement as **Exhibit A**. The Examination Report concluded that the Company issued policies with racially differentiated premiums from 1936-1939 and from 1948-1964, at which time the Company discontinued the sale of such policies. The Report identified 40,010 affected Industrial policies and 68 affected Ordinary policies, for a total of 40,078 affected policies. The Examination Report notes that the Examination policy counts differ from the Company's self-reported counts because the self-reported totals were for policies in-force as of various dates in 2000, whereas the Examination policy counts include all affected policies in-force as of January 1, 1981.

E. The Texas Department of Insurance alleges that the Company or other insurance companies acquired by the Company sold certain industrial and other life insurance policies to non-white persons at higher premiums or with lesser benefits than policies sold to otherwise similarly situated white persons (the "Alleged Practices"). The Texas Department of Insurance contends that the Alleged Practices were discriminatory.

F. The Company vigorously denies and does not admit to any wrongdoing or violation of any insurance or other law or regulation of any state, but is foregoing its right to an administrative hearing under the applicable laws and regulations of any state whose

insurance regulatory official signs the Regulatory Settlement Agreement and/or any Applicable Consent Order and is entering into this Agreement in exchange for the releases granted herein. The Company also agrees to accept the Examination Report and waives any and all rights to a hearing on the Examination Report.

G. The members of the National Association of Insurance Commissioners (“NAIC”), including the Participating Regulators, as the chief regulatory officials of their respective jurisdictions, have jointly agreed to designate the Texas Department of Insurance as the Lead Regulatory Negotiator, in consultation with other regulators, in order to negotiate this Regulatory Settlement Agreement on behalf of and for the benefit of the Participating Regulators and the NAIC.

H. This Agreement was negotiated in an effort to conclude with finality all regulatory allegations involving the impact of race on life insurance underwriting, sales, pricing or policy benefits on policies that were issued, assumed, acquired or administered by the Company prior to the Effective Date of this Agreement. By virtue of the terms and conditions set forth in this Regulatory Settlement Agreement, the Participating Regulators and the Company desire to resolve and have resolved all regulatory issues arising from or in any way relating to the subject matter herein described on the terms and conditions set forth herein.

II. EXECUTION OF AGREEMENT

A. The Lead Regulatory Negotiator represents and warrants that he is authorized to negotiate this Regulatory Settlement Agreement on behalf of the State of Texas and on behalf of the insurance regulators of each of the other states of the United States and of the District of Columbia.

B. G. Richard Ferdinandsen, President and Chief Executive Officer warrants that he is authorized to agree to and execute this Regulatory Settlement Agreement on behalf of the Company.

C. By their signature and delivery of this Regulatory Settlement Agreement, as described below, and by virtue of the execution of this Regulatory Settlement Agreement by the Lead Regulatory Negotiator on behalf of and for the benefit of the

Participating Regulators, each Participating Regulator acknowledges and agrees that: (1) they have read and understand the terms and conditions of the Regulatory Settlement Agreement and (2) the Lead Regulatory Negotiator has been actively involved in the evaluation and discussion of each form of relief which is included within the Regulatory Settlement Agreement. By the signature and delivery of this Regulatory Settlement Agreement, each Participating Regulator further acknowledges the sufficiency and fairness of this Regulatory Settlement Agreement and agrees that the execution of said documents fairly, reasonably and adequately addresses the concerns of Eligible Policyholders as defined in the Regulatory Settlement Agreement including the past, present and future policy owners, and any holders, insureds, beneficiaries, payees and other parties in interest with respect to this Regulatory Settlement Agreement.

D. Each Participating Regulator by way of signature below gives his/her express assurance that under their applicable state laws, regulations and judicial rulings, they have the authority to enter into this Regulatory Settlement Agreement. Each Participating Regulator shall execute and deliver this Regulatory Settlement Agreement to the Lead Regulatory Negotiator within sixty (60) days following the receipt of this Regulatory Settlement Agreement from the Lead Regulatory Negotiator. If a Participating Regulator finds that, under state law, regulation or procedure, the preparation and execution of a consent order is necessary to carry out the terms of this Regulatory Settlement Agreement, such a consent order (the “Applicable Consent Order”) shall be prepared by such Participating Regulator within **sixty (60) days** following the receipt of this Regulatory Settlement Agreement from the Lead Regulatory Negotiator.

E. For purposes of this Regulatory Settlement Agreement, an “Applicable Consent Order” shall be satisfactory to the Company if it: (1) acknowledges the authority of the Lead Regulatory Negotiator as described herein; (2) incorporates by reference and attaches via exhibit a copy of this Regulatory Settlement Agreement; (3) expressly adopts and agrees to the provisions of this Regulatory Settlement Agreement; (4) sets forth the penalty amount in the Administrative Penalty Allocation Formula Chart attached hereto as **Exhibit B**; and (5) includes other terms that may be required under law or regulations applicable to such consent orders generally in the state of the applicable Participating

Regulator. However, nothing in this Regulatory Settlement Agreement shall be construed to require any state to execute and deliver an Applicable Consent Order if such State elects to sign this Regulatory Settlement Agreement and not prepare a consent order.

F. If any changes in the terms of this Agreement are required by any participating state to satisfy that state's particular statutory and/or regulatory requirements, such changes shall be incorporated into that state's State Amendment page and attached hereto and incorporated herein as to that state's requirements upon acknowledgment and agreement thereto by the Company. Those amendments shall have effect only for the amending state and shall have no effect on any other participating state.

G. This Agreement and its attachments and/or any applicable Consent Order constitute the entire agreement of the parties with respect to the matters referenced herein and, except for state-specific requirements as provided for in Section II (D), may not be amended or modified except by an amendment signed by all parties hereto; provided, however that the Company and the insurance departments of the states that are parties hereto may mutually agree to any reasonable extensions of time that might become necessary in order to carry out the provisions of this Agreement.

H. This Regulatory Settlement Agreement may be signed in multiple counterparts, each of which shall constitute a duplicate original, but which taken together shall constitute but one and the same instrument.

III. GENERAL MATTERS

A. In the event that any portion of this Regulatory Settlement Agreement is held invalid under any particular state's law as it is relevant to a Participating Regulator's state, such invalid portion shall be deemed to be severed only in that state and all remaining provisions of this Regulatory Settlement Agreement shall be given full force and effect and shall not in any way be affected thereby, and all amounts paid as penalties under Section VI to the Participating Regulator in that state hereof shall be refunded within **ninety (90) days** to the Company.

B. The Lead Regulatory Negotiator and the Company may mutually agree to any reasonable extensions of time that might become necessary to carry out the provisions of this Regulatory Settlement Agreement.

C. Except for the provisions related to an order to enforce the terms of this Regulatory Settlement Agreement by any of the Participating Regulators or by the Lead Regulatory Negotiator, the terms of this Regulatory Settlement Agreement and/or any related Applicable Consent Orders with each of the states shall be governed by and interpreted according to the laws of the State of Texas, without regard to existing principles of conflicts of laws.

D. The Company enters this Regulatory Settlement Agreement with the Texas Department of Insurance acting as Lead Regulatory Negotiator. All of the terms of the Regulatory Settlement Agreement shall be binding upon, and shall inure to the benefit of, the Company, and each Participating Regulator, and the successors and assigns of each of the foregoing.

E. The Company shall maintain records of its progress in completing the administrative acts required by this Agreement, and shall submit reports of such progress to the Lead Regulatory Negotiator on a monthly basis. The first such report shall be due within 60 days after the Effective Date, and a Final Report shall be due within 60 days after the expiration of the Claims made period specified in Section IV (F)(5). The Final Report, among other matters, will include: (1) the total amount of remediation paid; (2) the total amount of remediation paid by category; including by the state of the owner or beneficiary; (3) the total number of individuals who received remediation (4) and the total number of individuals who received mediation by category, including by state of owner or beneficiary.

F. If the Company defaults with any respect to any obligation under this Agreement and such default is not remedied within 30 business days following the Company's receipt of written notice specifying such default (during which period the insurance regulator of the state in which such default occurred and the Company shall make reasonable efforts to resolve any disputes involving the default), the Lead Regulatory Negotiator may seek judicial enforcement of this Agreement. Written notice

of any alleged default shall be sent to the following address: American National Insurance Company, One Moody Plaza, Galveston, Texas 77550, Attn: Gareth Tolman, Senior Vice President Corporate Affairs, or may be Faxed to (409) 766-6933

IV. REMEDIATION RELIEF

A. Definitions

1. “Eligible Policy” means a policy: (a) with a plan code identified in Exhibit 10 of the Examination Report (**Exhibit A**); (b) which was issued during the date ranges identified in the Examination Report; (c) which has not been previously remediated by the Company, and (d) which was in-force at any time after December 31, 1959.

2. “Identifiable Person” means an individual policyholder or beneficiary that the company can identify from its electronic records.

3. “Effective Date” means the date the Regulatory Settlement Agreement was executed by the Company and the Lead Regulatory Negotiator, the Texas Department of Insurance.

B. All Premium Paying Policies: Premium Reduction Relief

There are no Eligible Policies in a premium paying status as of the Effective Date.

C. Inforce Policies: Increased Death Benefit Relief

1. The Company shall, within 120 days after the Effective Date, calculate an increase in the face amount of each in force Eligible Policy for which the Company has complete electronic records according to the applicable percentage set forth in the Benefit Enhancement Grid set out in **Exhibit C**. In the event the Company is unable to determine an individual ratio for increasing the death benefit, the Company shall increase the benefit by 25%, which exceeds the average of the ratios for the Eligible Policies. The electronic records of the Company shall be adjusted to reflect the increases in the face amounts of the adjusted in force Eligible Policies.

2. The Company shall, within 120 days after the Effective Date, provide written notice to each Identifiable Person, who owns an in force Eligible Policy that was

adjusted by the Company pursuant to Section IV.C.1, of the increase in the face amount of his or her policy or policies. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit D**, will be mailed to the last known address of the Identifiable Person shown in the Company's Home Office records. If a particular jurisdiction requires changes in policy face amounts to be evidenced by, among other things, a new certificate or endorsement, then the Company, in addition to providing the Exhibit D Notice, shall provide to the policy owner the documentation required by that jurisdictions

D. *Terminated Life Policies*

1. The Company shall, within 180 days after the Effective Date, calculate an additional surrender benefit for each Eligible Policy that terminated by reason of cash surrender after December 31, 1959 for which the company has complete electronic records, except for those Eligible Policies for which enhanced surrender benefits were previously paid. The additional surrender benefit shall be calculated according to the applicable percentage set forth in the Benefit Enhancement Grid set out in **Exhibit C**. In the event the Company is unable to determine an individual ratio for calculating the additional surrender benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

2. The Company shall, within 180 days after the Effective Date, provide written notice to each Identifiable Person (or his or her beneficiary) who owned a terminated Eligible Policy for which an additional surrender benefit was calculated pursuant to Section IV.D.1 of the additional surrender benefit, together with a check for the payment of such additional benefit. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit E**, and the check will be mailed to the last known address shown in the Company's Home Office records.

3. Each person (or his or her beneficiary) who owned an Eligible Life Policy which terminated by reason of surrender between January 1, 1960 and the Effective Date and for which an enhanced surrender benefit was not paid and who timely files a Valid Claim pursuant to Section IV(F)(5) of this Agreement shall receive an additional surrender benefit.

4. The Company shall pay to the claimant an additional surrender benefit calculated in accordance with the Benefit Enhancement Grid set out in **Exhibit C** within 30 days of receipt of proof of a valid claim. In the event the Company is unable to determine an individual ratio for calculating the additional surrender benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

E. *Estates and Matured Life Policies*

1. The Company shall, within 180 days after the Effective Date, calculate the additional death or endowment benefit for each Eligible Policy that terminated by reason of death or endowment after December 31, 1959 for which the Company has complete electronic records and for which an enhanced death or endowment benefit was not previously paid. The additional death or endowment benefits shall be calculated according to the applicable percentage set forth in the Benefit Enhancement Grid set out in **Exhibit C**. In the event the Company is unable to determine an individual ratio for calculating the additional death or endowment benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

2. The Company shall, within 180 days after the Effective Date, provide written notice to each Identifiable Person (or his or her beneficiary) who owned a terminated Eligible Policy for which an additional death or endowment benefit was calculated pursuant to Section IV.E.1 of the additional death or endowment benefit, together with a check for the payment of such benefit. The Notice, which has been approved by the Lead Regulatory Negotiator and is attached hereto as **Exhibit F**, will be mailed to the Identifiable Person at the last known address shown in the Company's Home Office records.

3. Each person (or his or her beneficiary) who owned an Eligible Life Policy which terminated by reason of death or endowment between January 1, 1960 and the Effective Date and for which an enhanced death or endowment benefit was not previously paid and who timely files a Valid Claim pursuant to Section IV(F)(5) of this Agreement shall receive an additional death or endowment benefit.

4. The Company shall pay to the claimant an additional death or endowment benefit calculated in accordance with the Benefit Enhancement Grid (**Exhibit C**) within 30 days of receipt of proof of a valid claim. In the event the Company is unable to determine an individual ratio for calculating the additional death or endowment benefit, the Company shall increase the previously paid benefit by 25%, which exceeds the average of the ratios for the Eligible Policies.

5. Benefits payable under Section IV (E) will be paid to the last identified individual beneficiary or beneficiaries as their interests may appear without regard to whether the policy was subsequently assigned to a funeral home or other artificial entity.

F. *Company's Undertaking Concerning Address Searches And Claims Process for Terminated, Estates and Matured Policies.*

1. *Delivery of Notices of Increased Face Value.* The Company will make a thorough search of its Home Office records, and will mail notices to the last known valid address of the policyholder. If the Company is unable to find what appears to be a valid address for a policyholder, or if a notice mailed to a policyholder is returned to the Company as undeliverable, the Company shall make a further effort to find a current valid address through the use of Accurint, a software search program made available to the Company by an outside vendor, Seisint, Inc. of Boca Raton, FL. If an apparent current address is located by the vendor, the notice will be mailed or, in the case of a returned notice, remailed to that address.

2. *Delivery of Checks for Additional Death, Endowment or Surrender Benefits.* The Company will make a thorough search of its Home Office records in an effort to obtain a valid current address. Before checks are issued and mailed, the Company shall attempt to verify addresses in the Company's records through Accurint. If, despite a thorough review of its records and a search of Accurint's data base, the Company is unable to obtain a current valid address, no check will be issued but the details of the additional death or surrender benefit will be entered into a log of unclaimed benefits for use in future escheatment procedures. Similarly, if a check is issued and mailed but is returned as undeliverable, the check will be reversed and the details of the

additional benefit will be entered into the log of unclaimed benefits for use in future escheatment procedures.

3. *Claims Made Procedure For Individuals Not Presently Identified.* The Company acknowledges that it does not have complete records for all of the Eligible Policies, and the Company may be unable to identify or locate all individuals that may be due monies based on its Home Office records. Therefore, the Company has prepared a public notice, the form of which has been approved by the Commissioner and a copy of which has been attached hereto as **Exhibit G**, notifying individuals who may be due monies under the Eligible Policies of their potential right to an increased death or surrender benefit.

4. *Publication of Notice.* **Exhibit G** shall be published in two national publications, in a least two major newspapers in each of the Lead States and in selected community newspapers in each state identified in **Exhibit H**. The identity of the publications, the size, and frequency of the notices in each of the publications are listed on **Exhibit H**. Publication of such notices will begin in each state within 120 days of the Effective Date.

5. *Claims Made Period.* For a period of 18 months from the date on which the Company first publishes the public notices described herein, the Company shall honor all legitimate claims received, providing the appropriate level of additional death benefits or surrender benefits, for Eligible Policies terminated by reason of a death claim or surrender between January 1, 1960 and the Effective Date. The Company shall pay all such legitimate claims within 30 days from the date of the receipt of proof satisfactory to the Company. Such proof may include, but is not limited to a policy, policy number, a policy application, correspondence related to a policy, and/or debit payment books or receipts, and shall include a signed Claim In form or other written statement which evidences that the claimant was the owner or beneficiary of an Eligible Policy. A Claim in Form is attached hereto as **Exhibit I** and will be sent by U.S. Mail to any individual who requests one from the Company or who calls the toll free number and requests one. In the event the Company is unable to determine an actual ratio for

increasing benefits for an Eligible Policy, the Company agrees to increase the benefits by 25%, which is within the range of actual ratios used by the Company to adjust benefits.

6. *Escheat of Calculated Additional Surrender or Death Benefits.* Any additional surrender or death benefit calculated pursuant to Section IV (D) or (E) which remains undeliverable at the end of the Claims Made Period shall escheat to the appropriate state or states in accordance with their escheat procedures.

7. *Handling of Telephone and/or Mail Inquiries.* In order to respond to telephone or mail inquiries generated by the published notices, the Company will assign experienced Customer Service Representatives (“CSRs”) within its Customer Service Center to handle calls coming in on the toll-free number contained within the notices. The CSRs will be thoroughly versed in the terms of the settlement, and will be prepared to assist callers by gathering information that will assist in determining if the caller is eligible for additional death or surrender benefits.

8. *Ongoing Review.* Should the Company in the normal course of business of paying claims, including those claims made pursuant to Section IV.F, identify additional policies where the race of the owner affected either premiums paid or benefits received, then the Company will timely remediate such policies according to the terms of this Agreement.

9. *Evidence of Good Faith.* The use of the foregoing procedures will be deemed to represent a diligent good faith effort to locate policyholders and beneficiaries for the purpose of compliance with this Agreement.

V. UNCLAIMED BENEFIT SEARCH AND RELIEF

A. When a policy is identified under a claim submitted under the Claims Made provisions of this Regulatory Settlement Agreement, the Company shall, within 30 days, conduct a search for other American National life insurance policies on the life of the insured under the policy so identified, utilizing the protocols described in **Exhibit J**.

1. If the Company’s search reveals that the deceased insured was covered by any other American National Life insurance policy that, at the time of the death of the insured, was providing life insurance coverage (including without limitation pursuant to a

contractual non-forfeiture option), and with respect to which a death benefit was not paid, the Company shall use its best efforts to notify the beneficiary or beneficiaries of the life insurance policy and pay any death benefits due, plus any statutorily required interest, regardless of whether such benefits have already escheated to a state governmental authority.

2. If the Company's search reveals that the deceased insured was covered by any other American National Life insurance policy that, at the time it reached endowment, was premium paying, fully paid-up or providing insurance coverage pursuant to a contractual non-forfeiture provision, and with respect to which maturity benefits became payable but have not been paid, the Company shall use its best efforts to notify the person or entity to whom the policy's endowment benefits were payable (or, if such person is deceased, his or her estate) and pay the endowment benefits due, plus any statutorily required interest, regardless of whether such benefits have already escheated to a state governmental authority.

3. In addition, if the Company's search reveals that the deceased insured was covered under any other American National life insurance policy that was also an Eligible Policy, then the Policy shall be eligible for the settlement benefits provided for the Policy under this Regulatory Settlement Agreement.

B. Historically, the Company has always attempted to identify all in-force policies on the life of a deceased insured, using the protocols described in **Exhibit J**. The Company will continue to follow that practice for all life claims received in the future, specifically including claims submitted under Eligible Policies, as identified in this Regulatory Settlement Agreement.

VI. ADMINISTRATIVE PENALTY

The Company agrees to pay an aggregate administrative penalty of two hundred fifty thousand (\$250,000), payable by the Company as follows:

A. Within 120 days of the effective date, the Company shall pay to the state of each Participating Regulator that executes and delivers this Regulatory Settlement

Agreement, and/or any applicable consent order, the amount set forth in the Administrative Penalty Allocation Chart attached hereto as **Exhibit B**.

B. As to any state that does not execute and deliver the Regulatory Settlement Agreement within 60 days of the Effective Date, the Company shall not be obligated to pay that state or its insurance regulator any portion of the administrative penalty, and such administrative penalty that would otherwise be due to such state shall be redistributed proportionately back to those states with 1,000 or more Eligible Policies as set out in **Exhibit B**, the Administrative Penalty Allocation Chart.

VII. GENERAL RELEASE AND RELEASE FROM FURTHER REGULATORY EXAMINATION OR SANCTION.

A. By the execution and delivery of this Regulatory Settlement Agreement and/or any Applicable Consent Order and except as necessary to enforce the terms hereof, each Participating Regulator does hereby release and forever discharge the Company, and its past and present affiliated companies, and all past, present and future officers, directors, employees, shareholders, attorneys, agents and representatives, of and from all civil, administrative, criminal, or quasi-criminal causes, actions, claims, damages, fines, sanctions, losses, demands, or other liability that the States could pursue or seek based upon: (1) the Alleged Practices described in Section I; (2) the Examination Report; or (3) distinctions in the terms or benefits of insurance policies based upon the race of the insured where such liability arises under the insurance and/or anti-discrimination laws and regulations of each state related or applicable to the marketing, solicitation, application, underwriting, benefit payment, acceptance, sale, purchase, operation, retention or administration of all life insurance policies sold, issued, assumed or administered by the Company prior to the date that this Agreement is signed.

B. Each Participating Regulator on behalf of itself and its respective state of authority also agrees to discontinue any further questioning, examination or analysis of the Company that relates to the subject matter of this Regulatory Settlement Agreement and that any examination, issue or information request posed by any state of a Participating Regulator to the Company with respect to any Industrial insurance or certain

other life insurance policy that is the subject of this Regulatory Settlement Agreement shall be deemed null, void and withdrawn.

AGREED TO this 4th day of ~~June~~ August, 2004.

LEAD REGULATORY NEGOTIATOR

By: /s/ Jose Montemayor
Jose Montemayor, as Insurance Commissioner
for the State of Texas and Lead Regulatory
Negotiator

AMERICAN NATIONAL INSURANCE COMPANY

By: /s/ G. Richard Ferdinandtsen
G. Richard Ferdinandtsen
President and Chief Operating Officer

PARTICIPATING REGULATOR

By: /s/ Joel Ario
Joel Ario
Insurance Administrator for the State of Oregon

Report of The
Target Market Conduct Examination
For
The Texas
Department of Insurance

of

American National Insurance Company

NAIC Group #408

NAIC Company #60739

Galveston, Texas

- **February 6, 2004**

Exhibit A

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February 6, 2004

Honorable José Montemayor
Commissioner of Insurance
Texas Insurance Department
333 Guadalupe
Austin, TX 78701

Dear Commissioner Montemayor:

Pursuant to your authority delegated under the provisions of Article 1.15 of the Texas Insurance Code, Chapter 2254 of the Texas Government Code and in accordance with your instructions, a target market conduct examination of the business practices and affairs has been conducted on:

American National Insurance Company

a Life Insurance Company, hereinafter referred to as “ANICO” or the “Company.”

The report of examination is herewith respectfully submitted.

Foreword

The report on the target market conduct examination of ANICO as of February 6, 2004 is a report by test pursuant to the *NAIC Market Conduct Examiners Handbook (Chapter X, paragraph A4b)*. All tests applied during the examination are included in the report.

Scope of examination

The target market conduct examination of American National Insurance Company was conducted pursuant to the provisions of Article 1.15 of the Texas Insurance Code, Chapter 2254 of the Texas Government Code and in accordance with the guidelines outlined in the Market Conduct Examiners Handbook as adopted by the National Association of Insurance Commissioners (NAIC).

The primary purpose of this target market conduct examination was to determine the extent to which the Company charges or may have charged African-American or individuals of other races more in premiums than it charges or charged for similarly situated White individuals.

Profile

American National Insurance Company (ANICO) was chartered in 1905 and is among the largest life insurance companies in the United States. ANICO is the parent company of the American National family of insurance companies. The American National family offers life insurance, annuities, health insurance, personal lines property and casualty insurance, credit insurance, pension plan services and mutual funds. The American National family of companies conducts business in all 50 states, the District of Columbia, Puerto Rico, Guam and American Samoa. An organizational chart is attached at *Exhibit One*.

ANICO is headquartered in Galveston, Texas. The Company has over \$11 billion in assets and is rated A+ (Superior) by A.M. Best Company, and AA+ (Very Strong) by Standard & Poor's. Net income for the year 2001 was \$65 million (\$2.45 per share), down from \$140 million (\$5.29) per share in the prior year. During 2001, the Company established a \$21 million net of reinsurance reserve for potential claims associated with the September 11 terrorist attacks. The Company also realized investment losses of \$26 million in 2001 for other-than-temporary declines in market value of investment securities.

Major lines of business for ANICO include Ordinary Life, Monthly Debit Ordinary (MDO), Industrial Life and Universal Life. The Company's 2001 Annual Statement shows the following in-force policy data:

2001 Annual Statement	# of In-force Policies	In-force Amounts
Ordinary – Direct	1,761,357	\$32,952,420,287
Ordinary – Assumed	5,723	\$522,870,713
Industrial - Direct	652,607	\$289,737,568
Industrial – Assumed	0	\$0

Procedure 1 (Overview): Obtain an understanding of the Company and its operations.

Timeline of products offered

ANICO has offered Industrial products since its inception in 1905 through 1979. Ordinary products were offered from inception to the present, with participating products introduced in 1963 and universal life products introduced in 1983. MDO products were introduced in 1946 and are still offered by the Company today.

Assumed Business

Exhibit Two, Acquired Business, is a comprehensive list of the original issue companies for all business assumed by ANICO since inception. The major acquisitions were American Health and Life (AHL) in 1987 and American Security Life (ASL) in 1990. Both of these companies had made several acquisitions prior to the purchase by ANICO.

As a result, there are six companies specifically identified in the policy master records:

American Health and Life
American Security Life
State Reserve Life
Appalachian National Life
Conservative Life
Reserve Loan Life

In 1970, the Company purchased a block of approximately one thousand Arizona in-force policies from Life and Casualty of Tennessee. In 2001, the Company acquired a 100% interest in Farm Family Holdings, Inc., the parent company of the Farm Family insurance group. *Exhibit One* is an organizational chart for ANICO, which lists each of the Farm Family companies acquired as well as all other entities wholly or partially-owned by ANICO.

Response to race-based practices surveys

In 1988, the NAIC conducted a survey of life insurance companies regarding possible race-based practices. The survey asked if a company had ever charged race-based premiums, and if so, whether it had discontinued the practice and if it currently was collecting race-based premiums. The Company answered yes to all three questions and indicated that it discontinued issuing policies with race-based premiums in 1964. Management conducted an internal study that identified 813 premium-paying policyholders in one plan code. The Company responded by proportionally increasing the face amount of each policy to reflect the higher premium rates for the 813 affected policyholders.

In 2000, the Company responded to surveys of race-based practices sent by several states. Unlike the 1988 NAIC survey, the 2000 state surveys were not limited to policyholders currently in a premium paying status. The Company identified 21,235 Industrial policies in 9 high premium plan codes, including the plan discussed above but excluding the 813 policies previously identified. Eight of the 9 plan codes included only Non-white policyholders; one plan code was racially mixed. During the latter half of 2000, the Company revised its count when 241 additional affected policies were identified in the same plan codes. See *Exhibit Three, Summary of Self-review*, for a summary of affected policyholders identified prior to the market conduct examination.

Other self-analysis in 2002 – Ordinary policies

From the Ordinary valuation in-force files as of March 31, 2000, the Company manually reviewed the existing files for non-par life insurance policies issued prior to 1962, which were reserved with a mortality table code of 1 or 2. Those codes represent the 150% counterparts to K and N, which are the mortality table codes for the American Experience and the 1941 CSO mortality tables, respectively. The Company discovered 68 Ordinary fully paid up and reduced paid up policies issued before 1947 to minorities for which the underwriter's worksheet indicated that the rating was based in part on the race of the applicant.

Procedure 2 (Interviews): Conduct and document on-site interviews with key company personnel and those with specific product knowledge. Conduct agent interviews to determine practices regarding pricing.

Work performed: We conducted on-site interviews with six key company personnel who had worked in various capacities including agents, sales managers, district and regional managers, underwriting including manager of underwriting, and actuarial including chief actuary. Work experience included all three major product lines of Industrial, MDO, and Ordinary. Five of these individuals had experience specific to American National Insurance Company, Inc.

Topics covered during the interviews included the following:

- Years of employment
- Dates of employment
- Positions and general duties
- Product line worked in and in what capacity

Specific questions relating to race-based practices asked during the interviews included the following:

- To your knowledge, have any products used race as an underwriting factor at some point in the history of the product? If so during what time period?
- Are you aware of any racial information that was ever maintained by the Company?
- How was this racial information collected and maintained?
- How was the race of a policyholder identified on the computer system?
- How was this race information used? When?
- When was racial information on policyholders removed? Why?
- Are you aware of any company policies or practices that determined the outcome of rating based upon race? Were these policies written?
- How were racial underwriting policies applied?
- Do you know of any documentation of racial underwriting procedures?
- Are you aware of any other rating designations that were predominately given to nonwhite policyholders?
- Is there any other information that you feel would help the examination team to determine if race was ever used as a rating factor?

Conclusion: Agents and marketing personnel had seen race on applications, but not since the 1960's. Each employee interviewed said that they were not familiar with how the race information collected had been used.

Procedure 3 (Company's Self-review): Review and verify work done by the Company and outside consultants to identify and quantify the extent of race-based underwriting for the Industrial block of business. Review each plan for multiple underwriting classes and related criteria.

Work performed: Reviewed the following documents, which represent work performed by the Company or its outside consultants related to race-based practices:

- 1969 memorandum from Milliman & Robertson, outside consultants
- Company’s response to the Texas Insurance Department subpoena Duces Tecum of January 4, 2001
- 1988 compilation of responses to the NAIC race-based practices survey
- Company’s responses to 2000 race-based practices surveys from various states

American National Insurance Company (ANICO) has traditionally offered insurance to consumers of all races. However, prior to 1964, ANICO sold some Industrial Life Insurance policies under certain plan codes, which used rates that differentiated between whites and non-whites. The above-referenced documents indicate that the Company ceased using different premium rates during 1964.

Outside Consultants

In 1969, the Company contracted with the actuarial consulting firm of Milliman & Robertson (M&R). The Company is unable to locate the final report of M&R, however, they did provide us with two memorandums from the consulting firm addressed to Company management. In memorandum of February 27, 1969, M&R writes:

“There used to be a differentiation between White and Non-White but this is all discontinued after 1965 at which time either a Minnesota or a Wisconsin Commissioner had raised the question. There is absolutely no differentiation in underwriting or in any other way.

Their distribution of 1963 business issued and in force at the end of 1963 showed 20% Non-White and 80% White under their Industrial business. A previous 1961 study showed an 18%-82% split. In 1963 their premiums were split 26%-74%.

To give us an idea of the higher premiums used for Non-Whites prior to their discontinuance in September, 1964 is the following for 20-Pay Life for \$1,000 with weekly premiums:

<u>Age next Birthday</u>	<u>White</u>	<u>Non-White</u>	<u>Current Rate Book</u>
1	.44	.55	.46
20	.64	.82	.67
40	1.06	1.26	1.05
55	1.68	1.94	1.69

It is obvious that the Current Rate Book is very close to the White rates in 1964.

Under their intermediate series, which was discontinued in 1962, I believe, it being on an MDO basis, the proportion was 16% Non-White and 84% White.

The premiums for Industrial business (weekly premium or debit business) are developed on the same principles as those under Ordinary insurance.”

There are no other references to race in the M&R memorandums. Management has indicated that there was no other work performed by outside consultants related to race-based pricing.

1988 NAIC race-based practices survey

In 1988, in response to an NAIC survey, the Company performed an analysis of their in-force premium paying Industrial business to determine if premiums containing race-based differentials were still being collected. At that time, the premium paying in-force records included a race indicator for many policies issued prior to 1964, which was used to determine that 813 policies nationwide had premiums in part based on race. The 813 policies were each under plan code 25 (Full Family Protection), which was a paid up at age 65 plan. The Company limited its response to premium paying policies pursuant to the language of the NAIC survey and did not report an additional 1,020 affected policies under plan code 25, which were non-premium paying. The Company's self-analysis during 1988 also revealed a limited number of plan codes with non-premium paying affected policies: plan 78 (20 Year Pay Life Funeral Insurance), plan 79 (15 Year Pay Life Funeral Insurance), and plan 88 (20 Year Pay Life Funeral Insurance), none of which were included in the NAIC survey response.

It is also important to note that plan code 25 was a dual rate plan used for both Whites and Non-whites. Plan codes 78, 79, and 88 were primarily used for Non-whites and are comparable to plan codes 76, 77, and 86, respectively, which were primarily used for Whites.

2000 State race-based practices surveys

In June 2000, in response to state surveys, ANICO discovered 5 affected plan codes in addition to the 4 plan codes previously identified. The 5 newly identified plans were: plan 18 (20 Pay Life Modified), plan 28 (19 Pay Life Modified), plan 37 (15 Pay Life Modified), plan 42 (10 Pay Life Modified), and plan 47 (14 Pay Life Modified).

The state surveys were not limited to policies currently in a premium paying status and thus captured a larger number of affected policies than the 1988 NAIC survey. In June 2000, the Company reported that the nine affected plan codes contained 21,235 in-force affected Industrial policies. This amount excluded the 813 policies identified in 1988, which had since been remediated.

First Amended Responses

In August 2000, the Company amended several state survey responses to include 241 additional affected Industrial policies under the same plan codes discovered in 1988 and June 2000. The first amended surveys reported a total of 21,476 affected policies, which excluded the 813 remediated policies.

Second Amended Responses – Ordinary Business

During 2002, the Company analyzed over 5,700 Ordinary policies with a substandard table rating. The review resulted in the identification of 68 Ordinary policies, which appeared to have premiums affected by race-based practices. In June 2002, the Company issued second amended responses to state surveys to include the 68 Ordinary affected policies.

To test the Company's findings, we selected a statistical sample of 77 policies from the group of 5,700 Ordinary policies with substandard table rating and issue dates prior to 1961. We

reviewed source documents such as policy applications, medical records, underwriting worksheets or claim forms to determine the reason for the substandard ratings. We noted no instances of race-based practices on the sampled Ordinary policies, thus confirming the Company's results.

Remediation

The Company has remediated 794 of the 813 policies identified in 1988 but has not remediated any of the subsequently identified policies. All of the remediated policies were written under plan 25, which was a family insurance plan. The rate book review showed that plan 25 had two separate rate structures: Standard 1/Preferred Risks and Standard 3/Select Risks. The policyholders pay premiums until the age of 65. Typical benefits are \$1,000 for natural death before the age of 65, \$2,000 for accidental death, \$500 for natural death at age 65 or later, and \$500 term insurance for insured's spouse and children.

Standard 3 premiums were from 35% to 49% greater than Standard 1 premiums, depending on the issue age of the policyholder. The Company voluntarily increased the face amounts and non-forfeiture benefits of the affected policies by the ratio of Standard 3 over Standard 1 premiums. Since the death benefit decreased by ½ at age 65, typical remediated face values on policies designed to pay \$1,000 if death occurred prior to age 65 were increased to \$1,400 for policyholders under age 65 and \$700 for policyholders 65 and over.

To test the remediation of these policies, we electronically linked a listing of the 813 policy numbers to the Final Master Industrial file created during this examination. All of the policy numbers were matched and policy face amounts were reviewed for reasonableness. Based on the plan description in the rate book manuals, policies with face values of \$250, \$500 or \$1,000 would appear to be unremediated. We noted 46 such policies, including one with a face amount of \$0.

The Company researched each of the 46 policies and determined that 5 policyholders had received payment of the proper remediated face amount upon filing claims. The Company indicated that the remaining 41 policies were either missed or inadvertently returned to original face value. Of the 41 policies, 22 were currently in-force as of December 2002, and the Company promptly remediated the face amounts of these policies. We reviewed documentation of the claims payment or current face amount for the 27 policies, noting all had been remediated. Therefore, of the 813 policies, 19 (+46-5-22) are unremediated and 794 have been remediated.

Conclusion: The Company performed a thorough review and identified a majority of the affected plans. The Company has not remediated the majority of the affected policies that have been identified. Of the 813 believed to have been remediated, 19 were either missed or inadvertently returned to original face value. Therefore, 794 policies have been effectively remediated.

Procedure 4 (Rate Manuals): Review and summarize rating manuals, premium schedules, application forms and policy forms to understand rating methodology.

Work performed: The Company provided us with on-site access to all rating manuals and materials in the possession of the Company. The rating materials were located in a room on the 14th floor of the ANICO headquarters building in Galveston, Texas. We compared the rating materials in this room to a list of such materials provided by the Company. There were a total of 224 rate books ranging back to 1904. We reviewed in detail all available rate books, rate manuals, and agent's manuals including any associated forms, premium schedules and instructions.

The review included examination of the following for race-based contents:

- Underwriting and rating instructions and definitions
- Policy forms
- Application forms
- Premium tables for differences related to race
- Agent instructions
- Underwriting guidelines
- Standard, substandard, preferred and non-preferred risks information
- Occupational class descriptions
- Any notations or special instructions that referred to race
- Other available schedules, forms, instructions, applications, or associated materials

Any reference to race was noted and a copy made of the language. A complete list of the materials reviewed is attached at *Exhibit Four*.

Conclusion: These documents indicate that the Company used race-based practices as early as 1913. References to race-based practices continue to appear in the materials through approximately 1965. The race-based practices were primarily limited to the Industrial business but some references were also noted in Ordinary manuals through 1951. Based on rate manual review and all other examination work performed, it appears that the Company used race-based pricing for the periods 1936-1939 and 1948-1964.

Procedure 5 (Underwriting Materials): Prepare an analysis of material available on plans and underwriting criteria to identify any discriminatory pricing activities, patterns, or trends. This general review will include the following areas if available: a) Marketing manuals and files, b) Underwriting manuals and files, and c) Agent-training materials.

Work performed: Reviewed available underwriting manuals and marketing materials that spanned period from 1956 to current. These manuals included reinsurers underwriting manuals. The manuals reviewed included the following:

- ANICO Underwriting Manual (September 1, 1956)
- M & G Life Underwriting Manual (unknown date)
- Cologne Life Re Co Life Underwriting Manual (January 1983)

- Lincoln National Life Insurance Company Underwriting Manual (January 1982)
- North American Re Life Underwriting Manual (unknown date)
- Mercantile & General Rain Life Underwriting Manual (January 1989)
- Life Re Underwriting Manual (January 1993)
- Lincoln National Life Ins Co Supplement to Underwriting Manual (January 1976)
- North America Re Life Underwriting Manual (February 4, 1990)
- Life Underwriting System LUS (current)
- American National Life Sales Kit

The items listed above represent a small portion of the Company’s historical underwriting and marketing materials. Company management indicated that such materials were often not retained. However, in addition to the items listed above, in the review of the documents produced to the plaintiffs in the Multi-District Litigation we were able to review a history of agents training materials and instructions, and marketing and advertising materials. The review of these additional materials is discussed in the Procedure 17b section of this report.

Conclusion: There is no indication of race-based practices found in the Company’s marketing, underwriting, or agent-training materials dated from 1956 to the current date. However, evidence of race-based practices was found in the review of rate manuals under Procedure 4. Note that information supplied on applications is covered in procedures 4, 12 and 17a.

Procedure 6 (Non-forfeiture Options): Analyze and describe non-forfeiture basis differentials in policy forms and actuarial memorandum.

Work performed: We reviewed policy provisions of plans with identified race-based practices and compared non-forfeiture features to similar policies that were not race-based. The non-forfeiture benefits reviewed included:

- Extended term benefit and length of the extended term benefit
- Cash surrender value
- Paid-up benefit

Three identified race-based plan codes (78,79,88) and three corresponding non race-based codes (76,77,86) were examined in detail. The non-forfeiture benefits for the race-based policies are less than the non-forfeiture benefits for corresponding non race-based policies. The tables below illustrate the differences.

	Race-based	Non race-based
5 cents weekly premium	<u>78-B</u>	<u>76-B</u>
Face value	\$60.98	\$78.13
Available benefits	Ext. Term, Cash Value	Same
Basis of calculation	1941 SSI, 3%	1941 SI, 3%
Cash Value, issue age 20 & Year 10	\$12.96	\$15.08
Ext. Term, issue age 20 & Year 10	20 yrs, 2 wks	28 yrs, 16 wks

5 cents weekly premium	<u>79-C</u>	<u>77-C</u>
Face value	\$51.02	\$60.98
Available benefits	Ext. Term, Cash Value	Same
Basis of calculation	1941 SSI, 3%	1941 SI, 3%
Cash Value, issue age 21 & Year 10	\$15.20	\$16.01
Ext. Term, issue age 21 & Year 10	27 yrs, 11 wks	34 yrs, 36 wks
\$100 face amount	<u>Plan 88</u>	<u>Plan 86</u>
Weekly premium	8.2¢	6.4¢
Available benefits	Paid-up, Cash Value, Ext. Term	Same
Basis of calculation	1941 SSI, 3 %	1941 SI, 3 %
Cash Value, issue age 20 & Year 10	\$20.60	\$18.79
Paid-up, issue age 20 & Year 10	\$45.00	\$48.00

Conclusion: Non-forfeiture benefits for race-based plans were less than those of the corresponding non race-based plans. The reduced benefits include cash values, length of extended term, and paid-up amounts.

Procedure 7 (Plan Codes): Obtain and review a list of all plan codes, descriptions, dates of issue, and original writing company.

Work performed:

Plan code sheets

The Company does not maintain plan code sheets. There were no paper files related to plan code information. The NBO8 report described below was the only comprehensive source of detailed plan code information.

Partial listings

The Company provided several lists of plan codes that were in effect prior to the conversion to the Life 70 system in 1989. We noted that certain plans were described as “modified”, “sub-standard” or “special class.” All of these plans were selected for further testing in Procedures 11, Data Analysis, and 12, Applications Sampling.

The two-digit plan codes on these lists were subsequently converted to the current six-digit plan code numbering system in 1989. Policies under the same two-digit plan code were often regrouped into several six-digit plan codes. Likewise, a single six-digit plan code often contained policies from several different two-digit plan codes. Thus, the plan code information on these lists was not readily traceable to the current valuation files.

However, we were able to obtain an archived data file called “Industrial 2”, which contained the two-digit plan code field. The Industrial 2 file is an electronic backup of non premium-paying Industrial policies that was made in 1989 just prior to the Company’s conversion to the Life 70 system. Since the Industrial 2 file was created in 1989, we assumed that it would contain non premium-paying policies in-force as of 1989 and policies terminated just prior to that date. A thorough review of the data confirmed these assumptions.

We combined the Industrial 2 file, current In-force and current Term files to create one file that contained both two-digit and six-digit plan codes. The combined file was used for the data analysis performed under Procedure 11.

Complete listing

We obtained a complete listing of plan codes in a document that the Company refers to as NBO8. The NBO8 is an extract from the Company's mainframe administration system. The NBO8 report contains, but is not limited to, the following fields: rate book code, plan issue code, first issue year, last issue year, age range, benefit code, premium code, and an abbreviated plan description.

Analysis of NBO8 Data

A thorough review of NBO8 showed that it contains no racial information. The NBO8 was used to group similar groups of plan codes for further analysis in procedures 11 and 12. We sorted the plan codes listed in NBO8 by the BEN/PR (benefit/premium) field. This field contains seven characters: a three-digit benefit code and a three-digit premium code separated by the forward slash character. For example, all plans with a BEN/PR of 220/220 are 20-year payment plans. When combined with the class code, plans can be sorted further into 20-year term plans and 20-year endowment plans.

Conclusion: The limited plan code information available from the Company did not contain any direct indication of race-based practices. Yet some plan descriptions contained wording such as "modified" or "substandard" and these plans were selected for targeted testing in Procedure 11. The NBO8 report was also used to group similar plan codes for comparison in Procedure 11. However, it is important to note that all plan codes were tested in Procedure 11.

Procedure 8 (Complaints): Examine any complaints related to pricing, premiums, policies and discrimination on file at the Company.

Work performed: Reviewed all complaints in Company's Complaint Register since January 1, 1990, relating to pricing or denials. There were a total of nine.

Date	Complaint	Race Related?
2/11/02	Claim related	No
4/9/02	Payout in relation to total premium paid	No
1/3/01	Claim adjusted because of misstatement of age on application	No
7/6/92	Pressure sales	No
12/14/92	Premium paid greater than face amount	No
5/2/96	Premium paid greater than face amount	No
9/23/97	Premium paid greater than face amount	No
3/3/98	Premium paid greater than face amount	No
1/17/02	Based on publicity questioning if premium based on race	No

Conclusion: Based on review of complaints in Company's Complaint Register, there is no indication that the Company uses race-based practices.

Procedure 9 (Information Systems): Obtain information from the Company regarding the computer systems and databases, including a systems matrix detailing the computer systems and all data captured. Determine whether a designation of race, color, or ethnicity is maintained in the Company's computerized records.

Work performed:

Current systems

The Company provided a flow chart that shows that the Company currently utilizes two separate administrative systems, Life/70 and Vantage One. Further inquiry revealed that the Vantage One system is used only for Universal Life products. As a result, the Vantage One data is not likely to contain affected policies. Our examination therefore focused on the data contained in the current Life/70 system and the Pre Life/70 data. See section below titled *Database Analysis* for discussion of further work on the electronic data.

Historic systems information

We prepared a schedule showing the type of product, the current software system and former systems. The schedule was prepared from information obtained from Company management. See *Exhibit Five, Systems Timeline*.

Interviews with key personnel

According to Company management, race information for Industrial policies issued prior to 1964 was maintained for premium-paying policies on the in-house developed administration system. Race information was not carried over to the Life/70 system during the 1989 conversion. Memos written by the Company Actuary indicate that the Company used a race indicator in the system to identify 813 affected policies in response to the NAIC's 1988 survey of race-based practices.

According to management, the in-house developed actuarial system for Ordinary policies may have contained a race/sex field until sometime in the mid-1960's. When Ordinary and MDO policies were converted to the Life/70 system in 1975 and 1979, respectively, the race information was not carried over.

Electronic Data Used in This Examination

The current in-force and terminated files were combined prior to analysis of data in Procedures 11 and 12. For Industrial policies, the Company also provided several versions of archived electronic data. Archived policy data was merged into the combined data file to create a complete listing of all available electronic policy data. *Exhibit Six* is a listing of all Industrial electronic database files provided by the Company during this examination.

Archived Industrial Data

On the in-house developed system used until 1989, policy master records were maintained in two separate files. The Industrial 10 file contained data on in-force policies that were currently in a premium-paying status. When policies became fully paid up or reduced paid up, the policy data was transferred to the Industrial 2 file (also called the lapse master file). Thus, the lapse master file does not contain data on lapsed policies but rather contains data on in-force policies upon which premium payments have ceased.

According to management and as evidenced by the signed affidavit obtained in procedure 16, there is no known copy of an Industrial 10 file. The Company provided Industrial 2 files from 1988 and 1989. Unfortunately, the Company was unable to provide a complete file layout for Industrial 2. Limited layout information was provided on a few fields.

Race Indicators

There were no obvious indicators of race or ethnicity in any of the file layout information. We attempted to identify fields in the Industrial 2 file (most were in a Zoned format), and then ran several summaries on these fields to identify a pattern between one of the unidentified fields and the 2-digit plan code field that might suggest one of these fields indicates race. No such pattern was identified in the Industrial 2 data. Additionally, there was no indication of race or ethnicity in the Life/70 system data provided to us.

Archived Claims Data

The Company provided a file of Industrial policy claims occurring between 1981 and 2002. The policy numbers and certain other fields were linked to our combined file of Industrial data. As a result, *Exhibit Ten, Summary of Affected Policies*, includes those policies with claims filed since 1981.

Conclusion: The Company has disclosed that it maintained race information on its in-house developed systems for policies issued through approximately 1964. Race information was not carried over to the Life/70 system during conversions in 1975, 1979 and 1989 for Ordinary, MDO and Industrial business, respectively. We could not find any indication of race in the Company's archived electronic data prior to the Life/70 system, but there is still the possibility that racial data exists due to the unidentified fields in the Industrial 2 files. There was no indication of race or ethnicity in the Life/70 system data provided to us.

Procedure 10 (Valuation Files): Request and load valuation data for analysis, determine that valuation output files are consistent with amounts reported in annual statement, analyze valuation listing and verify with company actuary. Review the reserve valuation listing.

Work performed: Obtained reserve valuation summary files from the Company's actuary and reconciled in-force amounts and policy counts from the annual statement to the reserve valuation summary.

Reviewed reserve valuation listing and annual statement reserve descriptions to determine if valuation methods or assumptions used would indicate possible race-based practices.

Conclusion: Comparison of the Company provided in-force download to policies in-force at 12/31/01 showed the number of policies matched to within 135,373 (5.3%), and the number of policies in the download was higher than the number reflected in the Annual Statement. Therefore, the Company download used in the examination was determined to be an accurate representation of current in-force policies. Use of the Substandard Industrial Experience Table for Valuation purposes is a preliminary indicator of race-based practices. Actual confirmation of affected policies was performed under Procedure 3. See the *Second*

Amended Responses – Ordinary Business section under Procedure 3 of this report for a discussion of the testing of policies with substandard reserves.

Procedure 11 (Data Analysis): Obtain a download of policies in-force during the look-back period. Prepare a summary listing of policies sorted by plan code, policy status and by state. Review similar policies and similar plan codes written in the same time periods, but with different premiums. Examine any policy form pairs. Analyze and identify any similar plans in different companies with different premium rates. Examine policies issued on a substandard basis to determine if race was a factor. Analyze the use of products with the same benefit design but different premiums.

Work performed:

Methodology of scatter plotting

Scatter plotting is a method by which charts are produced to illustrate variations or correlations between specified data points, in this case, annualized premium per \$1,000 of face value. This technique is used to identify policies with many similar characteristics but different premium rates.

Policies issued prior to 1970 were scatter plotted. The current and archived electronic data files were plotted as a separate data set and again as a combined data set. An “annual premium per thousand” field was calculated for each policy using the premium mode, premium amount, and face value fields. Thus, variances in face amount and premium payment method are normalized and policies with similar benefits can be compared for policyholders of the same issue age.

One data point was produced for every policy in a specified plan code or selected grouping. Data points that form one smooth curve indicated that there were no significant premium differentials for policies in the selected grouping. In contrast, data points above one smooth curve (called “data outliers”) suggested premium differentials that are potentially related to race-based practices. Data points forming dual smooth curves suggested a dual-rate structure, which may have been race-based. Such data points were further analyzed on a policy-by-policy basis to determine the reason behind the higher premium rate. Targeted sampling was performed based upon the scatter plot results.

The results from the rate book review, interviews with key personnel, plan code listing review and the Company’s self-review had a significant impact on the identification and grouping of plans for scatter plotting. However, all plans were scatter plotted.

Scatter plot exhibits

Exhibits Seven, Eight and Nine show examples of scatter plots, which allow the examiner to identify policies with the same issue age and benefits, but different premium rates. *Exhibits Seven and Eight* illustrate Non-white and White plans, respectively, which are both 15 Pay Life plans written in the same time period. *Exhibit Nine* illustrates the premium structure of dual-rate plan 25. There are two pairs of curves rather than one, because benefits are reduced in half at age 65. The upper curve for each pair represents policies issued under Standard 3 rates and the lower curve for each pair illustrates policies issued under Standard 1 rates.

Grouping of plan codes and policies

A list was developed for policies issued prior to 1970 and summarized by Ben/Pr (benefit/premium) code and by Plan Code. From this list, we identified plans with the same Ben/Pr code and similar plan types (e.g. 10 Pay Life). Groups of like policies were extracted so their annual premiums per thousand could be graphed against each other on scatter plots and tested for dual rate structure characteristics. We were able to group policies by decade of issue, 2-digit plan code, 6-digit plan code, sex or final status.

Targeted sampling

When scatter plotting resulted in data points above the standard premium rate curve, those data points were sampled. Each sample was strategically selected from above the curve and directly below the curve to determine why applicants with similar attributes had different annual premiums per thousand. The objective was to conclude if race was a factor in determining those rates. The Company was asked to provide the policy applications for each sample. Information such as age, sex, premium, face amount, and health/medical conditions upon issue, were verified to the information contained in the electronic data. When available, race was recorded from the application and used for analysis.

Industrial results

Sampling was conducted in three separate phases. A review of 6-digit plan codes from the current data resulted in a sample of 93 policies. A review of 2-digit plan codes from the 1989 archived data resulted in the sampling of 95 policies. Sampling was expanded to include an additional 296 policies in a targeted group of six plan codes. Sampling results eliminated several plan codes because they appeared to be written primarily to whites.

Each of the nine plans previously identified by the Company were independently identified through scatter plots, indicating that this method of analysis was effective. In addition, plans 36, 50, 52, and 70 were identified as affected by race-based practices. See *Exhibit Ten, Summary of Affected Policies* for a detailed schedule of results.

Ordinary and MDO results

Plans were grouped into five categories for scatter plotting: Life Paid-Up at 65, Paid-Up Life, Paid-Up Term, College Life Plus, and Whole Life. The database provided for the exam did not contain the last premium paid for Paid-Up Life and Paid-Up Term policies. Therefore, the annual premiums for these policies were zero and no determination could be made by this testing method. However, other tests were performed on these paid up policies under Procedures 2, 3, 4, 7, 9, 12, and 17a.

Scatter plotting was performed on College Life Plus, Life Paid-Up at 65 and Whole Life policies. Samples were then pulled from any suspect plots and further examined. There was no evidence of race-based premiums in the three groups of plans that were analyzed.

Conclusion: Scatter plot analysis proved to be an effective technique in identifying plan codes affected by race-based practices. In addition to each of the nine plans previously noted by the Company, additional plans were identified as affected by race-based practices. See *Exhibit Ten, Summary of Affected Policies* for a detailed schedule of results.

Procedure 12 (Applications): From the download of policies in-force during the look-back period:

- a. Select policy applications with the same basic criteria: age, issue year, etc.***
- b. Analyze for discriminatory pricing activities.***

Work performed: Procedure 12 overlaps the work performed under Procedures 11 (Data analysis) and 17a (Claims sampling). In total, over 1,000 policy applications were reviewed. Procedure 11 included targeted sampling of policy applications with the same basic criteria. Procedure 17a included broad-based sampling of policy applications. Sampling results are described in other sections of this report.

Litigation-related Sample

We obtained an electronic listing of the results of sampling conducted pursuant to multi-state litigation related to race-based pricing. The plaintiffs' counsel and their consultants reviewed policy application files on 10,000 active policies issued from 1948 until 2001. The sample consisted of approximately 4,000 Industrial, 600 MDO and 5,400 Ordinary policies. Race was determined for approximately two-thirds of the sample. For those insureds whose race was determined, racial composition of the sample was 91% White/Hispanic, 8% Black and 1% other races. Policy numbers were linked to the databases used in the examination and the race information field was used to identify plans for further testing in Procedure 11, Data Analysis.

Conclusion: Over 1,000 policy applications were sampled during the examination. In addition, we electronically linked the results of a sample of 10,000 policy applications and used those results in Procedure 11, Data Analysis. Sampling results confirmed that racial data was collected on policy applications until 1964, with just two applications (dated 1967 and 1968) containing race after 1964. See report sections on Procedures 11 and 17a for more information on sampling results.

Procedure 13 (Statistical Analysis): Examine the following for statistical discrimination:

- a. Use of products with the same benefit design but different premiums***
- b. Use of different products but with availability of products dependent on race, color, or ethnicity of the applicant***
- c. Limiting face amount because of race, color or ethnicity***
- d. Limiting availability of riders due to race, color or ethnicity.***

Work performed: Statistical discrimination for the purpose of this examination was defined as a plan code with a high concentration of Non-white policyholders. The results of two broad-based samples were used to estimate the overall racial composition of the insureds covered by this examination: the litigation-related sample of 10,000 policies (Procedure 12) and the claims sample of 501 policies (Procedure 17a). Non-white policyholders comprised 38% of the claims sample. The litigation-related sample did not differentiate between Caucasian and Hispanic insureds. Caucasians and Hispanics combined represented 91% of the litigation-related sample vs. 85% of the claims sample. Blacks represented 8% of the litigation-related sample and 12.2% of the claims sample.

Many of the objectives of Procedure 13a were accomplished by the work performed in Procedures 4, 6, 11 and 12. In each of those procedures, we noted plans with similar benefits but different premium rates. See other sections of this report for details of the work performed.

During the review of rate manuals, we noted instances of the Company employing all three of the race-based practices described in 13b, 13c, and 13d above. The availability of products was dependent on race according to numerous rate books printed prior to 1964. The race exclusive language was included in both the printed materials and handwritten notes in the margins. Face amount and the availability of riders were also limited by race in several rate manuals printed prior to 1964. The Company's acquired business also appears to be affected by race-based practices. A review of the rate manuals of original issue companies indicated that those companies also utilized the race-based practices described above.

Conclusion: We noted evidence that the Company utilized each of the race-based practices listed above. Such evidence was obtained through the review of rate manuals, sampling and analysis of electronic data. Rate manual review also showed that the Company acquired business from other companies that also utilized race-based practices.

Procedure 14 (Summary of Affected Policies): Summarize affected policyholders by plan code and by state. Obtain a listing of benefits paid on affected policies, sorted by plan code, state and type of benefit.

Work performed: An electronic listing of all affected policies identified as a result of the examination was prepared. The listing includes all relevant data that was obtained during the examination. An electronic listing of benefits paid by policy number, by plan, and by state was also prepared.

A total of 14 plans were affected by race-based practices. One of the 14 plans (Plan 70) had premium rates that could not be compared to any similar plan. While the premium rates were not determined to be discriminatory, the Company has asserted that it will include Plan 70 in the affected group of policies to be remediated.

Exhibit Ten, Summary of Affected Policies, provides a snapshot of affected policies in each plan, as well as providing plan descriptions, issue years, benefits paid and other data. *Exhibit Eleven, Affected Policies by State*, summarizes the number of affected policies by state of last known residence. The state of issue was unknown on some policies because the archived Industrial data from 1988 and 1989 did not contain a field for state of issue or state of residence.

For each of the affected plans other than the dual-rate plan (Plan 25), every policy written under the plan was considered affected unless the Company was able to provide evidence that a particular policy charged non-discriminatory rates. For dual-rate Plan 25, we used scatter plotting to determine which policies paid Standard 3 discriminatory rates and counted only those policies as affected.

Conclusion: See *Exhibits Ten and Eleven* for summaries of affected policies by plan code and by state. Detailed listings by policy number were prepared and stored on CD's .

Procedure 15 (Multi-policy Testing): Use computer audit techniques to identify policyholders who owned multiple policies and have died but did not receive a benefit on all policies that should have paid a benefit in the event of death.

Work performed: The purpose of this test is to determine if there are policies having an active status, although the policyholder is deceased and should have been paid a benefit from the active policies. This could indicate a weakness in how the Company identifies all the policies held by a policyholder when a claim is filed.

In order to identify any potentially unpaid policies belonging to a deceased policyholder, it is necessary to assemble a key field that will have a fairly high degree of accuracy in identifying individual policyholders in a large policy data file. There were two different keys used for this testing. The first is Social Security Number (SSN). Since the SSN field was not reliable in the data we received (many blank entries), a key named 'Unique ID' was created. The Unique ID field is constructed as follows: Last Name + First Name + Sex + Birth Date. Due to missing and inconsistent data, these 2 key fields will not always identify a unique policyholder, but they work well for records having good data. Summaries are run on the key fields, which show how many records with active and death codes there are for each unique ID.

Three sets of samples were pulled for this testing. Two of the samples were from the ANI Ordinary Active and Terminated Extracts. All three files were filtered to exclude records that were not base policies, and then were joined together twice, using two different keys, Social Security Number (SSN) and Unique ID. From the two resulting files, all records were extracted that had either a SSN or a Unique ID both in the active file and in the term file with a death status code (99). The third sample was from a combined file of the ANI Ordinary, Industrial, and MDO Active and Terminated files. This sample used SSN as the key in the search for multiple policies.

For the ANI Ordinary file, there were 585 policies that met these criteria using the Unique ID key. From these matches, a random sample of 50 policies was selected and submitted to the Company for explanation. One policy appeared to be an unpaid policy for a deceased policyholder. The Company explained that payment was attempted on this policy once in the past and that they will again attempt payment on the claim

The ANI Ordinary file that was developed using the SSN key was also filtered to eliminate the word "children" from first name to try to eliminate false hits due to children's riders. For this file, there were 515 policies that met the above-mentioned criteria using the SSN key. From these matches, a random sample of 50 policies was selected and submitted to the Company for explanation. One policy was identified as an unpaid policy for a deceased policyholder that held more than one policy. The unpaid policy was status 33 (Premium Waiver.)

For the combined file of the ANI Ordinary, Industrial, and MDO there were 4905 policies that met the above-mentioned criteria using the SSN key. From these matches, a random sample of 50 policies was selected and submitted to the Company for explanation. One policy was identified as an unpaid policy for a deceased policyholder that held more than one policy. There are two more claims that the Company is restoring to active status to determine if an active policy should be added to an already paid claim.

Conclusion: Both testing methods for the Ordinary file (using SSN and Unique ID as keys) yielded one case of a deceased policyholder with unpaid benefits, which is 2% of the sample population. The two test methods yielded approximately the same sample population (515 and 585 respectively). If the sampling results are extrapolated out to the sample population, this testing method indicates there may be approximately 11 or 12 cases where a deceased policyholder holding multiple policies did not receive benefits for all policies held.

For the Combined Ordinary, Industrial, and MDO file, if the two suspect claims that are being restored to active status are determined to have unpaid benefits for deceased policyholders, then there would be a total of three cases of this occurring in the random sample of 50 policies selected for testing. If this 6% rate of occurrence is extrapolated to the entire sample population of 4905 policies, it gives a possibility of 294 cases where a deceased policyholder holding multiple policies did not receive benefits for all policies held. This is a relatively small number compared to the large number of policies in the combined Ordinary, Industrial, and MDO files (over 7.3 million records), but may indicate a weakness in the Company's identification of these types of cases.

In all cases, the Company stated they would research the claim and pay any outstanding benefits with interest.

Procedure 16 (Affidavit): *Obtain an affidavit from company management, which states that all available rate books, applications, manuals, and policy forms have been provided to the examiners. The affidavit should also state that the Company has provided all electronic and paper records in their possession that are applicable to this examination to the best of their knowledge.*

Work performed: The affidavit was drafted by Actuarial Group, Inc., modified by the Company and its attorneys and signed by three officers of the Company. The date of the affidavit was the last day of significant fieldwork on the examination. A copy of the affidavit is attached at *Exhibit Twelve*.

Conclusion: The Company's management confirms that they have provided all of the materials requested pursuant to this market conduct examination, if available.

Procedure 17 (Other Procedures): *Consider using other review methods to find indications of race-based pricing, such as zip code analysis, letters to insured, etc.*

Work performed: Suggested methods such as zip code analysis and letters to insured were considered, but determined to not be useful or practical based on interviews with key

personnel, overview of Company operations and electronic data limitations. Other methods actually used in the examination are covered in the report sections listed below. These included:

- Death claim sampling (Procedure 17a)
- Review of documents produced to the plaintiffs in the Multi-District Litigation (Procedure 17b)
- Computer audit and analysis of the 10,000 policies sampled pursuant to the Multi-District Litigation (Procedures 11 and 12)
- Computer-aided audit techniques to recalculate issue age from date-of-birth (Procedure 17c)

Conclusion: The results of other procedures are summarized in the sections of the report listed after each procedure described above.

Procedure 17a (Claims Sampling): Select a sample of paid claims and review the policy application and other documents in the Company's files. Determine if race was considered in the underwriting process.

Work performed: This procedure was performed as a preliminary step in the examination. The objective was to obtain an overview of race-based practices as evidenced in a broad-based sample of policy files. We requested access to all claim files from the year 1998 and judgmentally selected 501 files for testing. Although we selected claim files for a single year, the related policies cover a broad cross-section of issue years and plans. Additional advantages of claims sampling are that the racial composition of the sample is readily determinable (from death certificates) and that the sample is weighted toward earlier issue years.

When a claim is paid, the original policy file documents are transferred to a claim file folder, including the policy application, policy form and medical records. We determined the race of the applicant by reviewing the death certificate in the claims file. The death certificate was available for 99.6% of the claims sampled. We then reviewed the policy application, noting whether race was recorded on the application or on any other document obtained during the application process. We also noted if the application was illegible or missing.

Racial Composition of Sample of 501

The sample contained 62.1% Whites, 23.2% Hispanics, 12.2% Blacks, 2.2% other races, and 0.4% undetermined. Five policies were selected for further work due to information in the files indicating that a Non-white may have received a substandard rating. The premium rates charged to these policyholders were compared with those of similar policyholders in Procedure 11, Data analysis. We determined that four of the five policies were written under affected plan codes and are included in the total affected policy counts in *Exhibits Ten and Eleven*.

Occurrence of Race Information

Of the 501 claim files reviewed, race was documented at the time of application on 50.3% of the policies. Race was not on the policy application for 43.5% of the sample. Applications were unavailable or illegible for 6.2% of the sample.

Other Observations

Management has indicated that race was not considered in underwriting after 1964. Our sample of 501 claim files showed that all but 2 of the policies issued after 1964 did not have race on the application. The 2 exceptions were written in 1967 and 1968 and the policyholders were listed as Hispanic and White, respectively. Both policyholders were charged standard rates.

Conclusion: Selecting a sample of 501 claims paid in 1998 enabled us to determine the policyholder's race for a broad cross-section of issue years and plans. We were able to approximate the time period during which race was part of the application process. Five claim files contained possible race indicators, such as the term "select" handwritten on applications. These five policies were selected for further testing in Procedure 11, Data Analysis. We determined that four of the five policies were written under affected plan codes and are included in the total affected policy counts in *Exhibits Ten and Eleven*.

Procedure 17b (Litigation Materials): The American National Insurance Company is a defendant in several lawsuits alleging race-based underwriting practices and/or pricing. Some of those cases were consolidated in federal court in New Orleans. Perform a review all the related materials to these lawsuits provided to the plaintiff.

Work performed: These materials are substantial and the result of far reaching requests for all documents and materials relating to life insurance products including rate books, plan codes, manuals, underwriting files, applications, correspondence, internal memoranda, sales and marketing materials, inspection reports, medical information reports, complaints, in-force ledgers, debit books, premium payment records, notices of cash surrender, statement of transaction documents, and rating or other classification of policies such as standard, substandard, preferred, white risk, or Negro risk. The materials also include all the related paper records of approximately 10,000 policies chosen by the plaintiffs as a sample of American National's files.

These materials completely fill a large room that contains approximately 200 boxes. We reviewed all these materials on site and performed a computer audit and analysis of the 10,000 policies. We compared any information relating to race-based practices to information obtained in the other procedures of our examination.

Some of the specific items that indicated race-based practices included the following:

- American National Insurance Company Weekly Premium Rate Manual 1952
- American National Insurance Company Industrial Standard Rate Book 1941
- American National Insurance Company Industrial Weekly Premium Rate Book 1948
- State Reserve Life Insurance Company Agent's Manual 1953
- Western United Life Insurance Company Rate Manual 1952

- State Reserve Life Insurance Company Rate Manual 1949
- State Reserve Life Insurance Company Applications 1950's
- American National Insurance Company Rate Book 1951
- Various American National Insurance Company Forms and Applications date unknown
- Various American Hospital and Life Insurance Company Policies and Forms 1940's and 1950's
- Commonwealth Life and Accident Insurance Company Agent's Reports 1960's
- Company response to Texas Department requests 2000
- Various American National Insurance Company Forms, Applications, Agent's Reports, and Filings 1961-1965
- Various American National Insurance Company Forms and Applications 1940's and 1950's

Note that all the above race-based practices were analyzed during the course of completion of other procedures of the examination.

Conclusion: Review of the lawsuit materials revealed various rate books, forms, applications, agent's reports, and filing that indicated race-based practices. These materials indicated race-based practices from the 1940's to 1965. All of these practices had been identified during the course of completion of other procedures of the examination.

Procedure 17c (Issue Age Testing): Verify the issue age of policyholders to determine if Non-white individuals are rated 5-10 years older than their actual age, therefore paying higher premiums. Use computer-aided audit techniques to test the issue age field in the Company's policy master record. Agree the issue age in the Company's policy master record to the policy application.

Work performed: Used the date-of-birth field and the date-of-issue field in the Company's Life/70 system data to create a new field, which estimated the policyholder's age at date of issue. The new field was compared to the issue-age field, with deviations of plus/minus one year eliminated as rounding errors. The remaining policies that had a calculated age that differed from the age on the application by more than one year were extracted and sampled. A sample of 20 examples was then forwarded to the Company for explanation.

Conclusion: The Company satisfactorily explained all of the examples.

Procedure 18 (Lookback Period): Discuss with appropriate Company personnel how far back reliable data, for both electronic and paper records, is available for benefits paid in the past.

Work performed:

Definition of the look-back period

For death claims and endowed or lapsed policies, the look-back period extends to policies in-force as of January 1, 1981. There is no look-back period for policies that are paid up, policies in premium-paying status or policies in a non-forfeiture status because these policies

are considered active. The look-back period is defined in the Master Contract between Texas Department of Insurance and Actuarial Group, Inc., paragraph 1.04.W.

Lookback Exhibits

Exhibit Six, Electronic Data Files, is a complete listing of the Company's database files used in the examination. *Exhibit Thirteen, Lookback Period for Available Data*, is a line graph illustrating the timer periods covered by the Industrial Life/70 file and the claims file described below.

Current electronic data – all lines of business

The Company provided both current in-force and terminated policy data from the current Life/70 system. We analyzed the three terminated policy files (Industrial, Ordinary, and MDO) provided by the Company and sorted the data by terminated reason and terminated year. We reviewed reports that counted the number of terminations in each year by type. The Industrial file appears to have good data on policies terminated (death, endowed, or lapsed) between 1989 and 2001. There are an insignificant number of policies terminated in 1988. The Ordinary file appears to have good data on policies terminated between 1985 and 2000, and parts of 1984 and 2001. The MDO file appears to have good data on policies terminated between 1982 and 2001 and part of 1981.

Archived electronic data – Industrial business

Archived electronic data was available only for ANICO Industrial business. We obtained two versions of the lapse master file, one of which was created by the Company in 1989 to archive non-premium paying Industrial policy data immediately prior to the conversion to the Life/70 system. The second version of the lapse master was created in December 1988. The Company stated that they did not have a record layout for this file but that they were able to determine the location of certain fields. Because of this, the file provides a limited amount of information. Based on the summaries that were run, there also appear to be a number of data errors in the file, such as invalid dates. Based on what the Company identified as the Issue Year field, it appears the files include policies issued between about 1910 (and a few years earlier) and 1979.

Archived claims data – Industrial business

The Company provided electronic claims files covering the period from January 1, 1981 through December 31, 2001. *Exhibit Thirteen* illustrates the number of claims per year from these files.

Paper files – In-force

Management has indicated that the original policy file documents are available in paper, microfiche or imaged format. Based on the sampling performed in Procedures 3, 11, 12, 13 and 17, policy file documents are available for virtually all in-force policies.

Paper files – Lapsed or Terminated

According to Company management, the original policy file documents are available for most lapsed or terminated policies for a period of five years. However, many Industrial policy applications were placed on microfiche during the 1970's and are still available. Based on the sampling we performed in Procedures 3, 11, and 17, Industrial documents are

often available for a period much longer than five years. The Company was able to produce such documents on policies that had been terminated for as many as 18 years.

Paper files – Deaths or Endowments

When a claim is filed, the paper documents in the policy file are transferred to the paper claim file. The paper claim files are retained for five years from the date of claim. However, as described in the preceding paragraph, Industrial policy applications are often available for a much longer period. Sampling performed in Procedures 3, 11 and 17 confirmed that policy applications are often available for periods of up to 18 years for deaths and endowments.

Conclusion: *Exhibit Thirteen* is a line graph representation of the time periods covered by the Industrial data files obtained during this examination. Originals or copies of policy applications are available for nearly every current in-force policy. For lapsed, terminated, and endowed policies, as well as policies on which death claims have been paid, policy applications are retained for a minimum of five years pursuant to company policy. However, the actual retention period is often much longer for Industrial policies.

Examination Summary

History of race based practices

The Company appears to have used race-based practices from 1936-1939 and 1948-1964 at which time the Company stopped selling the last four discriminatory Industrial plans. During these time periods, the Company's rate manuals clearly reflect modified and substandard Industrial plans with premium rates higher than those of the corresponding standard rate plan. There is also one instance of a plan with dual rates: Standard 1-preferred rates and Standard 3-select rates.

The Company's rate manuals indicate that individuals were excluded by race from certain plans prior to 1964. The rate manuals also indicated that Non-whites received limited non-forfeiture options, limited availability of riders and limited face amounts.

The Company did not charge higher rates to all Non-white policyholders. We noted numerous instances of Non-whites receiving non-discriminatory rates under the standard Industrial plans. We noted no instances of individual policyholders paying discriminatory rates within the standard rate plans. However, Non-whites insured under standard plans may have been subject to the limitations described in the preceding paragraph.

Race-based practices appear to have been less widespread in the Company's Ordinary and MDO business. We found no evidence of discriminatory plans or dual-rate plans within the Ordinary and MDO lines. Rather, it appears that a small number of Non-white individuals received discriminatory ratings during the underwriting process.

Policies not captured by available data

The lookback period for this examination includes policies in-force as of January 1, 1981. Data is available for all of those policies that remained in-force as of December 1989. For the nine-year period 1981 – 1989, data is available on policies for which claims were filed (deaths and endowments) but data is not available on policies that surrendered or terminated

for other reasons. *Exhibit Thirteen, Lookback Period for Available Date*, illustrates the gaps in data for surrendered and terminated policies.

Examination results

A total of 14 Industrial plans containing 40,010 policies were identified as affected by race-based practices. In addition, 68 Ordinary policies are affected by racial underwriting for a total of 40,078 affected policies. *Exhibit Ten, Summary of Affected Policies* and *Exhibit Eleven, Affected Policies by State* present the examination findings in a table format. The primary techniques used to identify affected policies/plans, as well as eliminate non-affected policies/plans, were rate manual review, scatter plotting and targeted application sampling.

The Company's self-review had identified 9 of the 14 affected Industrial plans, which contained all but 324 of the affected policies. Examination policy counts differ from the self-reported counts because the self-reported totals were for in-force policies as of various dates in 2000 whereas examination policy counts include all policies in-force as of January 1, 1981, for which data is available.

Four of the additional plans identified during the examination were short-term endowment plans from the 1930's, which would have matured by the 1950's unless the policyholder exercised the option to use either the cash surrender value or the maturity value to purchase paid up insurance. One additional plan (Plan 70) was identified that could not be compared to any similar plan. While the premium rates were not determined to be discriminatory, the Company has asserted that it will include Plan 70 in the affected group of policies to be remediated.

Report Submission

The report of examination is herewith respectfully submitted.

In addition to the undersigned, additional representatives of Actuarial Group, Inc. assisted in the examination.

Sincerely,



John Humphries, Managing Actuary
Actuarial Group, Inc.

FAMILY OF COMPANIES

AMERICAN NATIONAL INSURANCE COMPANY

A stock life insurance company that offers a broad range of insurance coverages, including individual and group life, health and accident, and travel insurance.

AMERICAN NATIONAL LIFE INSURANCE COMPANY OF TEXAS

An insurer that markets life and health insurance products through alternative distribution systems.

STANDARD LIFE AND ACCIDENT INSURANCE COMPANY

A life insurer specializing in the marketing of Medicare supplement and other products for the senior market.

GARDEN STATE LIFE INSURANCE COMPANY

A direct response company with sales of life insurance generated through broadcast and print media, as well as through sponsoring organizations.

AMERICAN NATIONAL DE MÉXICO, COMPAÑIA DE SEGUROS DE VIDA, S.A. DE C.V.

A Mexican life insurance company specializing in Home Service life products.

AMERICAN NATIONAL PROPERTY AND CASUALTY COMPANY AND SUBSIDIARIES

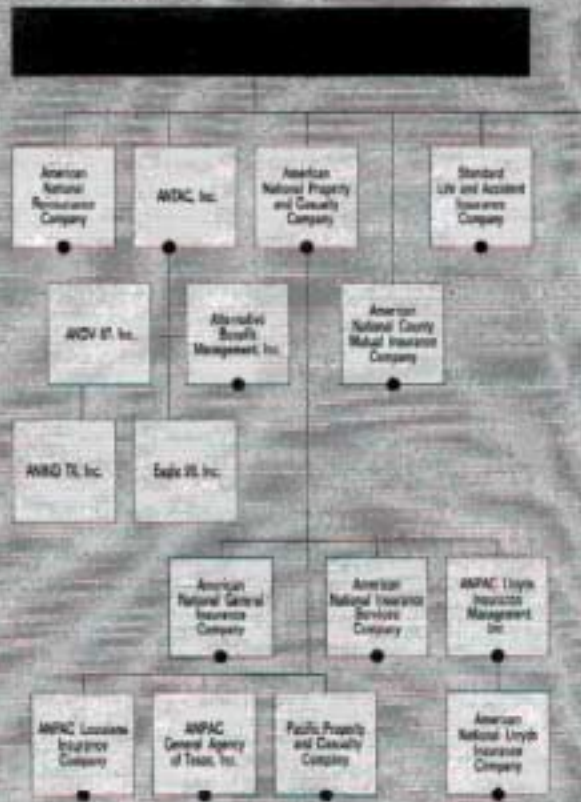
Property and casualty insurers that write primarily auto and homeowners insurance.

FARM FAMILY HOLDINGS, INC.

Markets personal lines property and casualty and life insurance to the agricultural market, concentrating on the northeastern United States.

SECURITIES MANAGEMENT AND RESEARCH, INC.

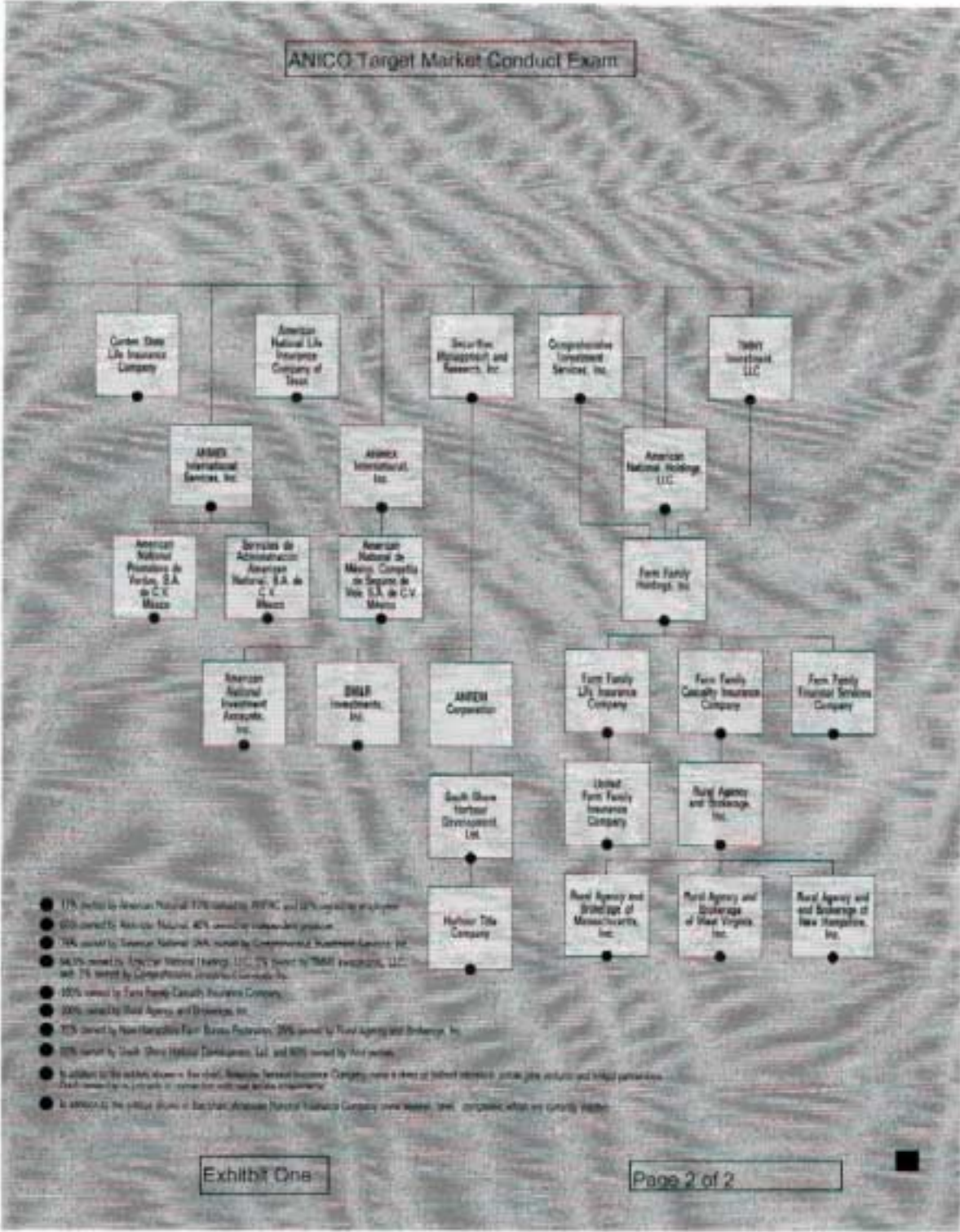
A broker-dealer, member NASD, SIPC, Investment Advisor.



- 100% owned by American National Insurance Company
- 100% owned by American National Property and Casualty Company
- 100% owned by Farm Family Holdings, Inc.
- Not a subsidiary company but managed by American National Insurance Company
- 100% owned by ANIC of Texas, Inc. (100% owned by ANIC of Texas, Inc.)
- 100% owned by ANIC of Florida, Inc. (100% owned by ANIC of Florida, Inc.)
- Not a subsidiary company but managed by ANIC of New York, Inc.
- 100% of common stock owned by ANIC, Inc., while the policy was administered by ANIC of New York, Inc.
- 100% owned by Farm Family Holdings, Inc.
- Not a subsidiary company but a controlling interest of ANIC of Texas, Inc. (100% owned by ANIC of Texas, Inc.)
- Not a subsidiary but "held" under management by ANIC of Texas, Inc. (100% owned by ANIC of Texas, Inc.)

Exhibit One, Page 1 of 2

ANICO Target Market Conduct Exam



- 100% owned by American National LTD (owned by AMER and 100% owned by its owners)
- 100% owned by American National, 40% owned by independent system
- 70% owned by American National, 30% owned by Comprehensive Investment Services, Inc.
- 50% owned by American National Holding, LLC, 25% owned by TWNY Investment, LLC, and 25% owned by Comprehensive Investment Services, Inc.
- 100% owned by Farm Family Casualty Insurance Company
- 100% owned by Rural Agency and Brokerage, Inc.
- 75% owned by New Hampshire Farm Bureau Federation, 25% owned by Rural Agency and Brokerage, Inc.
- 100% owned by South Shore National Development, Ltd. and 100% owned by AMER
- In addition to the entities shown in this chart, American National Insurance Company owns a direct or indirect interest in other life insurance and related companies. Such interest is not shown in this chart without further explanation.
- In addition to the entities shown in this chart, American National Insurance Company owns a direct or indirect interest in other life insurance and related companies. Such interest is not shown in this chart without further explanation.

Exhibit One

Page 2 of 2

Exhibit 1, Page 2 of 2

Below is a list of Companies from which ANICO acquired blocks of business. The state of domicile is listed if determinable.

Acme Life
Alamo Life, Health and Accident Ins. Society, San Antonio, TX
American Health & Life
The American Life and Benefit Insurance Co., Durham, NC
American Mutual Benefit Association, Galveston, TX
American Security Life
American Standard Life
American Union Life of Tulsa, OK
Appalachian National Life
Calhoun Life
Carolina Mutual Life Insurance Company, NC
Cherokee Life Insurance Company, Rome, GA
Commercial State Life Insurance Co. (St. Louis, MO)
Commonwealth Life Insurance of Missouri
Conservative Life, Wheeling, WV
Cosmopolitan Life, Health & Accident (St. Louis, MO)
David Crockett Life
Eureka Mutual Life Insurance Company, Wilmington, NC
Farmers and Bankers Life
Greater Ohio Life
Great National Life (Health only)
Guarantee Reserve Life Insurance Company, Fort Collins, CO
Guaranteed Securities Life
Home Life, Oklahoma City, OK
Industrial Life and Health Insurance Company, Atlanta, GA
Jefferson Life Insurance Company, Oklahoma City, OK
Kansas Life Insurance Co.
Life Insurance Company of Kansas City
Mid-Continent Life Insurance Company, Oklahoma City, OK
National Aid Life, Oklahoma City, OK
National Assurance Co., Atlanta, GA
National Life & Casualty Association, Galveston, TX
National Old Line Life
National Savings Life
Newberry Life & Health Insurance Company, Newberry, SC
North State Life Insurance Company, Kingston, NC
North State Mutual
Petroleum Life
Physicians Life, St. Louis, MO
Progressive Insurance Company, Atlanta, GA
Republic Life, El Paso, TX
Reserve Loan Life, Dallas, TX
Rio Grande National Life Insurance Company, Dallas, Texas

Exhibit Two, Page 1 of 2

Rome Insurance Company, Rome, GA
Santa Fe National Life Insurance Company
Southeastern Mutual Life & Accident, Greensboro, NC
The Southern Insurance Company, Nashville, TN
Southern Mutual Benefit Association of Dallas, TX
Southwestern Life Insurance Company, Dallas, Texas
Standard Life Insurance Company, Atlanta, GA
Standard Mutual, Durham, NC
State Reserve Life Insurance Company
Tennessee Life & Casualty
Union Central Life
United Fidelity Life
Voyager Life Insurance Company
Western United Life
The Workers Mutual Life & Health, New Bern, NC
World Service Life of Colorado

Date Identified	Identified by	Product Type	# of Affected Policies	Comments
1988	ANICO – in response to NAIC survey	Industrial	813	Company has reported that these policies were fully remediated by proportionate increase in face amount of policy. Examination determined that 794 policies were remediated. All policies were in plan code 25.
June 2000	ANICO – in response to state surveys	Industrial	21,235	Affected policies were contained within nine plan codes.
August 2000	ANICO – in response to state surveys	Industrial	241	Policies were within the nine previously identified plan codes.
July 2002	ANICO – per Frank Broll memo dated July 3, 2002	Ordinary	68	Company analyzed over 5,700 Ordinary policies with substandard table rating. Company estimates that the total face amount for the policies is less \$12,000.

In total, 22,357 policies have been associated with race-based pricing. Of those, 22,289 were Industrial policies and 68 were Ordinary policies. 813 policies were reported as remediated. Examination determined that 794 were remediated.

In 1988, the Company interpreted the NAIC survey as limited to premium paying policies. The Company identified four plan codes with race-based pricing, however; only one plan code had policies in a premium paying status. Thus, all of the 813 identified policies were within plan code 25.

As the Company responded to the various state surveys in 2000, five additional plan codes were associated with race-based pricing for a total of nine affected plan codes. The 2000 state surveys were not limited to premium paying policies. In June of 2000, the Company reported 21,235 affected Industrial policies, which did not include the 813 previously identified in 1988. Subsequently, 241 additional policies were identified for a total of 21,544 reported in August 2000.

Exhibit Three

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
1904-07	American National Insurance Co.		No	
1910-15	American National Insurance Co.			
1910-16	American National Insurance Co.	Rates, Ord and Indust	No	
1910	American National Insurance Co.		No	
1907	American National Insurance Co.		No	
April, 1912	American National Insurance Co.		No	
1910-13	American National Insurance Co.		No	
1915-23	American National Insurance Co.		Yes	In inspection specify race and nationality
June, 1921	American National Insurance Co.		Yes	In inspection specify race and nationality. Otherhand written and typed references to colored children, write only on white risks, no coloreds, etc
Jan1 1922	American National Insurance Co.		Yes	In inspection specify race and nationality. Only white risks at bottom of of 20 yre ndowm ent rates. Otherhand written notes on page 4 & 5.
1920	American National Insurance Co.		Yes/No	Note that page that contains inspection instructions is missing
1916	American National Insurance Co.		Yes	In inspection specify race and nationality
1919	American National Insurance Co.		Yes	In inspection specify race and nationality
Sep, 1922	American National Insurance Co.		Yes	In inspection specify race and nationality
April, 1923	American National Insurance Co.		Yes	In inspection specify race and nationality
Sep-24	American National Insurance Co.		Yes	In inspection specify race and nationality
Sep, 1925	American National Insurance Co.		Yes	In inspection specify race and nationality
Mar, 1927	American National Insurance Co.		Yes	In inspection specify race and nationality. Note in paragraph says rates are for white Americans without authority from Home Office. Colored business will be issued to Industrial Agents only, limit 2000.
Nov 1, 1927	American National Insurance Co.		No	Just rate book
1/1/1928	American National Insurance Co.		Yes	Same as Mar 1927
May, 1928	American National Insurance Co.		No	Just rate book
1/1/1929	American National Insurance Co.		Yes	Same as Mar 1927 plus for Non medical only Standard risks considered under Race
8/1/1929	American National Insurance Co.		Yes	Same as Mar 1927
11/1/1929	American National Insurance Co.		No	Just rate book
Oct, 31	American National Insurance Co.		Yes	In nationality and Race. Our standard rates are based on the mortality of white Americans living under favorable conditions, and persons not living under such conditions and not Americans should not be quoted standard rates.
Jun, 31	American National Insurance Co.		No	Rate book only.
Feb 2, 32	American National Insurance Co.		No	Rate book only.
May, 32	American National Insurance Co.		No	Rate book only.

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
Jul, 32	American National Insurance Co.		No	Rate book only.
May, 32	American National Insurance Co.		Yes	Same as Oct, 31
Jan-34	American National Insurance Co.		Yes	Same as Oct, 31
1-34 - 35	American National Insurance Co.		Yes	Same as Oct, 31
34-10-10-43	American National Insurance Co.		No	Rate book only.
Sep-36	American National Insurance Co.		Yes	Same as Oct, 31. Also special rules for Oriental
Dec-38	American National Insurance Co.		Yes	Under Nationality and Race—Refer to Home Office
Jun, 38	American National Insurance Co.		Yes	Same as 12 - 38
3 - 41 - 2-43	American National Insurance Co.		Yes	Under Race: Never state the race as America. Always indicate the race as "White" or "Colored", stating the nationality or descent if the applicant is a foreigner. The place of birth should not be stated in answer to this question inasmuch as the place of birth does not affect the race or nationality and is immaterial also far as this part of the application is concerned.
Jan-45	American National Insurance Co.		Yes	Same as 3-41 - 2-43
Jan-46	American National Insurance Co.		Yes	Same as 3-41 - 2-43
Jan, 48	American National Insurance Co.		Yes	Same as Dec 38
10-37 - 3-41	American National Insurance Co.		yes	Same as Dec 38
1-26-48-3-2-53	American National Insurance Co.		No	Table for standard industrial
Mar-41	American National Insurance Co.		Yes	Same as Dec 38
Sep-51	American National Insurance Co.	ordinary	Yes	Same as Dec 38
Jan-56	American National Insurance Co.	ordinary	No	
Jan-57	American National Insurance Co.	ordinary	No	
Jun-58	American National Insurance Co.	ordinary	No	
Dec-60	American National Insurance Co.	ordinary & MDO	No	
Dec. 8, 1962	American National Insurance Co.	All products, Com b Agen	No	
Mar-66	American National Insurance Co.	Com binarion	No	
year 1966	American National Insurance Co.		No	
Jan-68	American National Insurance Co.	Condensed	No	
Jul-69	American National Insurance Co.	univ program	No	
Jan. 1, 1972	American National Insurance Co.	All products, Com b Agen	No	
Jun, 73	American National Insurance Co.	Condensed com bination	No	
Jan-72	American National Insurance Co.	Condensed com bination	No	
Jun-73	American National Insurance Co.	Condensed com bination	No	
Aug-75	American National Insurance Co.	Condensed com bination	No	
Apr-79	American National Insurance Co.	Com binarion	No	
Apr-79	American National Insurance Co.	Condensed com bination	No	

Exhibit Four, Page 2 of 9

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
Nov-82	American National Insurance Co.	Misc Life Rates	No	
Sep-85	American National Insurance Co.	Combination & Univer	No	
Jan-93	American National Insurance Co.	Rates only	No	
Jan-93	American National Insurance Co.	Amer Series	No	
Jun-94	American National Insurance Co.	Amer Series	No	
Dec-95	American National Insurance Co.	Premier Series	No	
Dec-95	American National Insurance Co.	Riders	No	
Mar-95	American National Insurance Co.	Horizontal Term	No	
Oct-95	American National Insurance Co.	Home Service	No	
UL 96& 501	American National Insurance Co.	Universal Life	No	
Aug-96	American National Insurance Co.	Horizontal Perm	No	
Jun-97	American National Insurance Co.	Life Plus	No	
Jan-01	The Reserve Loan Life Insurance Co	Agents Instrand Rate Man	No	
1902	The Reserve Loan Life Insurance Co	Agents Instrand Rate Man	No	
1-Jun-17	The Reserve Loan Life Insurance Co	Rate Book	No	
11/1/1922	The Reserve Loan Life Insurance Co	Rate Book	No	
11/1/1923	The Reserve Loan Life Insurance Co	Rate Book	No	
1930	The Reserve Loan Life Insurance Co	Rate Book	No	
1933	The Reserve Loan Life Insurance Co	Rate Book	No	
7/1/1937	The Reserve Loan Life Insurance Co	Rate Book	No	
10/10/1943	The Reserve Loan Life Insurance Co	Rates, Values, Instructions	Yes	Under Underwriting Rules—Applications for insurance on lives of negroes will not be considered.
7/1/1944	The Reserve Loan Life Insurance Co	Rates, Values, Instructions	?	Written in Spanish
5/15/1946	The Reserve Loan Life Insurance Co	Rates, Values, Instructions	Yes	Same as 10/10/43
..1946.	The Reserve Loan Life Insurance Co	Rates, Values, Instructions	Yes	Same as 10/10/43
2/1/1947	The Reserve Loan Life Insurance Co	Rate Book	No	
1/1/1948	The Reserve Loan Life Insurance Co	Agents Instrand Rate Man	Yes	Same as 10/10/43
Aug., 1963	American national Insurance Com p	University Program	No	
.1990.	Magnolia Life Insurance Com pany	Rate Manual	No	
	Cosmopolitan Life, Health	Prem Rates and Instruct	No	

Exhibit Four, Page 3 of 9

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
July, 1927	National Savings Life	Rate Book	No	
7/1/1930	National Savings Life	Rate Book	No	
Feb, 1932	National Savings Life	Rate Book	No	
1934	Kansas Life Insurance Company	Manual	Yes	Only Caucasian race will be eligible for life insurance at standard rates except as hereinafter outlined in this manual. Has special instructions for Mexican Ris
Sept, 1959	Life and Casualty Insurance Company	Rate Manual, W P, M D O	No	
Jan, 1964	Life and Casualty Insurance Company	Rate Manual, W P, M D O	No	
Jan, 1968	Life and Casualty Insurance Company	Rate Manual, W P, M D O	No	
Jan, 1970	Life and Casualty Insurance Company	Prem Rates and Gen Infor	No	
Jan, 1970	Life and Casualty Insurance Company	MAO, W P, Special	No	
1971	Life and Casualty Insurance Company	Prem Rates and Gen Infor	No	
1948	Commercial Life Insurance Company	Rates	No	
1-Jan-54	Commercial Life Insurance Company	Agents Manual	No	
JAN., 1957	Commercial Life Insurance Company	Rate Book	No	
Oct. 1, 1959	Commercial Life Insurance Company	Industrial Rate Book	No	
	Commercial Life Insurance Company	Savings Plan	No	
Dec. 1, 1964	Commercial State Life Insurance Company	Industrial Rate Book	No	
15-Mar-65	Commercial State Life Insurance Company	Industrial Rate Book	No	
Jan. 1, 1968	Commercial State Life Insurance Company	Industrial Rate Book	No	
10/10/1972	Commercial State Life Insurance Company	Industrial Rate Book	No	
10/1/1976	Commercial State Life Insurance Company	Industrial Rate Book	No	
Feb, 1921	Commonwealth Life and Accident Insurance	Rates and Outline of Pol	No	
1947 and prior	Commonwealth Life and Accident Insurance	Rates and Outline of Pol	No	
1/1/1953	Commonwealth Life and Accident Insurance	Rate Book Ord and Industrial	No	
1/1/53, Texas	Commonwealth Life and Accident Insurance	Rate Book Ord and Industrial	No	
1942-1948	Commonwealth Life and Accident Insurance	Rate Book	No	
Dec-48	Commonwealth Life and Accident Insurance	Rates and Outline of Pol	No	
1948	Commonwealth Life and Accident Insurance	Industrial Rates	Yes	Handwritten on one table B Sub
	Commonwealth Life and Accident Insurance	Industrial Rates	No	

Exhibit Four, Page 4 of 9

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
1/67-7/6/69	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
7/1/69-7/16/71	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
7/17/71-1978	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
10/1/72-3/1/75	Com m onweal th Life and Acci dent Insuranc e Co	700 Series Rate Book	No	
Mar, 1975	Com m onweal th Life and Acci dent Insuranc e Co	Com bined Rate Book	No	
To 1978	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
76,77,78,700	Com m onweal th Life and Acci dent Insuranc e Co	M D O Rates	No	
1978	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
Jan-79	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
4/15/1980	Com m onweal th Life and Acci dent Insuranc e Co	Indust rial Rates	No	
9/1/1984	Com m onweal th Life and Acci dent Insuranc e Co	Ameri can Ser Rates	No	
10/8/84-3/24/85	Com m onweal th Life and Acci dent Insuranc e Co	Ameri can Ser Rates	No	
3/25/85-7/87	Com m onweal th Life and Acci dent Insuranc e Co	Ameri can Ser Rates	No	
1/1/1992	Com m onweal th Life and Acci dent Insuranc e Co	Ameri can Ser Rates	No	
1/1/1925	The Conservati ve Life Insuranc e Com pany	Agents M anual	No	
July, 1936	The Conservati ve Life Insuranc e Com pany	Agents M anual	No	
Jan-44	The Conservati ve Life Insuranc e Com pany	Agents M anual	No	
May-46	The Conservati ve Life Insuranc e Com pany	Juveni le Rates	No	
Before 1947	The Conservati ve Life Insuranc e Com pany	Rate Book	No	
Feb-47	The Conservati ve Life Insuranc e Com pany	Juveni le Rates	No	
A fter 1947	The Conservati ve Life Insuranc e Com pany	Rate Book	No	
1/1/48-6/30/49	The Conservati ve Life Insuranc e Com pany	Agents M anual	No	
1/1/1948	The Conservati ve Life Insuranc e Com pany	Rate Book	No	
Sep-51	Ameri can National Insuranc e Com pany	Spani sh Rate Book		
1923	Ameri can National Insuranc e Com pany	Indust rial Rate Book	No	
9/1/1925	Ameri can National Insuranc e Com pany	Indust rial Rate Book	No	
8/15/1928	Ameri can National Insuranc e Com pany	Indust rial Rate Book	No	
8/1/1930	Ameri can National Insuranc e Com pany	Indust rial Rate Book	Yes	Sam e as 3-41 to 2-43
3/28/1932	Ameri can National Insuranc e Com pany	Indust rial Rate Book	No	

Exhibit Four, Page 5 of 9

Date	Name	Sub-headings	Race Ref	Comment
1933-1941	American National Insurance Company	Rate Book	No	
3-6-33-8-11-41	American National Insurance Company	Industrial Rate Book	Yes	Same as 3-41 to 2-43
Nov, 1936	American National Insurance Company	Industrial Rate Book	Yes	Same as 3-41 to 2-43
1936	American National Insurance Company	Industrial Rate Book	Yes	Same as 3-41 to 2-43
8/11/1941	American National Insurance Company	Industrial Rate Book-St	Yes	Same as 3-41 to 2-43
May-51	American National Insurance Company	Industrial Funeral Rates	Yes	Same as 3-41 to 2-43
Sep-51	American National Insurance Company	Ordinary Rate Book	No	
June, 1952	American National Insurance Company	Industrial Funeral Rates	Yes	Same as 3-41 to 2-43
3/2/1953	American National Insurance Company	Industrial Funeral Rates	Yes	Same as 3-41 to 2-43
3-2-53-12-17-62	American National Insurance Company	Ind Rates-Ordinary and	Yes	See Special notes
Jan, 1960	American National Insurance Company	Special Illustrations-Ind	Yes	See Special notes
12/1/1985	American National Insurance Company	Industrial Rate Book	No	
Unk	Unk, probably ANICO	Various Plans	No	
Unk	American National Insurance Company	Industrial Funeral Rates	Yes	Same as 3-41 to 2-43
Unk	American National Insurance Company	Cuban Industrial Rates	No	
7/1/2024	State Reserve Life Insurance Co	Rate Book	Yes	Under persons not to be solicited--Applications must not be solicited except from white persons in good circumstances and apparently first-class risks morally and physically.
1/1/1931	State Reserve Life Insurance Co	Rate Book	No	
9/1/1937	State Reserve Life Insurance Co	Rate Book	Yes	Under Race--Negroes not accepted
9/1/1941	State Reserve Life Insurance Co	Rate Book	Yes	Same as 9/1/37
9/1/1941	State Reserve Life Insurance Co	Agents Manual	Yes	Same as 9/1/37
1/1/1944	State Reserve Life Insurance Co	Rate Book	Yes	Same as 9/1/37
9/1/1944	State Reserve Life Insurance Co	Agents Manual	Yes	Same as 9/1/37
5/1/1948	State Reserve Life Insurance Co	Agents Manual	Yes	Under Trial Application--Trial application should be submitted for someone who belongs to a race other than Caucasian
5/1/1949	State Reserve Life Insurance Co	Rate Book	Yes	Same as 5/1/48
6/1/1953	State Reserve Life Insurance Co	Agents Manual	Yes	Same as 5/1/48
3/1/1960	State Reserve Life Insurance Co	Rate Book	No	
11/6/1968	State Reserve Life Insurance Co	Rate Book	No	
June, 1968	State Reserve Life Insurance Co	Rate Book	No	
April, 1978	State Reserve Life Insurance Co	Agents Manual	No	
41CSO	State Reserve Life Insurance Co	1941 CSO	No	

Exhibit Four, Page 6 of 9

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
1955	American Standard	Rate Book	No	
1958	Petroleum Life Insurance Co	Agents Manual	No	
6/1/1970	Western United Life Insurance Company	Agents Manual	Yes	Under Nationality and Race—Refer to Home Office
1/26/1954	Calhoun Life Insurance Company	Prem Rates	No	
Dec-68	Calhoun Life Insurance Company	Prem Rates	No	
3/1/1960	Appalachian National Life Insurance Co	Rate Manual	No	
1/1/1963	Appalachian National Life Insurance Co	Rate Manual	No	
1/1/1972	Appalachian National Life Insurance Co	Rate Manual	No	
1/1/1978	Appalachian National Life Insurance Co	Rate Manual	No	
9/1/1955	David Crockett Life Insurance Company	Rate Manual & CSO 3%	No	
1942	The American Hospital & Life Ins Co	Rate Book	Yes	Under Races—Negroes and Mongolians applications for life insurance on the lives of Negroes and Mongolians shall not be accepted by the Company.
1/1/1944	The American Hospital & Life Ins Co	Salesman Instructions	Yes	Same as 1942
1/1/1948	The American Hospital & Life Ins Co	Salesman Instructions	Yes	Under Races—Certain races have a higher mortality than that expected among pure caucasian types; hence persons belonging to such races will be charged extra premiums and otherwise restricted. The procedure of the company with regard to certain races most frequently met by the salesman is outlined below. The company's policy regarding any race not mentioned herein will be explained upon written request to the Home Office. Note that below contained Mexicans and Indians.

Exhibit Four, Page 7 of 9

**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
June, 1953	The American Hospital & Life Ins Co	Policy Explanations	Yes	Same as 1/148
1/1/1956	The American Hospital & Life Ins Co	Salesman Instructions	Yes	Under Race—Negroes in the high grade professional classes and those employed as executives and office workers in reputable, well established businesses will be considered Caucasian lives. Others will be given individual consideration, See special notes
June, 1960	The American Hospital & Life Ins Co	Manual A & H only	Yes	Income Disability Benefits usually not issued to non-caucasian
1961	The American Hospital & Life Ins Co	Agents Manual	Yes	DE to 25,000, For all other non-caucasian treated as comparable caucasian. For Hospital Ins Caucasian only
1965	The American Hospital & Life Ins Co	Agents Manual	No	
Jul-68	American Security Life	Rate Manual	No	
prior to 76	American Security Life	Rate Manual	No	
1/1/1976	American Security Life	Rate Manual	No	
Sep-79	American Security Life	Rate Manual	No	
Nov-81	American Security Life	Rates	No	
Aug-83	American Security Life	Condensed Rate Book	No	
June, 1913	The Farmers & Bankers Life Insurance Company		Yes	Races other than Caucasian-applications must be submitted to Home Office
Aug, 1914	same		Yes	Races other than Caucasian-applications must be submitted to Home Office
Nov, 1914	same		Yes	Races other than Caucasian-applications must be submitted to Home Office
April, 1916	same		Yes	Races other than Caucasian-applications must be submitted to Home Office
Jan, 1920	same		Yes	Races other than Caucasian-applications must be submitted to Home Office
Oct, 1920	same		No	Only list 20 pay life premium
1922	same		No	
Feb, 1921	same		Yes	Races other than Caucasian-applications must be submitted to Home Office
1-Nov-26	same		No	
Jan1, 1929	same		No	
June, 1932	same		No	
Jan, 1934	same		No	
April, 1935	same		No	
Jan 1, 1936	same		No	

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**ANICO Target Market Conduct Examination
Review of Rate Books**

Date	Name	Sub-headings	Race Ref	Comment
Oct, 1943	same		No	
Feb1, 1948	same		No	
Sept, 1948	same		No	
Sept, 1949	same		No	
Mar, 1995	same		No	
AE 3 1/2%	Guaranteed Reserve Life Insurance Company		No	
AE	same		No	
CSO 3%	same		No	
Dir Guar	same		No	
1975	American Health and Life Insurance Company		No	
6/18/1981	American Health and Life Insurance Company		No	

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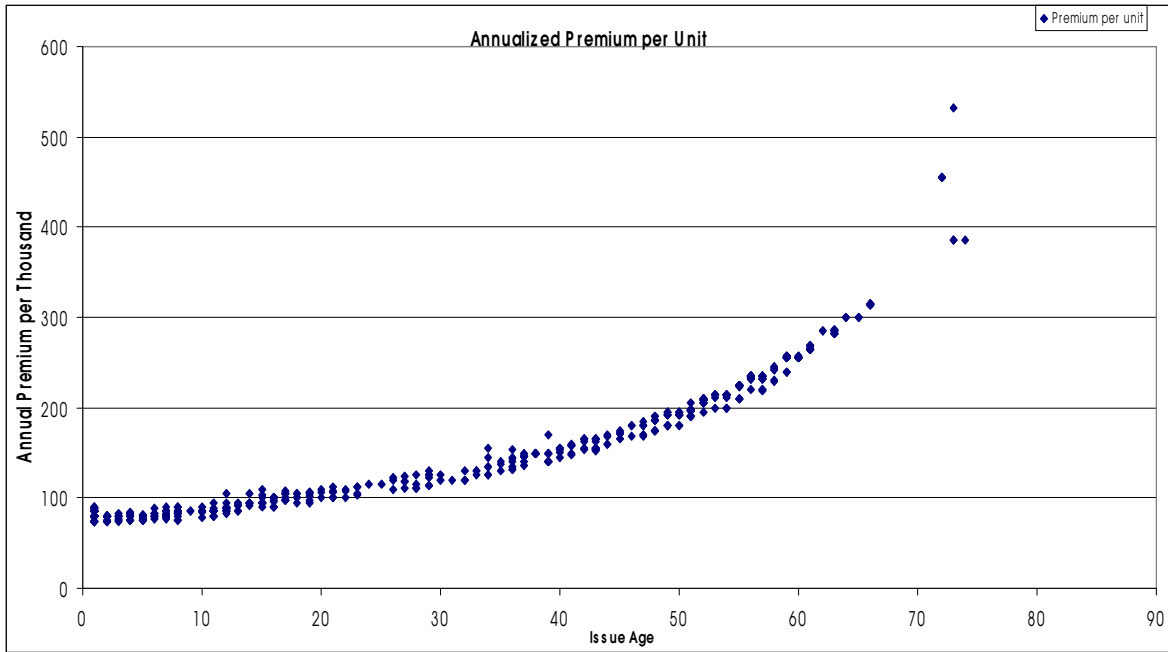
**ANICO Target Market Conduct Exam
Systems Matrix**

	<u>Current Software</u>	<u>Start Date</u>	<u>Previous Software</u>	<u>Start Date</u>	<u>Date Business Began</u>
ANICO Industrial	Life /70	1989	In-house	first automated systems	1905
ANICO MDO	Life /70	1979	In-house	first automated systems	1946
ANICO Ordinary	Life /70	1975	In-house	first automated systems	1905
ANICO Universal	Vantage	1983	n/a	n/a	1983
ANTEX	Life /70	1975	In-house	1972	1972
GS I Ordinary	Life /70	1992	unknown	1956	1956
GS I Direct Response	DRMS , Capsil	1983	n/a	n/a	1983

Exhibit Five, Systems Matrix

File Name	File Description	No. of Records	Date Received
Active A	Current in-force as of 12/31/01 for policies issued prior to 1948	316,955	5/21/02
Active B	Current in-force as of 12/31/01 for policies issued in 1948 or later	339,108	5/21/02
Terminated A	Policies terminating between 1989 and 2001 and issued prior to 1948	165,847	5/21/02
Terminated B	Policies terminating between 1989 and 2001 and issued in 1948 or later	267,264	5/21/02
PreLife 70 Group A	Lapse master records dated 1989 (“Industrial 2”) for policies issued prior to 1948	425,255	5/22/02
PreLife 70 Group B	Lapse master records dated 1989 (“Industrial 2”) for policies issued in 1948 or later	439,037	5/22/02
IND002 Lapse Day 88350 GroupA	Lapse master records dated Dec. 1988 for policies issued in 1948 or later	441,607	11/04/02
IND002 Lapse Day 88350 GroupB	Lapse master records dated Dec. 1988 for policies issued prior to 1948	467,938	11/04/02
IND002 Inforce Day 88350 GroupA	In-force master records dated December, September and August 1988 for policies issued in 1948 or later	62,161	11/04/02
IND002 Inforce Day 88350 GroupB	In-force master records dated December, September and August 1988 for policies issued prior to 1948	255,226	11/04/02
Claims GT 1947 Co. 05	Claims data from 1981-1989 for policies issued prior to 1948	150,966	12/06/02
Claims LT 1948 Co. 05	Claims data from 1981-1989 for policies issued in 1948 or later	126,631	12/06/02

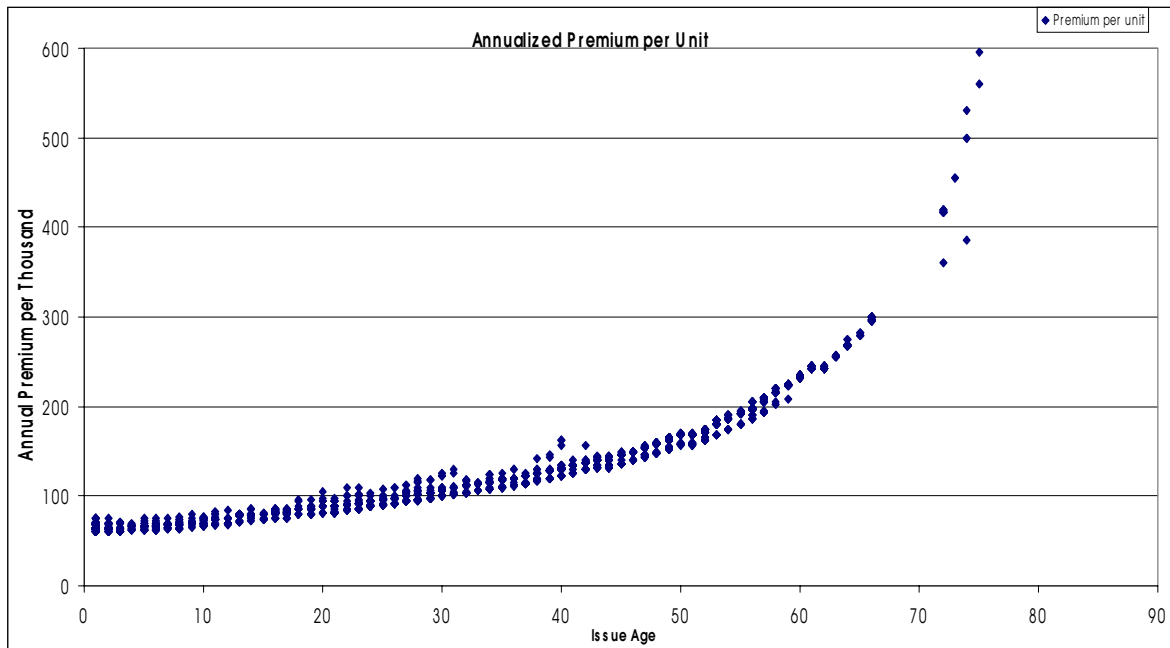
Exhibit Six, Electronic Data Files – Industrial Only



Plan_str	PLANCODE NEW	STATUS	SEX	Issue Decade
79				5
79				5
79				5
79				5

Plan 79 is a 15-Pay Life plan. When compared to a graph of Plan 77, a non-discriminatory 15-Pay Life plan, the premium rates above are clearly higher than those of Plan 77.

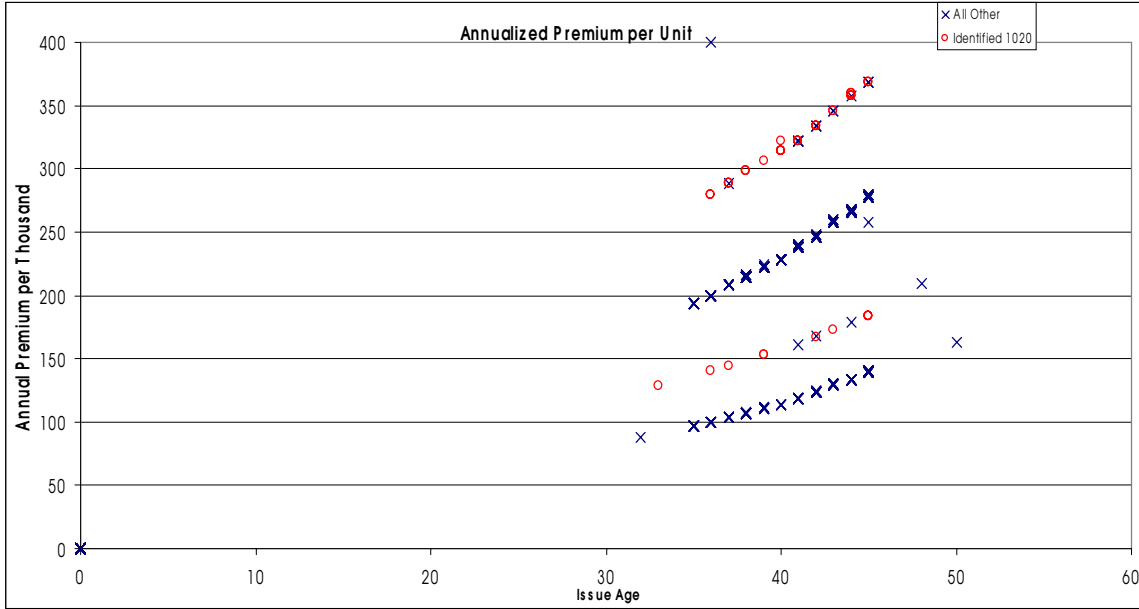
Exhibit Seven, Discriminatory Plan 79 Scatterplot



Plan_str	PLANCODE NEW	STATUS	SEX	Issue Decade
77				5
77				5
77				5
77				5

Plan 77 is a non-discriminatory 15-Pay Life plan. When compared to a graph of Plan 79, a discriminatory 15-Pay Life plan, the premium rates above are clearly lower than those of plan 79.

Exhibit Eight, Non-discriminatory Plan 77 Scatterplot



				Issue Decade
				5

Each data point above represents one or more Plan 25 policies issued during the 1950's. Plan 25 was a dual-rate plan with face value decreasing by 1/2 at age 65. The upper pair of curves above represents policyholders who have reached the age of 65, thereby doubling the annual premium per thousand due to the reduction in benefits. The higher curve within each pair represents policyholders paying discriminatory Standard 3 rates. The lower curve within each pair represents policyholders paying non-discriminatory Standard 1 rates. The data points presented as circles represent those policyholders included in the Company's self-reported count of affected policies.

Exhibit Nine, Plan 25 Scatterplot

Plan Codes Previously Identified by American National Insurance Company

Plan Code	Description	Dual Rate or Single Rate	Correlating Non-discr. Plan Code	1st year Issued ²	Last year Issued	# of Affected Policies ¹	# of Paid Claims	Amount of Paid Claims	Comments
18	20 Pay Life	Single Rate	86	1936	1939	1,513	341	\$62,701	The Company included these eight plan codes in their responses to various state surveys on race-based practices in 2000. The Company has stated that these 8 plans include mostly Non-Whites, each of whom was charged higher premium rates than similarly situated White individuals.
28	19 Pay Life	Single Rate	86	1936	1939	1,157	243	\$51,809	
37	15 Pay Life	Single Rate	17	1936	1939	246	26	\$3,782	
42	10 Pay Life	Single Rate	32	1936	1939	329	21	\$2,851	
47	14 Pay Life	Single Rate	17	1936	1939	383	38	\$6,042	
78	20 Pay Life	Single Rate	76	1949	1964	6,084	3,296	\$1,135,235	
79	15 Pay Life	Single Rate	77	1949	1964	1,882	1,060	\$331,612	
88	20 Pay Life	Single Rate	86	1948	1964	25,830	5,939	\$2,294,926	
subtotal of 8 single race plans						37,424	10,964	\$ 3,888,958	
25	Paid Up @ 65	Dual Rate	n/a	1958	1964	2,262	597	\$411,386	Plan 25 includes both White and Non-White individuals in a dual-rate structure. Plan 25 was included in the 1988 NAT and 2000 state survey responses.
subtotal of 9 previously identified plans						39,686	11,561	\$ 4,300,344	

Plan Codes Identified During Target Market Conduct Examination

36	14 Yr Endowment	Single Rate	16	1937	1938	8	0	\$0	Plans were identified as affected by rate manual review, scatterplotting and application sampling.
50	10 Yr Endowment	Single Rate	30	1936	1938	28	1	\$400	
52	20 Yr Endowment	Single Rate	27	1938	1938	1	0	\$0	
62	19 Yr Endowment	Single Rate	27			0	0	\$0	Plan was identified as affected by rate manual review.
70	Endow @ age 70	Single Rate	69	1936	1939	287	85	\$16,086	Premium rates are not clearly discriminatory when compared to premium rates of Plan 69, Endowment @ age 65, however, the Company has decided to include these policies in the affected group.

Industrial Policy Totals

Total of 14 Industrial Plan Codes						40,010	11,647	\$ 4,316,830	
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Ordinary Policy Totals

various	various	n/a	n/a			68	6	\$531	The Company reviewed all ordinary policies issued prior to the 1963 rate book with substandard mortality rating. The review covered approximately 5,700 policy files.
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Policy Totals

Grand Total						40,078	11,653	\$ 4,317,361	
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Notes

¹ Policy counts were derived from Final Master Industrial file

Exhibit Ten, Summary of Affected Policies

State	Face Amount	Count
Undetermined	\$767,510.00	1,630
AL	\$222,401.00	550
AR	\$149,174.00	413
AZ	\$78,891.50	175
CA	\$2,303,681.00	5,093
CO	\$85,218.50	188
CT	\$1,200.00	2
DC	\$27,315.00	54
DE	\$500.00	1
FL	\$66,538.00	134
GA	\$532,856.50	1,417
HI	\$4,230.00	11
IA	\$9,558.00	20
IL	\$99,766.00	207
IN	\$3,075.00	8
KS	\$106,415.50	221
KY	\$27,237.00	50
LA	\$775,387.50	2,128
MA	\$500.00	1
MD	\$7,855.00	17
MI	\$313,429.50	553
MN	\$113,542.50	201
MO	\$161,424.50	317
MS	\$79,904.50	248
MX	\$349.00	2
NC	\$497,679.00	1,134
NE	\$3,035.00	9
NJ	\$3,783.00	9
NM	\$163,565.00	344
NV	\$5,130.00	10
NY	\$13,307.00	40
OH	\$6,902.00	24
OK	\$647,029.00	1,686
OR	\$172,873.50	351
PA	\$3,776.00	13
SC	\$1,790.00	4
TN	\$152,123.50	329
TX	\$7,773,357.80	21,265
UT	\$16,014.00	33
VA	\$2,380.00	9
WA	\$496,000.00	1,155
WI	\$1,330.00	4
WV	\$7,683.50	16
XX	\$710.00	2
Total:	\$15,906,427.80	40,078

Exhibit Eleven, Affected Policies by State



AMERICAN NATIONAL INSURANCE COMPANY

ONE MOODY PLAZA GALVESTON, TEXAS 77550-7999 409/763-4661

December 19, 2002

Actuarial Group, Inc.
23 Eastbrook Bend, Suite 201
Peachtree City, GA 30269

Dear Sir or Madam:

In connection with your market conduct examination of American National Insurance Company, we confirm the following representations made to you during your examination.


1. To the best of our knowledge and belief, we have provided you access to all underwriting, actuarial, marketing, and training materials in our possession for the time periods and the products which you have indicated are applicable to your examination. Such materials include, but are not limited to, rate books, policy applications, manuals, and policy forms; provided, however, that to the extent that such materials exist for products not at issue in your examination, we have not been requested to provide such information to you and make no certification regarding such materials.
2. To the best of our knowledge and belief, we have provided to you the electronic and paper records in our possession which you have requested and/or indicated were applicable to your examination. We confirm that we have no electronic records with a race indicator. However, as you know, we have electronically imaged policy files which include an electronically stored image of the file's materials, including but not limited to a copy of the application where available. The information contained on the documents within the policy file may only be searched or reviewed manually.
3. To the best of our knowledge and belief, we have fully and accurately discussed with you our efforts to identify the extent to which we have charged more in premiums to African-Americans (or individuals of other races) than similarly situated White individuals and have provided you with records and documents to enable you to verify the results of those efforts.

We understand that you assert that your examination was made in accordance with Article 1.15 of the Texas Insurance Code and Chapter 2254 of the Texas Government Code.

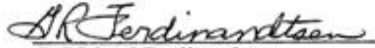
Exhibit 12, Affidavit

Page 1 of 2

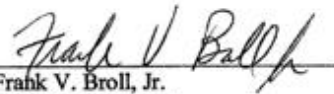
American National Insurance Company


Robert L. Moody
Chairman of the Board, Chief
Executive Officer

19 Dec 2002
Date


G. Richard Ferdinandtsen
President, Chief Operating Officer

12-19-02
Date

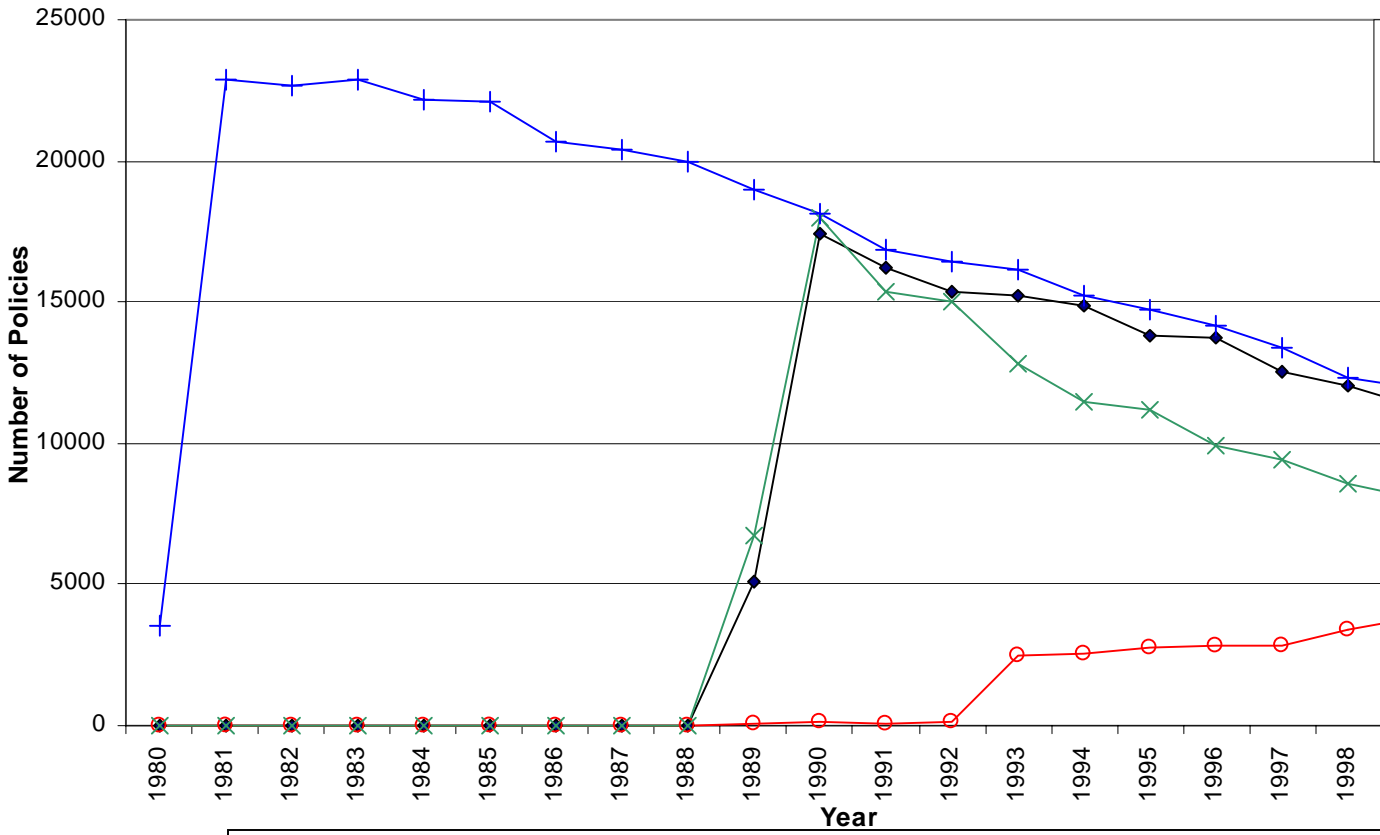

Frank V. Broll, Jr.
Vice-President, Actuary

12-19-02
Date

Exhibit 12, Affidavit

Page 2 of 2

Chart Showing Coverage of the Life70 and Claims files over the Lookback Pe



This is a graphical illustration of the time periods covered by the Industrial electronic data file examination. Lines above represent number of policies with a final status of claimed, matured or terminated. Note that between 1989 and 2001 there is an overlap in the data provided by the claims file and the Life70 file.

According to Company management, policies maturing between 1988 and 1991 were not on file despite the policy count of zero shown above for those years. A separate final status code was used for these policies until 1992; prior to that year they were grouped under another final status code.

Most importantly, the graph shows that there is an absence of data from 1/1/81 through 12/31/87 policies.

Exhibit Thirteen, Lookback Period for Available Date

EXHIBIT B: ADMINISTRATIVE PENALTY ALLOCATION BY PARTICIPATING STATE

State of Issue	Total		Percentage		Fine Allocation
	Face Amount	Count	Face Amount	Count	Allocated By Count
TX	7,773,358	21,265	51.3504%	55.3142%	\$ 128,234
CA	2,303,681	5,093	15.2180%	13.2478%	\$ 30,712
LA	775,388	2,128	5.1222%	5.5353%	\$ 12,832
OK	647,029	1,686	4.2742%	4.3856%	\$ 10,167
GA	532,857	1,417	3.5200%	3.6859%	\$ 8,545
NC	497,679	1,134	3.2876%	2.9497%	\$ 6,838
WA	496,000	1,155	3.2766%	3.0044%	\$ 6,965
MI	313,430	553	2.0705%	1.4385%	\$ 3,335
AL	222,401	550	1.4692%	1.4307%	\$ 3,317
OR	172,874	351	1.1420%	0.9130%	\$ 2,117
NM	163,565	344	1.0805%	0.8948%	\$ 2,074
MO	161,425	317	1.0664%	0.8246%	\$ 1,912
TN	152,124	329	1.0049%	0.8558%	\$ 1,984
AR	149,174	413	0.9854%	1.0743%	\$ 2,491
MN	113,543	201	0.7501%	0.5228%	\$ 1,212
KS	106,416	221	0.7030%	0.5749%	\$ 1,333
IL	99,766	207	0.6590%	0.5384%	\$ 1,248
CO	85,219	188	0.5629%	0.4890%	\$ 1,134
MS	79,905	248	0.5278%	0.6451%	\$ 1,496
AZ	78,892	175	0.5212%	0.4552%	\$ 1,055
FL	66,538	134	0.4395%	0.3486%	\$ 1,000
DC	27,315	54	0.1804%	0.1405%	\$ 1,000
KY	27,237	50	0.1799%	0.1301%	\$ 1,000
UT	16,014	33	0.1058%	0.0858%	\$ 1,000
NY	13,307	40	0.0879%	0.1040%	\$ 1,000
IA	9,558	20	0.0631%	0.0520%	\$ 1,000
MD	7,855	17	0.0519%	0.0442%	\$ 1,000
WV	7,684	16	0.0508%	0.0416%	\$ 1,000
OH	6,902	24	0.0456%	0.0624%	\$ 1,000
NV	5,130	10	0.0339%	0.0260%	\$ 1,000
HI	4,230	11	0.0279%	0.0286%	\$ 1,000
NJ	3,783	9	0.0250%	0.0234%	\$ 1,000
PA	3,776	13	0.0249%	0.0338%	\$ 1,000
IN	3,075	8	0.0203%	0.0208%	\$ 1,000
NE	3,035	9	0.0200%	0.0234%	\$ 1,000
VA	2,380	9	0.0157%	0.0234%	\$ 1,000
SC	1,790	4	0.0118%	0.0104%	\$ 1,000
WI	1,330	4	0.0088%	0.0104%	\$ 1,000
CT	1,200	2	0.0079%	0.0052%	\$ 1,000
DE	500	1	0.0033%	0.0026%	\$ 1,000
MA	500	1	0.0033%	0.0026%	\$ 1,000
Undetermined	768,569	1,634	0.0000%	0.0000%	\$ -
No Issue State	768,569	1,634	4.8318%	4.0770%	\$ -
With Issue State	15,137,859	38,444	95.1682%	95.9230%	\$ 250,000
Totals:	15,906,428	40,078	100.0000%	100.0000%	\$ 250,000

Exhibit C: Benefit Enhancement Grid

Plan	18	25	37	42	78	79	88
IssAge	Adjustment	Adjustment	Adjustment	Adjustment	Adjustment	Adjustment	Adjustment
1					29%	25%	21%
2					24%	25%	22%
3					28%	25%	23%
4					28%	24%	23%
5					28%	24%	24%
6					23%	24%	26%
7					23%	21%	26%
8					22%	21%	27%
9					26%	20%	28%
10	26%		25%	20%	30%	20%	28%
11	25%		24%	21%	25%	16%	28%
12	24%		24%	19%	28%	16%	28%
13	23%		24%	19%	31%	15%	29%
14	23%		22%	17%	30%	18%	30%
15	22%	49%	20%	17%	29%	18%	29%
16	20%	48%	21%	18%	28%	17%	28%
17	20%	48%	20%	16%	31%	20%	29%
18	18%	47%	16%	16%	30%	16%	28%
19	15%	46%	15%	14%	26%	19%	27%
20	14%	47%	14%	14%	29%	18%	30%
21	13%	47%	12%	12%	29%	20%	28%
22	11%	46%	10%	12%	24%	18%	27%
23	10%	44%	11%	10%	27%	22%	28%
24	10%	46%	7%	10%	24%	21%	26%
25	9%	45%	7%	7%	23%	21%	25%
26	9%	47%	7%	8%	23%	18%	25%
27	8%	46%	7%	8%	22%	18%	24%
28	8%	44%	8%	5%	24%	18%	25%
29	6%	44%	8%	5%	21%	17%	23%
30	6%	43%	8%	8%	20%	19%	22%
31	7%	41%	6%	5%	20%	16%	22%
32	7%	43%	6%	6%	24%	14%	23%
33	7%	41%	6%	6%	23%	14%	23%
34	7%	41%	6%	6%	23%	16%	22%
35	5%	40%	4%	6%	22%	17%	22%
36	7%	40%	4%	3%	22%	17%	23%
37	8%	38%	4%	6%	21%	20%	21%
38	6%	39%	5%	6%	21%	19%	21%
39	6%	38%	5%	3%	16%	17%	20%
40	6%	38%	5%	6%	18%	18%	20%
41	6%	35%	5%	7%	19%	18%	21%
42	6%	36%	5%	3%	17%	17%	18%
43	7%	34%	5%	7%	20%	16%	19%
44	4%	35%	5%	7%	19%	20%	19%
45	7%	32%	5%	4%	17%	18%	17%
46	7%	35%	6%	7%	15%	20%	14%
47	5%	35%	6%	4%	14%	17%	15%

48	5%	35%	6%	4%	16%	18%	15%
49	5%		6%	8%	15%	19%	16%
50	5%		3%	4%	15%	14%	16%
51	6%		3%	4%	14%	18%	13%
52	6%		3%	4%	15%	20%	14%
53	3%		3%	4%	14%	18%	18%
54	3%		3%	0%	15%	14%	15%
55	3%		4%	5%	14%	17%	15%
56					14%	17%	
57					17%	13%	
58					17%	12%	
59					17%	14%	
60					19%	10%	
61					14%	10%	
62					15%	16%	
63					16%	9%	
64					16%	10%	
65					10%	6%	
66						6%	
67						6%	
68						7%	
69						7%	
70						8%	
71						8%	
72						9%	
73						10%	
74						11%	
75						13%	
76						14%	
77						17%	
78						20%	
79						0%	
80						0%	

Exhibit C

EXHIBIT D

(Notice to In-Force Policyholders)

[Date]

John W. Doe
123 Fourth St.
Anytown, Anystate 12345

Re: Policy No. 1234567
Increased Death Benefit \$ _____

Dear Mr. Doe:

As part of a multi-state regulatory settlement with insurance regulators, American National has adjusted the death benefits and surrender benefits of certain in-force industrial life insurance policies that were issued during the years 1936-1939 and 1948-1964. As a result of this review, the death benefit under your policy has been increased to the amount shown above. The increase in your death benefit also results in an increase in the surrender value under your policy. More information about your enhanced surrender value is available by calling 1-866-229-9208. If you call, please be sure you have the policy number shown above available.

No action on your part is required at this time. Please keep this letter with your policy.

Sincerely,

John Burleson
Manager, Regulatory Settlement

Exhibit D

EXHIBIT E

(Notice to Policyholders of Additional Surrender Benefits)

John W. Doe
123 Fourth St.
Anytown, Anystate 12345

[Date]

Re: Policy No. 1234567
Additional Surrender Benefit \$ _____

Dear Mr. Doe:

As part of a multi-state regulatory settlement with insurance regulators, American National has increased the surrender benefits under certain industrial life insurance policies that were issued during the years 1936-1939 and 1948-1964, and were terminated by cash surrender between January 1, 1960 and June 9, 2004.

According to our records, you were the owner of the above numbered policy at the time it was terminated by cash surrender and as such, you are entitled to receive an additional surrender benefit in the amount shown above. A check for the additional surrender benefit is enclosed.

Sincerely,

John Burleson
Manager, Regulatory Settlement

Enclosures

Exhibit E

EXHIBIT F

(Notice to Beneficiaries of Additional Death Benefits)

[Date]

John W. Doe
123 Fourth St.
Anytown, Anystate 12345

Re: Policy 1234567
Additional Death Benefit \$ _____

Dear Mr. Doe:

As part of a multi-state regulatory settlement with insurance regulators, American National has increased the death benefits under certain industrial life insurance policies that were issued during the years 1936-1939 and 1948-1964, and were terminated by the death of the insured between January 1, 1960 and June 9, 2004.

According to our records, you were a beneficiary of a claim filed under the above numbered policy and as such, you are entitled to receive an additional death benefit in the amount shown above. A check for the additional death benefit is enclosed.

Sincerely,

Jane Bean
Asst. Manager, Life Claims

Enclosures

Exhibit F

EXHIBIT G

This is 3 columns X 7" ad. 21 col. inches

Legal Notice

Legal Notice

**If You were the Owner or Beneficiary
of an Industrial Life Insurance Policy Issued by
American National Insurance Company
and
are African-American or Hispanic**

You may be entitled to additional death or surrender benefits

These additional benefits are being provided as part of a multi-state regulatory settlement between American National Insurance Company and the insurance regulatory authorities of the states in which American National does business.

The settlement only applies to industrial life insurance policies with a face amount of \$1,000 or less, issued by American National between 1936 and 1939 (African-American and Hispanic) and between 1948 and 1964 (African-American only), and where a surrender or death benefit was paid since December 31, 1959. To find out if you are entitled to additional benefits, you must act by December 20, 2005 by calling our toll-free number:

1-866-229-9685

or write to:

American National Insurance Company

P.O. Box 1900

Galveston, Texas 77553-1900

More information is available at www.regulatorysettlement.com

Exhibit G

EXHIBIT H

1. Publication of **Exhibit G** shall commence within 120 days of the Effective Date and shall conclude within sixty days of the end of the claims made period according to the following schedule:

A. National Publications. One insertion each within 120 days of the Effective Date. Size: Ebony, 1/3 page; Parade, 2/5th page.

B. Metropolitan Publications. Two insertions each for two consecutive weeks within 120 days of the Effective Date. Insertions shall be on at least one Sunday and one weekday. Sunday publications shall not be made on the same date as the date of publication for the National Publications. Size: 7 inches high by three columns wide.

C. Community Publications. Four insertions each for three consecutive weeks within 120 days of the Effective Date. And one insertion each within sixty days prior to the termination of the claims made period. Size: 7 inches high by three columns wide.

2. Exhibit H shall be published according to the schedule set out in Paragraph 1 in the following publications:

National	Parade Magazine	Ebony
State/Region	Metropolitan Publications	Community Publications
Texas		
Gulf Coast	Houston Chronicle	Houston Forward Times; Semana News; La Vox de Houston
San Antonio	San Antonio Express	San Antonio Observer ; La Prensa; La Nueva Opinion
Dallas Area	Dallas Morning News	Dallas Examiner; El Sol de Texas, El Hispano News; La Estrella
California		
East LA, etc.	Los Angeles Times	LA Herald Dispatch; LA Watts Star Review; La Opinion; La Voz Latina; Eastside Sun
Montclair/San Bernardino	Los Angeles Times	San Bernardino American News; El Chicano
Hayward/El Cerito	San Francisco Chronicle	California Voice; Metro Reporter; Sun Reporter; El Observador; Nuevo Mundo
Stockton	Stockton Record	San Francisco New Bay View
San Diego		African American News Link; La Presna; E! Latino; Hispanos Unidas

State/Region	Metropolitan Publications	Community Publications
Louisiana		
New Orleans	Times-Picayune	Louisiana Weekly
Shreveport	The Times	Shreveport Sun
Oklahoma		
Oklahoma City	Daily Oklahoman	The Black Chronicle (OK City and Tulsa)
Tulsa	Tulsa World	Ebony Tribune
Georgia		
Atlanta	Atlanta Journal-Constitution	The Atlanta Inquirer
Savannah	Savannah Morning News	Savannah Tribune
WA		Seattle Medium
NC		The Charlotte Post
MI		The Michigan Citizen
AL		Speakin' Out News
AR		Arkansas Times
OR		The Portland Observer
NM		Albuquerque Journal/Tribune
TN		Tri-State Defender
MO		The St. Louis American
MS		Jackson Advocate
KS		The Kansas State Globe
IL		N'Digo
MN		Insight News

Exhibit H

Exhibit I

AMERICAN NATIONAL INSURANCE COMPANY

Claim for Additional Benefits under Regulatory Settlement

Name of Claimant _____
Address _____
Street Address Apartment No.
City State Zip Code
Home Phone: (_____) _____ Work Phone: (_____) _____
Area Code Number Area Code Number

Claim for Additional Death Benefits

If you are claiming additional death benefits as a beneficiary (or the heir of a deceased beneficiary) of a policy under which a death claim has already been filed and a death benefit has already been paid, please provide as much of the following information as possible:

Name of Insured _____ Policy Number _____
Date of Birth of Insured _____ Social Security # of Insured _____
Address of Insured (at time of death) _____
Street Address Apt. No.
City State Zip Code
Name of Beneficiary _____ Claim No. _____
Social Security # of Beneficiary _____ Amount of Death Benefit _____
Relationship of Claimant to Beneficiary _____
Date on which original death benefits were received _____

Please attach any supporting documents you may have, such as premium receipt books, correspondence with the Company, check vouchers, copies of insured's death certificate, etc.

Claim for Additional Surrender Benefits

If you are claiming additional surrender benefits as a policyholder (or the beneficiary of a deceased policyholder) of a policy which has already been surrendered and a surrender benefit has already been paid, please provide as much of the following information as possible:

Name of Policyholder: _____ Policy Number: _____
Social Security # of Policyholder _____
Name of Insured (If different from Policyholder): _____

(Continued on Page 2)

Exhibit I

Claim for Additional Surrender Benefits (Cont'd.)

Date of Birth of Insured _____

Address of Policyholder at time of surrender _____
Street Address Apt. No.

City State Zip Code

Date on which Policy was surrendered _____

Amount of Surrender Benefit received _____ Date received _____

Relationship of Claimant to Policyholder _____

Please attach any supporting documents you may have, such as correspondence with the Company, check vouchers, premium receipt books, etc.

Our ability to identify the policy under which you are claiming benefits is dependent upon the amount of information we have. It is therefore in your best interest to supply as much of the information requested in this form as possible, and to furnish a much supporting documentation as possible.

Fraud Warning

In many states, presenting a false or fraudulent claim for the payment of benefits is a crime, subject to civil and/or criminal penalties. See the attached list for the required fraud warning for your state.

I hereby represent that the above information is true and correct to the best of my knowledge and belief.

Date

Signature of Claimant

Be sure to sign this form. We cannot process this form without your signature. Send the completed, signed form, together with all supporting documentation to the following address:

American National Insurance Company
P. O. Box 1900
Galveston, Texas 77553-1900

Exhibit I

Exhibit I

Additional Fraud Statements

The following is required to appear on this form by several states other than those listed below.

It is a crime to complete this form so as to knowingly omit important facts or to include answers which I know are false. Each state may provide different penalties for violation of its laws.

The following is required to appear on this form by Alaska.

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.

The following is required to appear on this form by Arkansas.

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

The following is required to appear on this form by Arizona.

For your protection Arizona law requires the following statement to appear on this form. Any person who knowingly presents a false or fraudulent claim for payment of a loss is subject to criminal and civil penalties.

The following is required to appear on this form by California.

For your protection California law requires the following to appear on this form. Any person who knowingly presents false or fraudulent claim for the payment of a loss is guilty of a crime and may be subject to fines and confinement in state prison.

The following is required to appear on this form by Colorado.

"It is unlawful to knowingly provide false, incomplete, or misleading facts or information to an insurance company for the purpose of defrauding or attempting to defraud the company. Penalties may include imprisonment, fines, denial of insurance, and civil damages. Any insurance company or agent of an insurance company who knowingly provides false, incomplete or misleading facts or information to a policyholder or claimant for the purpose of defrauding or attempting to defraud the policyholder or claimant with regard to a settlement or award payable from insurance proceeds shall be reported to the Colorado Division of Insurance within the department of regulatory agencies."

The following is required to appear on this form by District of Columbia.

Warning: It is a crime to provide false or misleading information to an insurer for the purpose of defrauding the insurer or any other person. Penalties include imprisonment and/or fines. In addition, an insurer may deny insurance benefits if false information materially related to a claim was provided by the applicant.

The following is required to appear on this form by Delaware.

Any person who knowingly, and with intent to injure, defraud or deceive any insurer, files a statement of claim containing any false, incomplete or misleading information is guilty of a felony.

The following is required to appear on this form by Florida.

Any person who knowingly and with intent to injure, defraud or deceive any insurer files a statement of claim or an application containing any false, incomplete, or misleading information is guilty of a felony of the third degree.

The following is required to appear on this form by Idaho.

Any person who knowingly, and with intent to defraud or deceive any insurance company, files a statement of claim containing any false, incomplete or misleading information is guilty of a felony.

The following is required to appear on this form by Indiana.

A person who knowingly and with intent to defraud an insurer files a statement of claim containing any false, incomplete or misleading information commits a felony.

The following is required to appear on this form by Kentucky.

Any person who knowingly and with intent to defraud any insurance company or other person files a statement of claim containing any materially false information or conceals, for the purpose of misleading, information concerning any fact material thereto commits a fraudulent insurance act, which is a crime.

The following is required to appear on this form by Louisiana.

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

The following is required to appear on this form by Maine.

It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties may include imprisonment, fines or a denial of insurance benefits.

The following is required to appear on this form by Minnesota.

A person who files a claim with intent to defraud or helps commit a fraud against an insurer is guilty of a crime.

The following is required to appear on this form by New Hampshire.

Any person who, with a purpose to injure, defraud or deceive any insurance company, files a statement of claim containing any false, incomplete or misleading information is subject to prosecution and punishment for insurance fraud, as provided in RSA 638:20.

The following is required to appear on this form by New Jersey.

"Any person who knowingly files a statement of claim containing any false or misleading information is subject to criminal and civil penalties."

The following is required to appear on this form by New Mexico.

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to civil fines and criminal penalties.

The following is required to appear on this form by New York.

Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.

Exhibit I

Exhibit I

The following is required to appear on this form by Ohio.

Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insurer, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.

The following is required to appear on this form by Oklahoma.

“WARNING: Any person who knowingly, and with intent to injure, defraud or deceive any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.”

The following is required to appear on this form by Pennsylvania.

“Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information or conceals for the purpose of misleading information concerning any fact material thereto commits a fraudulent insurance act, which is a crime and subjects such person to criminal and civil penalties.”

The following is required to appear on this form by Tennessee.

It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits.

The following is required to appear on this form by Texas.

Any person who knowingly presents a false or fraudulent claim for the payment of a loss is guilty of a crime and may be subject to fines and confinement in state prison.

The following is required to appear on this form by Virginia.

It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits.

The following is required to appear on this form by West Virginia.

Any person who knowingly presents a false or fraudulent claim for payment of a loss or benefit or knowingly presents false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

Exhibit I

Exhibit J

Unclaimed Benefit Search Protocol

1. Upon receipt of notification of the death of an insured, the Company compiles the most complete information available on the deceased insured, utilizing the documentation submitted with the death claim, such as the death certificate, premium receipt books, etc., together with information available from the application and other related sources, to include, to the extent available:

- a) Name;
- b) Date of Birth;
- c) Sex;
- d) Social Security Number; and
- e) Address, including Zip Code.

2. With the accumulated information about the deceased insured, the Company then performs a search of its files and records in an effort to locate additional policies that may cover the deceased insured. The name of the deceased insured, including nicknames, aliases, maiden names or first name initials, all of which are requested on the Company's claim forms, is searched as follows:

- a. If the first, middle and last names are full names (e.g., Robert Louis Stevenson), or if the first last names are full names and the middle name is an initial (e.g., Robert L. Stevenson), the first and last names are searched with no limitation as to address, date of birth, gender, etc. For example, if the Company is searching for policies on a deceased insured Robert Louis Stevenson, the initial search would identify all policies on which Robert Stevenson, Robert L. Stevenson or Robert Louis Stevenson is listed as the insured, i.e., all middle names or initials would be included.
- b. For the policies identified under 2.(a), comparisons are then made of the dates of birth, social security numbers (if available) and sex indicators. If, using the foregoing indicators potential matches are found, those policies are subject to further review.
- c. For the policies identified as potential matches under 2.(b), addresses with Zip Codes, if available, are used to further verify matches.

Exhibit J