

STATE OF NEW YORK INSURANCE DEPARTMENT  
REPORT ON EXAMINATION  
OF THE  
USAA LIFE INSURANCE COMPANY OF NEW YORK  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT:

DECEMBER 28, 2001

EXAMINER:

BRIAN E. GLAAB

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

December 28, 2001

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21776, dated September 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of USAA Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 529 Main Street, Highland Falls, New York 10928.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

## 1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 5 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by: acting under a lease agreement with United Services Automobile Association that is still under review by the Superintendent; and entering into transactions with United Services Automobile Association for the rendering of services on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions. (See item 3B of this report)

The Company violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, authorize or approve the Company's investments. (See item 3C of this report)

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent, an unauthorized insurer, in a number of its advertisements. (See item 6A of this report)

## 2. SCOPE OF EXAMINATION

The Company commenced business on November 14, 1997. This examination covers the period from November 14, 1997 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

### 3. DESCRIPTION OF COMPANY

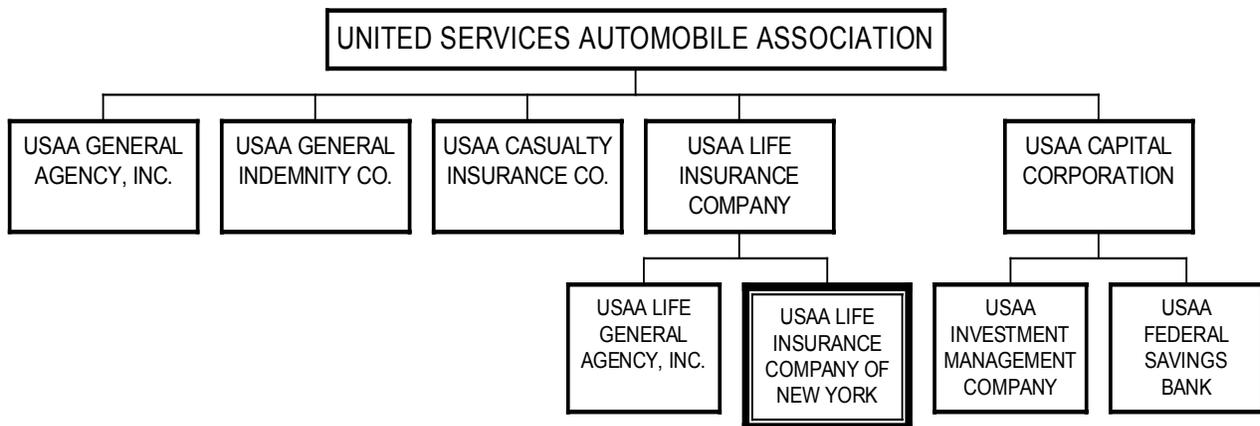
#### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 1, 1997 and was licensed and commenced business on November 14, 1997. Initial resources of \$6,661,425 consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,661,425 were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) for \$333.07 per share. In 1998, USAA Life Insurance Company, the Company's parent, made a contribution to the paid in and contributed surplus of the Company in the amount of \$12,821,221. In December 1999, USAA Life Insurance Company made a cash contribution to the paid-in and contributed surplus of the Company in the amount of \$4,000,000. The Department approved this contribution on November 26, 1999. Capital and paid in and contributed surplus were \$2,000,000 and \$21,482,647, respectively, as of December 31, 2000.

#### B. Holding Company

The Company is a wholly owned subsidiary of USAA Life Insurance Company ("USAA Life"), a Texas insurance company. USAA Life is in turn a wholly owned subsidiary of United Services Automobile Association ("USAA"), a Texas reciprocal inter-insurance exchange.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had three service agreements in effect as of December 31, 2000. The Company has an administrative services agreement with USAA Life, in which USAA Life provides underwriting, claims, sales, marketing, reinsurance, policy support, accounting, actuarial, telecommunication, electronic data processing and legal services to the Company. The Company has a financial management and investment advisory agreement with USAA Investment Management Company (“IMCO”), in which IMCO provides investment management, advisory, statistical, research and security trading services to the Company. The Company has a lease with USAA.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .  
(3) rendering of services on a regular or systematic basis . . .”

The Company has a lease agreement with USAA, its ultimate parent, for its home office in Highland Falls, New York. The Company has occupied the space since November 14, 1997, the date of incorporation. The Company originally filed the agreement with the Department on September 28, 2000. The Company is still in discussions with the Department regarding the provisions in the agreement.

In addition, USAA systematically provides reinsurance administrative services to the Company, which includes making reinsurance payments on behalf of the Company for which it is subsequently reimbursed. The Company does not have a service agreement with USAA to provide such systematic services.

The Company violated Section 1505(d)(3) of the New York Insurance Law by: acting under a service agreement that is still under review by the Superintendent; and entering into transactions with USAA for the rendering of services on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions.

The Company participates in a tax allocation agreement with USAA. In addition, the Company is party to an inter-company funding agreement with USAA Capital Corporation

which allows the Company to borrow funds not to exceed, in aggregate, five percent of the Company's admitted assets as of the prior year-end.

### C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 18 directors. The number of directors shall increase to not less than 13 within one year following the end of the calendar year in which assets exceed one and one-half billion dollars. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2000, the board of directors consisted of nine members. Meetings of the board are held within 30 days after the shareholder's meeting held on the third Friday in September and another meeting is held at a date determined by the members of the board.

The nine board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Larkin W. Fields San Antonio, TX	Senior Vice President and Treasurer USAA Life Insurance Company of New York	1999
Joseph R. Holland * Pomona, NY	Commissioner Rockland County Department of Social Services	1998
William J. Larkin, Jr. * New Windsor, NY	Senator New York State Senate	1997
William P. Maloney * New York, NY	Partner Maloney & Porcelli	1997
Kenneth A. McClure San Antonio, TX	Senior Vice President USAA Life Insurance Company of New York	1997
James M. Middleton Spring Branch, TX	President USAA Life Insurance Company of New York	2000
Stephen N. Patzman San Antonio, TX	Vice President and Actuary USAA Life Insurance Company of New York	1997

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Ronald C. Tocci * New Rochelle, NY	Assemblyman New York State Assembly	1997
Cynthia A. Toles San Antonio, TX	Vice President and Secretary USAA Life Insurance Company of New York	2000

\* Not affiliated with the Company or any other company in the holding company system

In April 2001, Stephen N. Patzman retired from the board and was replaced by Russell A. Evenson. In September 2001, Kenneth A. McClure was replaced by John W. Douglas.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its meeting.”

The Company failed to have its board of directors, or a committee thereof, authorize or approve the Company's investments. The Company violated Section 1411(a) of the New York Insurance Law.

After being informed by the examiner, the Company instituted procedures to have investments approved by the investment committee and reported to the board.

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
James M. Middleton	President
Cynthia A. Toles	Vice President and Secretary
Larkin W. Fields	Senior Vice President and Treasurer
Stephen N. Patzman	Vice President and Actuary
Edward R. Dinstel	Senior Vice President
Kenneth A. McClure	Senior Vice President
King Mawhinney	Vice President
Pattie S. McWilliams	Vice President
Allen R. Pierce	Vice President

Effective April 1, 2001, Stephen N. Patzman retired and was replaced by Russell A. Evenson.

Section 216.4(c) of Department Regulation No. 64 states, in part:

“Every insurer shall establish an internal department specifically designated to investigate and resolve complaints filed with the Insurance Department . . . Responsibility for such department is to be vested in a corporate officer who is also to be entrusted with the duty of executing the Insurance Department’s directives . . . Each insurer must furnish the superintendent with the name and title of the corporate officer responsible for its internal consumer services department.”

The Company did not have a designated consumer services officer as required by Section 216.4(c) of Department Regulation No. 64 as of the examination date. Robert L. Casey retired in November 2000. His successor, John W. Douglas, was not appointed as the consumer services officer until September 21, 2001. The Company did not furnish the Superintendent with the officer’s name until October 26, 2001, after being informed by the examiner to notify the Superintendent.

The Company violated Section 216.4(c) of Department Regulation No. 64 by failing to appoint a new consumer services officer until September 21, 2001, and by not furnishing the Superintendent the officer’s name until October 26, 2001.

#### D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law. Even though the Company is authorized to write accident and health insurance, it has not written any accident and health insurance.

The Company is licensed to transact business only in New York. In 2000, 94.9% of life premiums and 99.7% of annuity considerations were received from New York. Policies are written on a participating and non-participating basis.

The Company's principal lines of business sold during the examination period were individual life insurance (whole, term and universal) and fixed annuities.

The Company's sales operations are conducted on a direct response basis.

#### E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with six companies, of which five were authorized or accredited. The Company's whole life, universal life and term life policies are ceded on a coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is \$200,000. The total face amount of life insurance ceded as of December 31, 2000 was \$1,340,734,070, which represents 45.7% of the total face amount of life insurance in force.

Reserve credit taken for reinsurance ceded to an unauthorized company, totaling \$39,705, was not supported by letters of credit, trust agreements and/or funds withheld, nor did the Company report a liability for reinsurance with an unauthorized company.

In addition, reserve credits, in the amount of \$11,126, were taken for reinsurance ceded to reinsurers with which the Company did not have reinsurance in effect. USAA Life had reinsurance treaties with Connecticut General Life Insurance Company, General & Cologne RE and Life Reassurance Corporation of America prior to the incorporation of the Company. When the Company obtained the New York business from USAA Life through an assumption agreement, the Company decided to recapture the reinsurance instead of entering into new treaties; however the Company continued to report reserve credits with these companies.

As a result of the reinsurance reporting errors noted, the Company's liabilities were understated by \$50,831.

In addition, Schedule S – Part 3 – Section 1 of the Company's 2000 filed annual statement contained various inaccuracies including incorrect names of reinsurers, NAIC company codes, and effective dates of treaties. Also, three of the Company's reinsurance treaties showed an incorrect name and address for the Company.

The examiner recommends that the Company exercise care when preparing Schedule S and its reinsurance treaties.

#### 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	November 14, <u>1997</u>	December 31, <u>2000</u>	<u>Increase</u>
Admitted assets	<u>\$6,613,768</u>	<u>\$180,873,242</u>	<u>\$174,259,474</u>
Liabilities	\$ <u>0</u>	<u>\$156,004,168</u>	<u>\$156,004,168</u>
Common capital stock	\$2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,613,768	21,482,647	16,868,879
Unassigned funds (surplus)	<u>0</u>	<u>1,386,427</u>	<u>1,386,427</u>
Total capital and surplus	<u>\$6,613,768</u>	<u>\$ 24,869,074</u>	<u>\$ 18,255,306</u>
Total liabilities, capital and surplus	<u>\$6,613,768</u>	<u>\$180,873,242</u>	<u>\$174,259,474</u>

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (91.6%). The Company's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
1997	\$ 1,283	\$ 1,283	\$ 18,480	\$ 18,480
1998	\$24,854	\$468,226	\$283,831	\$2,033,517
1999	\$26,649	\$483,601	\$290,756	\$2,235,553
2000	\$18,312	\$489,927	\$322,485	\$2,441,359

The Company entered into a reinsurance assumption agreement with USAA Life in 1998 resulting in the large increases of life insurance in force for that year.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>			
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Outstanding, end of previous year	0	7	2,706	2,541
Issued during the year	7	94	41	34
Other net changes during the year	<u>0</u>	<u>2,605</u>	<u>(206)</u>	<u>(230)</u>
Outstanding, end of current year	<u>7</u>	<u>2,706</u>	<u>2,541</u>	<u>2,345</u>

The Company entered into a reinsurance assumption agreement with USAA Life in 1998 resulting in the large increase of other net changes during the year. The decreases in the number of annuities were mainly due to declining interest rates. The effect of declining interest rates was exacerbated by the fact that the majority of the Company's annuities were available for withdrawal without being subject to surrender charges.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:				
Life insurance	\$(24,139)	\$(3,331,722)	\$ 918,720	\$2,086,680
Individual annuities	47,380	(757,823)	977,524	1,272,352
Supplementary contracts	<u>14,828</u>	<u>8,507</u>	<u>34,620</u>	<u>132,765</u>
Total ordinary	<u>\$ 38,069</u>	<u>\$(4,081,038)</u>	<u>\$1,930,864</u>	<u>\$3,491,797</u>
Total	<u>\$ 38,069</u>	<u>\$(4,081,038)</u>	<u>\$1,930,864</u>	<u>\$3,491,797</u>

The loss reported in 1998 was primarily attributable to the acquisition fee (\$5,014,215) paid by the Company in connection with an assumption agreement to acquire USAA Life's New York business.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

### A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

#### Admitted Assets

Bonds	\$160,162,852
Stocks:	
Preferred stocks	199,975
Common stocks	5,696,593
Policy loans	3,292,765
Cash and short term investments	5,456,328
Reinsurance ceded:	
Amounts recoverable from reinsurers	350,000
Commissions and expense allowances due	52,625
Life insurance premiums and annuity considerations deferred and uncollected on in force business	3,306,914
Investment income due and accrued	<u>2,355,189</u>
 Total admitted assets	 <u>\$180,873,242</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$148,102,447
Supplementary contracts without life contingencies	2,156,780
Policy and contract claims	
Life	339,969
Policyholders' dividend and coupon accumulations	766,566
Policyholders' dividends and coupons due and unpaid	92,546
Provision for policyholders' dividends and coupons	
Payable in following calendar year - estimated amounts	
Dividends apportioned for payment	1,933,628
Premiums and annuity considerations received in advance	29,616
Liability for premium and other deposit funds	
Policyholder premiums	7,870
Policy and contract liabilities	
Interest maintenance reserve	45,967
Federal income taxes due or accrued	565,471
Unearned investment income	85,313
Amounts withheld or retained by company as agent or trustee	7,439
Remittances and items not allocated	165,808
Miscellaneous liabilities:	
Asset valuation reserve	1,041,334
Payable to parent, subsidiaries and affiliates	658,262
Misc/accrued interest – death claims	4,946
Escheat funds	<u>206</u>
 Total liabilities	 <u>\$156,004,168</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	21,482,647
Unassigned funds (surplus)	<u>1,386,427</u>
 Total capital, surplus and other funds	 <u>\$ 24,869,074</u>
 Total liabilities, capital, surplus and other funds	 <u>\$180,873,242</u>

## B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$390,929	\$13,994,182	\$16,732,615	\$14,410,695
Investment income	97,511	8,304,559	11,027,343	12,114,838
Commissions and reserve adjustments on reinsurance ceded	9,893	292,616	255,113	558,108
Miscellaneous income	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
 Total income	 <u>\$498,332</u>	 <u>\$22,591,357</u>	 <u>\$28,015,072</u>	 <u>\$27,083,642</u>
 Benefit payments	 \$ 267	 \$ 9,660,113	 \$14,820,224	 \$18,193,150
Increase in reserves	369,018	7,857,513	5,334,372	(1,235,169)
General expenses and taxes	77,403	2,595,592	3,320,138	3,193,816
Increase in loading and cost of collection	(6,923)	(134,443)	(179,531)	(226,054)
Miscellaneous deductions	<u>0</u>	<u>5,014,215</u>	<u>0</u>	<u>0</u>
 Total deductions	 <u>\$439,765</u>	 <u>\$24,992,989</u>	 <u>\$23,295,203</u>	 <u>\$19,925,745</u>
 Net gain (loss)	 \$ 58,567	 \$ (2,401,632)	 \$ 4,719,869	 \$ 7,157,898
Dividends	0	1,630,406	2,019,216	1,868,193
Federal income taxes	<u>20,499</u>	<u>49,000</u>	<u>769,789</u>	<u>1,797,908</u>
 Net gain (loss) from operations before net realized capital gains	 \$ 38,068	 \$ (4,081,038)	 \$ 1,930,865	 \$ 3,491,797
Net realized capital gains (losses)	<u>0</u>	<u>1,118,024</u>	<u>(7,390)</u>	<u>(18,406)</u>
 Net income	 <u>\$ 38,068</u>	 <u>\$ (2,963,015)</u>	 <u>\$ 1,923,475</u>	 <u>\$ 3,473,391</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>0</u>	\$ <u>6,699,394</u>	\$ <u>15,774,221</u>	\$ <u>21,663,276</u>
Net income	\$ 38,068	\$ (2,963,015)	\$ 1,923,475	\$ 3,473,391
Change in net unrealized capital gains (losses)	0	423,453	1,044,328	(861,213)
Change in non-admitted assets and related items	(100)	(245)	345	(1,756)
Change in asset valuation reserve	0	(1,206,588)	(430,121)	595,375
Capital changes				
Paid in	2,000,000	0	0	0
Surplus adjustments				
Paid in	4,661,425	12,821,221	4,000,000	0
Prior period adjustment	<u>0</u>	<u>0</u>	<u>(648,972)</u>	<u>0</u>
Net change in capital and surplus	\$ <u>6,699,394</u>	\$ <u>9,074,827</u>	\$ <u>5,889,055</u>	\$ <u>3,205,798</u>
Capital and surplus, December 31, current year	\$ <u>6,699,394</u>	\$ <u>15,774,221</u>	\$ <u>21,663,276</u>	\$ <u>24,869,073</u>

## 6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

### A. Advertising and Sales Activities

The examiner reviewed the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

#### 1. Section 2122(a)(2) of the New York Insurance Law states:

“No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to an unauthorized insurer or insurers.”

The examiner detected a large number of instances where advertisements that were used in New York during the examination period called attention to the Company's parent (USAA Life), an unauthorized insurer.

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent, an unauthorized insurer, in a number of its advertisements.

#### 2. Section 219.4(p) or Department Regulation No. 34-A states, in part:

“In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States . . . If a specific policy or policy series is being advertised, the form or series number or other appropriate description shall be shown. An advertisement shall not use a trade name, an insurance group designation, name of the parent company or affiliate of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device or reference if such use would have the tendency to mislead or deceive as to the true identity of the insurer . . . ”

The examiner detected 46 advertisements in which: the insurer was not clearly identified; the name of the city where the home office is located was omitted; and/or the form or series number, or other appropriate description was not included.

The Company violated Section 219.4(p) of Department Regulation No. 34-A by not including required information in its advertisements.

3. Section 219.5(a) of Department Regulation No. 34-A states, in part:

“Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this State, with a notation indicating the manner and extent of distribution . . . .”

The Company’s advertising file did not contain the manner and extent of distribution for a number of its advertisements. The files for 20 advertisements did not contain a notation indicating the number of times each advertisement was used. A number of files contained a notation for the estimated usage of the advertisement but did not specify the period when the advertisement was used.

The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file containing a notation indicating the manner and extent of distribution for a number of its advertisements.

#### B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Section 3207(c) of the New York Insurance Law states, in part:

“An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months . . . an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of ten thousand dollars or the limit of fifty per centum (five thousand dollars or the limit of twenty-five per centum in the case of a minor under the age of four years and six months) of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . .”

The examiner reviewed the application files for 13 policies issued on the lives of minors which exceeded the amounts of insurance prescribed in Section 3207(c) of the New York Insurance Law. All of the files failed to contain the amount of insurance in force upon the life of the person effectuating the insurance. In addition, the examiner was unable to verify if the Company had any consistent procedure in place to obtain the necessary information regarding the person effectuating the insurance.

The Company violated Section 3207(c) of the New York Insurance Law by issuing policies of life insurance upon the lives of minors in amounts exceeding the limits permitted by the aforementioned section of Law.

### C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company commenced business in 1997, but acquired New York policies from USAA Life in 1998 when it entered into an assumption agreement. The Company reported that it reviewed applications and policy forms, operational policies, procedures and ratebooks, underwriting procedures and manuals, and sales and advertising material used by the Company and USAA Life. In summary, the Company’s findings were that neither company ever used an insured’s race, color, creed, or national origin in any manner.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

## 7. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) by acting under a service agreement that is still under review by the Superintendent and by entering into transactions with USAA for the rendering of services on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions.	5
B	The Company violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, authorize or approve the Company's investments.	7
C	The Company violated Section 216.4(c) of Department Regulation No. 64 by failing to appoint a new consumer services officer until September 21, 2001, and by not furnishing the Superintendent the officer's name until October 26, 2001.	8
D	Reinsurance reporting errors resulted in the Company's liabilities being understated by \$50,831.	9 - 10
E	The examiner recommends that the Company exercise care when preparing Schedule S and its reinsurance treaties.	10
F	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer in its advertisements.	17
G	The Company violated Section 219.4(p) of Department Regulation No. 34-A by not including required information in its advertisements.	17 – 18
H	The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file containing a notation indicating the manner and extent of distribution.	18
I	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies of life insurance upon the lives of minors in amounts exceeding the limits permitted by the aforementioned section of Law.	19



APPOINTMENT NO. 21776

STATE OF NEW YORK  
**INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**BRIAN GLAAB**

as a proper person to examine into the affairs of the

**USAA LIFE INSURANCE COMPANY OF NEW YORK**

and to make a report to me in writing of the condition of the said

**COMPANY**

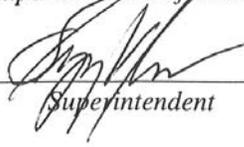
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 10th day of September, 2001



GREGORY V. SERIO  
Superintendent of Insurance

  
Superintendent