

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

DATE OF REPORT:

MICHAEL V. IMBRIANO

EXAMINER:

FEBRUARY 5, 2002

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	4
A. History	4
B. Holding company	4
C. Management	4
D. Territory and plan of operation	8
E. Reinsurance	8
4. Significant operating results	9
5. Financial statements	11
A. Assets, liabilities, capital, surplus and other funds	11
B. Condensed summary of operations	13
C. Capital and surplus account	14
6. Market conduct activities	15
A. Advertising and sales activities	15
B. Underwriting and policy forms	15
C. Treatment of policyholders	16
D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)	16
7. Outstanding checks	17
8. Prior report summary and conclusions	18
9. Summary and conclusions	19



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

February 5, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21770, dated September 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of American Medical and Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 35 Broadway, Hicksville, New York 11801.

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 examiner's review of the minutes of the meetings of the board of directors revealed that the meetings were not well attended. (See item 3C of this report)

The Company violated Section 312(b) of the New York Insurance Law by failing to retain a statement signed by each individual board member confirming that each member received and read the prior report on examination. (See item 3C of this report)

The examiner's review of the Company's group dental underwriting files revealed that the Company violated Section 4235(h)(2) of the New York Insurance Law by failing to file its revised small group dental rates and schedules with the Department. (See item 6B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 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

The examiner reviewed the corrective actions taken by the Company with respect to violations and the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

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 accident and health insurance company under the laws of New York on December 17, 1964 under the name Medical Accident and Health Company of New York. The Company was licensed and commenced business on February 17, 1966.

The Superintendent approved a charter amendment to change the Company's name to American Medical and Life Insurance Company on November 22, 1988. The license to transact life insurance, annuities and accident and health insurance was issued on January 3, 1989. To comply with the initial capital and surplus requirements for a stock company doing life insurance business in New York, the Company increased its capital to \$2 million and increased its gross paid in and contributed surplus to \$4 million, consisting of 100,000 shares with a par value of \$20 per share.

B. Holding Company

The Company is owned by American Laboratories, Inc. (75%) and Dr. Jules V. Lane, DDS (25%). American Laboratories, Inc. is a New York corporation that is jointly owned by Dr. Jules V. Lane and Linda L. Lane.

The Company has a lease agreement whereby the Company agrees to rent office space from the Jules and Linda Lane Realty Company.

The Company also has a service agreement with Jules V. Lane, DDS, PC, whereby the Company provides data processing services to Jules V. Lane, DDS, PC.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 17 directors. As of December 31, 2000, the board of directors consisted of 14 members. Meetings of the board are held quarterly.

The 14 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>
Norman Beckoff Fairlawn, NJ	Vice President and Treasurer American Medical and Life Insurance Company	1993
Lorraine Classi Bohemia, NY	Executive Vice President American Medical and Life Insurance Company	1998
Thomas J. Force West Islip, NY	Vice President and General Counsel American Medical and Life Insurance Company	1999
Marc L. Friedman* New York, NY	President Promocup	1994
Jules V. Lane, DDS Sands Point, NY	Chairman of the Board and President American Medical and Life Insurance Company	1964
Linda L. Lane Sands Point, NY	Vice President American Medical and Life Insurance Company	1964
Stanley L. Lane, MD New York, NY	Surgeon	1964
Pierre Meisner Woodbury, NY	Senior Vice President American Medical and Life Insurance Company	1999
Beverly L. Munter Plainview, NY	Vice President and Assistant Secretary American Medical and Life Insurance Company	1986
Ricky S. Munter, DDS Jericho, NY	Dentist	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Edward R. Murray* Scotia, NY	Insurance Broker/Partner Murray & Zuckerman	1988
Alvin Murstein* Old Westbury, NY	President Medallion Funding Corp.	1989
Gordon J. Sussman* New York, NY	Vice President Polyprint Packing Corp., Inc.	1989
Eric M. Yamin* New York, NY	Associate Morgan Stanley & Company, Inc.	1995

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

In February 2001, Edward R. Murray resigned from the board.

Section 1202(c) of the New York Insurance Law states:

“A director of a domestic life insurance company shall perform his duties as a director, including his duties as a member of any committee of the board upon which he may serve”

The board met 12 times during the examination period (four times a year for each of the three years). The examiner’s review of the minutes of the meetings of the board of directors and its committees indicated that meetings were not well attended. The examiner noted that five of the Company’s directors exhibited excessive absenteeism as follows: directors Alvin Murstein and Gordon J. Sussman did not attend any meetings during the examination period; directors Stanley L. Lane, MD and Edward R. Murray attended only one meeting during the examination period; and, Director Eric M. Yamin attended one meeting in 1998, two meetings in 1999 and one meeting in 2000.

The examiner recommends that the directors attend the board meetings and that the Company take steps to remove any director who is unable or unwilling to perform the duties required of a director.

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report. . . .”

The prior report on examination was discussed at the December 1, 1998 board of directors meeting. The Company could not furnish the signed statement from each individual board member as required by Section 312(b) of the New York Insurance Law.

The Company violated Section 312(b) of the New York Insurance Law by failing to retain the statement signed by each individual board member confirming that each member had received and read the prior report on examination.

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

<u>Name</u>	<u>Title</u>
Jules V. Lane, DDS	President
Beverly L. Munter	Vice President and Assistant Secretary
Norman Beckoff	Vice President and Treasurer
Kevin Gabriel	Actuary
Thomas J. Force *	Vice President and General Counsel
Linda L. Lane	Vice President
Lorraine Classi	Executive Vice President
Pierre Meisner	Senior Vice President

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

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.

The Company is licensed to transact business in 15 states and the District of Columbia. In 2000, 97% of the Company's total premiums (including group accident and health, group life and ordinary term insurance premiums) were received from New York.

The Company sells group life insurance, group accidental death and dismemberment, basic major medical coverage, dental insurance, stop-loss insurance, student accident and medical insurance, and disability benefit law insurance and provides administrative services for self insured groups.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with seven companies, all of which were authorized or accredited. Reinsurance of the Company's group life and health insurance is ceded on a coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The total amount of group life insurance ceded as of year-end 2000 was \$662,500 which represented less than one percent of the total group life insurance in force.

The Company has agreements to reinsure stop-loss insurance and medical benefits in excess of the Company's retention limits.

The Company assumes a small amount of group dental and group accident insurance.

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:

	December 31, <u>1997</u>	December 31, <u>2000</u>	Increase (Decrease)
Admitted assets	<u>\$20,229,863</u>	<u>\$13,048,272</u>	<u>\$(7,181,591)</u>
Liabilities	<u>\$10,299,828</u>	<u>\$ 4,957,579</u>	<u>\$(5,342,249)</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,000,000	4,000,000	0
Group contingency reserve	95,082	166,948	71,866
Unassigned funds (surplus)	<u>3,834,953</u>	<u>1,923,745</u>	<u>(1,911,208)</u>
Total capital and surplus	<u>\$ 9,930,035</u>	<u>\$ 8,090,693</u>	<u>\$(1,839,342)</u>
Total liabilities, capital and surplus	<u>\$20,229,863</u>	<u>\$13,048,272</u>	<u>\$(7,181,591)</u>

In 1997, the Company's admitted assets included "Amount due from minimum premium plan" of \$4,872,372 and a corresponding liability of \$5,072,658. This minimum premium plan was terminated in 1998. Accordingly, the effect of this transaction was to reduce assets and liabilities by approximately \$5.1 million in 1998. The remaining decline in assets is primarily related to operating losses of approximately \$1.5 million incurred during the period under examination.

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (75%) and stocks (22%).

The Company's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

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>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary – life insurance	\$ <u>(9,310)</u>	\$ <u>13,513</u>	\$ <u>13,556</u>
Group life	\$ <u>168,376</u>	\$ <u>289,819</u>	\$ <u>612,918</u>
Accident and health - group	\$(<u>1,083,362</u>)	\$(<u>1,594,720</u>)	\$(<u>265,274</u>)
Total	\$ <u>(924,296)</u>	\$(<u>1,291,388</u>)	\$ <u>361,200</u>

The loss on the individual life line of business in 1998 was due to claims paid of \$16,000. The Company did not pay any death benefits on the individual life line of business for the years 1999 and 2000.

The loss on the group accident and health line of business in 1998 was attributable to adverse experience in the Company's dental and disability lines of business. These lines had loss ratios of 79% and 81%, respectively. In addition, the Company experienced continued losses in Administrative Service Only ("ASO") and managed care operations, which incurred general insurance expenses in excess of fees collected.

The loss on the group accident and health line of business in 1999 was due to losses of \$891,000 on the "Dental Club Trust," a dental product introduced by the Company in 1998 and subsequently removed from the market by the Company. The Company also experienced losses on its other dental business, which resulted in a 73% loss ratio. In addition, the Company experienced continued losses on their ASO and managed care operations, which incurred general insurance expenses in excess of fees collected.

The Company experienced an overall improvement in the operating results on the group accident and health line of business for the year 2000. The loss ratio on the dental lines of business declined to 62% from 73% increasing profitability by approximately \$700,000. This increase in profitability was offset by losses on the Company's medical business written in Nevada and on the Cornell University Medical Center group policy.

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	\$ 9,091,197
Common stocks	2,696,201
Cash and short-term investments	367,160
Electronic data processing equipment	59,402
Life insurance premiums and annuity considerations deferred and uncollected on in force business	94,018
Accident and health premiums due and unpaid	506,040
Investment income due and accrued	161,219
Receivable from parent, subsidiaries and affiliates	20,991
Other receivables	<u>52,044</u>
 Total admitted assets	 <u>\$13,048,272</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 181,168
Aggregate reserve for accident and health policies	74,414
Policy and contract claims:	
Life	413,054
Accident and health	1,648,886
Provision for experience rating refunds	767,773
Interest maintenance reserve	376,037
Commissions to agents due or accrued	50,779
General expenses due or accrued	302,280
Taxes, licenses and fees due or accrued, excluding federal income taxes	129,983
Amounts withheld or retained by company as agent or trustee	8,788
Asset valuation reserve	327,200
Amount on deposit as third party administrator	104,311
Miscellaneous liabilities	422,760
Due to broker	<u>150,146</u>
Total liabilities	\$ <u>4,957,579</u>
Common capital stock	\$ 2,000,000
Group contingency reserve	166,948
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	<u>1,923,745</u>
Total capital, surplus and other funds	\$ <u>8,090,693</u>
Total liabilities, capital, surplus and other funds	\$ <u><u>13,048,272</u></u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$14,571,131	\$13,435,816	\$11,032,010
Investment income	523,332	592,319	626,035
Commissions and reserve adjustments on reinsurance ceded	10,393	93,253	174,689
Miscellaneous income	<u>560,363</u>	<u>360,618</u>	<u>347,858</u>
Total income	<u>\$15,665,219</u>	<u>\$14,482,006</u>	<u>\$12,180,592</u>
Benefit payments	\$10,365,659	\$10,029,680	\$ 6,741,500
Increase in reserves	125,927	(593,371)	132,365
Commissions	1,122,466	808,450	608,405
General expenses and taxes	4,851,109	4,773,921	4,114,116
Miscellaneous deductions	<u>697,771</u>	<u>833,981</u>	<u>223,006</u>
Total deductions	<u>\$17,162,932</u>	<u>\$15,852,661</u>	<u>\$11,819,392</u>
Net gain (loss)	\$ (1,497,713)	\$ (1,370,655)	\$ 361,200
Federal income taxes	<u>(573,417)</u>	<u>(79,267)</u>	<u>0</u>
Net gain (loss) from operations before net realized capital gains	\$ (924,296)	\$ (1,291,388)	\$ 361,200
Net realized capital gains (losses)	<u>(235,853)</u>	<u>196,204</u>	<u>465,821</u>
Net income	<u>\$ (1,160,149)</u>	<u>\$ (1,095,184)</u>	<u>\$ 827,021</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>9,930,035</u>	\$ <u>8,788,585</u>	\$ <u>7,710,633</u>
Net income	\$(1,160,149)	\$(1,095,184)	\$ 827,021
Change in net unrealized capital gains (losses)	(610,170)	414,607	(651,833)
Change in non-admitted assets and related items	(87,562)	79,286	30,724
Change in asset valuation reserve	<u>716,431</u>	<u>(476,661)</u>	<u>174,148</u>
Net change in capital and surplus	\$(<u>1,141,450</u>)	\$(<u>1,077,952</u>)	\$ <u>380,060</u>
Capital and surplus, December 31, current year	\$ <u>8,788,585</u>	\$ <u>7,710,633</u>	\$ <u>8,090,693</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 a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

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

B. Underwriting and Policy Forms

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

With respect to schedules of premium rates, rules and classification of risks for use in connection with group accident and health insurance, Section 4235(h)(2) of the New York Insurance Law states:

“An insurer may revise such schedules from time to time, and shall file such revised schedules with the superintendent.”

In 1995, the Company started marketing the American Dental Advantage Plan (“ADAP”), a comprehensive dental plan for employers with five to 49 employees. The 1995 ADAP premium was community rated based upon the experience of the Company's then existing small group dental pool. New group entrants into the pool are given the current experience rated community rate. The examiner noted that the Company did not file the 1995 revised ADAP rates to reflect the current rate used.

The Company violated Section 4235(h)(2) by failing to file its revised ADAP rates and schedules.

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law. . . .”

In reviewing individual dental applications, the examiner noted that the Company altered an approved application by adding the following wording:

“Please make check payable to AMERICAN MEDICAL AND LIFE INSURANCE COMPANY for your first premium payment. Mail the application to American Progressive Life and Health Insurance Company of New York 6 International Drive, Rye Brook, NY 10573”

The Company violated Section 3201(b)(1) of the New York Insurance Law for using an unapproved individual dental insurance application form. As of February 1, 1999, American Progressive Life and Health Insurance Company of New York no longer accepts applications for individual dental insurance offered through the Company.

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 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 performed a review of its group life underwriting rate manual and various underwriting documents to determine whether or not the Company engaged in race-based underwriting practices. In summary, the Company's findings were that there were no results from any of the testing that would indicate any degree of race-based rating.

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. OUTSTANDING CHECKS

The examiner's review of the Company's bank reconciliations for the general account, the medical claims account and the dental claims account revealed checks outstanding over three years.

The examiner recommends that the Company review its outstanding checks on a periodic basis and isolate those checks over three years old for appropriate reporting under the New York Abandoned Property Law.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and the recommendation contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to maintain an independent audit committee.</p> <p>By resolution of the board adopted on July 20, 1998, the Company changed the composition of the audit committee such that the committee is now composed solely of independent directors.</p>
B	<p>The Company violated Section 1402 of the New York Insurance Law by failing to maintain the minimum capital investments of \$2 million.</p> <p>A review indicated that the Company purchased \$200,000 in Treasury Bonds thereby increasing the Company's investment in Treasury Bonds to \$2 million.</p>
C	<p>The Company violated Section 51.21(g) of Department Regulation No. 62 by not utilizing a filed experience rating formula in determination of blanket accident and health premium rates.</p> <p>A review indicated that the Company filed the experience rating formula of its blanket student accident and health premium rates.</p>
D	<p>The examiner recommends that the Company pay interest on death claims based upon the average interest rate paid on insurance proceeds left under the interest settlement option by small to medium sized life insurers in New York State.</p> <p>A review indicated that the Company currently pays two percent interest on its death claims, a rate compatible to a passbook savings rate.</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the directors attend the board meetings and that the Company take steps to remove any director who is unable or unwilling to perform the duties required of a director.	6 - 7
B	The Company violated Section 312(b) of the New York Insurance Law by failing to retain the statement signed by each individual board member confirming that each member has received and read the prior report on examination.	7
C	The Company violated Section 4235(h)(2) of the New York Insurance Law by failing to file its revised small group dental rates and schedules with the Department.	15
D	The Company violated Section 3201(b)(1) of the New York Insurance Law for using an unapproved individual dental insurance application form.	16
E	The examiner recommends that the Company review its outstanding checks on a periodic basis and isolate those checks over three years old for appropriate reporting under the New York Abandoned Property Law.	17

APPOINTMENT NO. 21770

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:

MICHAEL V. IMBRIANO

as a proper person to examine into the affairs of the

AMERICAN MEDICAL AND LIFE INSURANCE COMPANY

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.

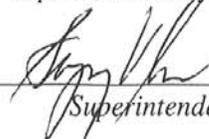
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 10th day of September, 2001



GREGORY V. SERIO

Superintendent of Insurance


Superintendent