



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
BAPTIST LIFE ASSOCIATION

CONDITION:

DECEMBER 31, 2009

DATE OF REPORT:

APRIL 18, 2011

STATE OF NEW YORK INSURANCE DEPARTMENT

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EXAMINER:

JACQUELINE TUCKER

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	5
A. History	5
B. Subsidiaries	5
C. Service agreements	5
D. Management	5
4. Territory and plan of operations	8
A. Statutory and special deposits	8
B. Direct operations	8
C. Reinsurance	9
5. Significant operating results	10
6. Financial statements	12
A. Independent accountants	12
B. Net admitted assets	12
C. Liabilities, capital and surplus	13
D. Condensed summary of operations	14
E. Capital and surplus account	15
F. Reserves	15
7. Market conduct activities	16
A. Advertising and sales activities	16
B. Underwriting and policy forms	16
C. Treatment of policyholders	16
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

Andrew M. Cuomo
Governor

James J. Wrynn
Superintendent

April 25, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30532, dated May, 27, 2010 and annexed hereto, an examination has been made into the condition and affairs of Baptist Life Association, hereinafter referred to as "the Association," at its home office located at 8555 Main Street, Buffalo, New York, 14221.

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

1. EXECUTIVE SUMMARY

The material violations contained in this report are summarized below.

The Association has voluntarily stopped the sale of its annuity and single premium universal life products. These actions were implemented as of September 1, 2010 and will remain in effect until further notice. (See item 4B of this Report)

The Department will not issue the certificate of reserve valuation for December 31, 2009 until it completes a review of the asset adequacy analysis supporting the December 31, 2010 reserves. (See item 6F of this Report)

The Association violated Section 86.4 of Department Regulation No. 95 by using claim forms that were not in the form and placement as required by Section 86.4 of Department Regulation No. 95 and, by not submitting the Fraud Warning Statement to the Insurance Frauds Bureau for prior approval as required. (See item 7C of this Report)

2. SCOPE OF EXAMINATION

The examination of the Association was a full scope examination as defined in the NAIC Financial Condition Examiners Handbook, 2008 Edition (the “Handbook”). The examination covers the three-year period from January 1, 2007 to December 31, 2009. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2009 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (“NAIC”). The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with Department statutes and guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

Information about the Association’s organizational structure, business approach and control environment were utilized to develop the examination approach. The Company’s risks and management activities were evaluated incorporating the NAIC’s nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic

- Credit
- Market
- Liquidity
- Legal
- Reputational

The Association was audited annually, for the years 2007 through 2009, by the accounting firms of Amato, Fox and Company, PC. The Association received an unqualified opinion for all years under examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination.

The examiner reviewed the corrective action taken by the Association with respect to the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 9 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 Association was incorporated under the laws of New York on June 21, 1899, under the name Mutual Benefit Association of the German Baptists of North America. The Association received its final certificate of authority to transact business as a fraternal benefit association on August 22, 1899. The name was changed to German Baptist Life Association in 1911, and to its present name, Baptist Life Association in 1934.

B. Subsidiaries

The Association formed a wholly-owned subsidiary on January 4, 2008, Kingdom Quest Financial, Inc. (“KQF”), a life insurance agency licensed by the state of New York. The Association owns 100% of the common stock, a total of 200 shares.

C. Service Agreements

The Association had no service agreements in effect with affiliates during the examination period.

D. Management

The Quadrennial Convention is the supreme governing body that has exclusive legislative authority. It meets every four years. The Quadrennial Convention consists of elected delegates and directors of the Association. Each local branch is entitled to elect one delegate. The board of directors (“board”) is elected by a plurality of delegates at the Quadrennial Convention. The board may fill any vacancies occurring between regular meetings of the Quadrennial Convention for the unexpired term.

Special conventions may be called by the Chairman of the Board, the President of the Association, or by a majority of the board.

On August 15, 2008 the Association amended Article IV, Section 1 of its by-laws reducing the number of directors from 12 to at least nine. In August, 2008, Kenneth L. Griffiths, Martin E. Link and Daniel J. Trippie, Jr. resigned (retired) from the board and were replaced by

Deborah R. Hart. As of December 31, 2009, the board of directors consisted of 9 members. Meetings of the board are held at least twice a year.

The 9 board members and their principal business affiliation, as of December 31, 2009, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Deone W. Drake* Amherst, NY	Singles and Teaching Pastor The Chapel at CrossPoint	2004
John C. Garas* Clarence, NY	Attorney The Garas Law Firm	2000
Deborah R. Hart* Oakland, FL	Vice President Investor Relations The Timothy Plan	2008
John D. Hunter* East Amherst, NY	Six Sigma Financial Champion Praxair, Inc	2004
R. Gordon Mooney* New Castle, PA	Management Consultant Mooney, Ayres & Associates	1992
Richard H. Murphy East Amherst, NY	Vice Chairman of the Board Baptist Life Association	1984
Marilyn R. Schaer* Wheaton, IL	Retired Associate Director of Development North American Baptist Conference	1995
William A. Wells, Jr.* Pendleton, NY	Vice President Beechwood Continuing Care	1998
Steven J. Woodard Lancaster, NY	Chairman of the Board Baptist Life Association	1998

* Not affiliated with the Association

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.

The Board of Directors has an examining committee which is responsible for providing assistance to the Board in fulfilling its fiduciary responsibilities relating to the accounting, auditing and reporting practices of Association. The Charter states that: "The

Examining Committee shall hold at least one formal meeting per year which shall be attended by Committee members, representatives of the independent auditors and the Treasurer”. The Charter also states that “A record shall be kept of all Committee proceedings”. The examiner’s review revealed that the Association does not maintain the minutes of the examining committee.

The examiner recommends that the Association maintain the minutes of the Examining Committee as stated in the Charter.

The following is a listing of the principal officers of the Association as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Kit Francis Burr	President
John Quinn Curtin, Jr.*	Secretary and Treasurer

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

In April 2010, Jeffery Armstrong was elected as Vice President of Sales and Marketing.

4. TERRITORY AND PLAN OF OPERATIONS

The Association 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 Association is licensed to transact business in 25 states.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2009:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	28.2%	Ohio	30.0%
Pennsylvania	15.0	New York	25.9
Texas	11.3	Pennsylvania	19.3
North Carolina	<u>8.8</u>	Texas	<u>4.5</u>
Subtotal	63.3%	Subtotal	79.7%
All others	<u>36.7</u>	All others	<u>20.3</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

A. Statutory and Special Deposits

As of December 31, 2009, the Association had no deposit with the State of New York.

B. Direct Operations

Policies are written on a participating basis. Insurance products sold by the Association include: whole life, single premium whole life, interest sensitive whole life, term, term for children and flexible annuities.

The Association's agency operations are conducted on a general agency/branch office basis.

The Association has advised the Department that it has voluntarily stopped the sale of its annuity and single premium universal life products. These actions were implemented as of September 1, 2010 and will remain in effect until further notice.

C. Reinsurance

As of December 31, 2009, the Association had reinsurance treaties in effect with three companies, two of which were authorized. Reinsurance of the Association's life and accident and health policies is ceded on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2009 was \$87,313,267, which represented 43.8% of the total face amount of life insurance in force.

The Association ceded premiums for its accident and health insurance business to one reinsurer. As of December 31, 2009, the Company ceded \$3,793 of premiums under these reinsurance contracts, representing 100% of the accident and health insurance premiums.

Reserve credit taken for reinsurance ceded to unauthorized companies totaling \$127,347, was supported by letters of credit.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Association 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 (decline) during the period under review:

	December 31, <u>2006</u>	December 31, <u>2009</u>	Increase (Decrease)
Admitted assets	<u>\$23,829,589</u>	<u>\$26,393,173</u>	<u>\$2,563,584</u>
Liabilities	<u>\$23,020,084</u>	<u>\$25,611,887</u>	<u>\$2,591,803</u>
Contingent reserve for orphan Benefits	\$ 20,000	\$ 20,000	\$ 0
Unassigned funds (surplus)	<u>789,505</u>	<u>761,286</u>	<u>(28,219)</u>
Total surplus	<u>\$ 809,505</u>	<u>\$ 781,286</u>	<u>\$ (28,219)</u>
Total liabilities and surplus	<u>\$23,829,589</u>	<u>\$26,393,173</u>	<u>\$2,563,584</u>

The Association's invested assets as of December 31, 2009, were mainly comprised of bonds (93%), cash and short-term investments (4%) and contract loans (3%).

On April 13, 2007, the Association sold its home office and on December 31, 2007 the Association sold its only common stock holding, Principal Financial Group, which taken together represented less than 2% of surplus.

The majority (90.8%) of the Association's bond portfolio, as of December 31, 2009, was comprised of investment grade obligations. As of December 31, 2009, the Association's held \$1,212,995, \$350,480, \$522,681 and \$105,770 in investment grades 3, 4, 5, and 6 respectively. The amount held in non investment grade bonds represented 281% of surplus.

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Ordinary:			
Life insurance	\$ 160,470	\$ 106,777	\$ 182,736
Individual annuities	101,359	142,441	135,534
Supplementary contracts	<u>(32,310)</u>	<u>(27,201)</u>	<u>(16,035)</u>
Total ordinary	<u>\$ 229,519</u>	<u>\$ 222,017</u>	<u>\$ 302,235</u>
Accident and health:			
Other	<u>80</u>	<u>194</u>	<u>76</u>
Total accident and health	<u>\$ 80</u>	<u>\$ 194</u>	<u>\$ 76</u>
Fraternal	<u>\$(110,340)</u>	<u>\$(110,525)</u>	<u>\$(106,388)</u>
Total	<u>\$ 119,259</u>	<u>\$ 111,686</u>	<u>\$ 195,923</u>

The decrease in net gain for ordinary life insurance for 2008 was mainly due to increases in death benefits and surrender benefits and withdrawals for life contracts. The increase in net gain for ordinary life insurance for 2009 was mainly due to decreases in surrender benefits and withdrawals for life contracts, aggregate reserves, commissions and general insurance expenses.

The increase in net gain for individual annuities for 2008 was due to the Association's increase in annuity sales.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2009, as contained in the Association's 2009 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 Association's financial condition as presented in its financial statements contained in the December 31, 2009 filed annual statement.

A. Independent Accountants

The firm of Amato, Fox and Company, PC was retained by the Association to audit the Association's combined statutory basis statements of financial position of the Association as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Amato, Fox and Company, PC concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Association at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	\$23,926,874
Cash, cash equivalents and short term investments	1,122,965
Contract loans	647,289
Investment income due and accrued	387,026
Premiums and considerations:	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	170,365
Reinsurance:	
Amounts recoverable from reinsurers	5,794
Electronic data processing equipment and software	22,379
Receivables from parent, subsidiaries and affiliates	105,481
Security Deposit	<u>5,000</u>
 Total admitted assets	 <u>\$26,393,173</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$25,061,579
Liability for deposit-type contracts	189,920
Contract claims:	
Life	50,105
Premiums and annuity considerations for life and accident and health contracts received in advance	14,577
Contract liabilities not included elsewhere:	
Interest maintenance reserve	170,071
Commissions to fieldworkers due or accrued	16,427
General expenses due or accrued	16,445
Taxes, licenses and fees due or accrued, excluding federal income taxes	10,530
Remittances and items not allocated	747
Miscellaneous liabilities:	
Asset valuation reserve	65,141
Unclaimed Benefits	9,057
Benevolent Fund	<u>7,288</u>
Total liabilities	<u>\$25,611,887</u>
Contingent reserve for orphan benefits	\$ 20,000
Unassigned funds (surplus)	<u>761,286</u>
Total surplus and other funds	<u>\$ 781,286</u>
Total liabilities and surplus	<u>\$26,393,173</u>

D. Condensed Summary of Operations

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Premiums and considerations	\$2,223,854	\$1,790,517	\$3,622,017
Investment income	1,413,379	1,453,962	1,425,465
Commissions and reserve adjustments on reinsurance ceded	432	432	432
Miscellaneous income	<u>853</u>	<u>31,076</u>	<u>51,949</u>
 Total income	 <u>\$3,638,518</u>	 <u>\$3,275,987</u>	 <u>\$5,099,863</u>
Benefit payments	\$1,637,551	\$2,304,977	\$2,401,277
Increase in reserves	930,649	(14,711)	1,582,860
Commissions	75,481	65,613	141,840
General expenses and taxes	871,415	813,964	777,718
Increase in loading on deferred and uncollected premium	<u>4,163</u>	<u>(5,542)</u>	<u>245</u>
 Total deductions	 <u>\$3,519,259</u>	 <u>\$3,164,301</u>	 <u>\$4,903,940</u>
 Net gain (loss) from operations before net realized capital gains	 \$ 119,259	 \$ 111,686	 \$ 195,923
Net realized capital gains (losses)	<u>149,922</u>	<u>(420,193)</u>	<u>(40,954)</u>
 Net income	 <u>\$ 269,181</u>	 <u>\$ (308,507)</u>	 <u>\$ 154,969</u>

E. Capital and Surplus Account

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus, December 31, prior year	\$ <u>809,505</u>	\$ <u>999,687</u>	\$ <u>665,002</u>
Net income	\$269,181	\$(308,507)	\$154,969
Change in net unrealized capital gains (losses)	(5,692)	(209,893)	26,456
Change in asset valuation reserve	(11,080)	183,715	(65,141)
Change in surplus as a result of reinsurance	<u>(62,227)</u>	<u>0</u>	<u>0</u>
Net change in surplus for the year	\$ <u>190,182</u>	\$ <u>(334,685)</u>	\$ <u>116,284</u>
Surplus, December 31, current year	\$ <u>999,687</u>	\$ <u>665,002</u>	\$ <u>781,286</u>

The decrease in surplus in 2008 was mainly due to net realized capital losses of \$420,193, due to the impairment of bonds of Lehman Brothers and Washington Mutual Bank.

F. Reserves

The Department conducted a review of reserves as of December 31, 2009. During the review, the Department found that greater conservatism may be needed in the assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. To ensure reserves are adequate on a current basis, the Department is conducting a further review of the asset adequacy analysis supporting December 31, 2010 reserves. This review may lead to revised assumptions and methodology. Accordingly, the certificates of reserve valuation for December 31, 2010 and prior years are being held in abeyance until the Department completes this further review and analysis and is able to determine that the necessary conservatism has been incorporated into the asset adequacy analysis. This follow-up reserve review will be completed subsequent to the examination.

The Department will not issue the certificate of reserve valuation for December 31, 2009 until it completes a review of the asset adequacy analysis supporting the December 31, 2010 reserves.

7. 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.

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

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.

Section 86.4 of Department Regulation No. 95 states, in part:

“(a) . . . all claim forms for insurance, . . . shall contain the following statement:
‘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.’

(d) The warning statements required by subdivisions (a)...of this section shall be placed immediately above the space provided for the signature of the person executing the application or claim form and shall be printed in type which will produce a warning statement of conspicuous size. On claim forms which require execution by a person other than the claimant, or in addition to the claimant, the warning statements required by subdivisions (a)...of this section shall be placed at

the top of the first page of the claim form or on the page containing instructions, either in print, by stamp or by attachment and shall be in type size which will produce a warning statement of conspicuous size.

(e) Notwithstanding the provisions of subdivisions (a)...of this section, insurers may use substantially similar warning statements provided such warning statements are submitted to the Insurance Frauds Bureau for prior approval.”

The fraud warning statement as written on the Association’s claim form is not in the form or placement as required by Section 86.4 of Department Regulation No. 95. In addition, the Fraud Warning Statement was not submitted to the Insurance Frauds Bureau for prior approval as required.

The Association violated Section 86.4 of Department Regulation No. 95 by using claim forms that were not in the form and placement as required by Section 86.4 of Department Regulation No. 95 and, by not submitting the Fraud Warning Statement to the Insurance Frauds Bureau for prior approval as required.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent action taken by the Company in response to the recommendation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended that the Association enter into a custodial agreement for the holding of its securities with an appropriate institution.</p> <p>The Association entered into custodial agreement with Regions Bank effective October 22, 2008.</p>

9. 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 examiner recommends that the Association maintain the minutes of the Examining Committee as stated in the Charter.	7
B	The Association has voluntarily stopped the sale of its annuity and single premium universal life products. These actions were implemented as of September 1, 2010 and will remain in effect until further notice.	8
C	The Department conducted a review of reserves as of December 31, 2009. During the review, the Department found that greater conservatism may be needed in the assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. To ensure reserves are adequate on a current basis, the Department is conducting a further review of the asset adequacy analysis supporting December 31, 2010 reserves. This review may lead to revised assumptions and methodology. Accordingly, the certificates of reserve valuation for December 31, 2010 and prior years are being held in abeyance until the Department completes this further review and analysis and is able to determine that the necessary conservatism has been incorporated into the asset adequacy analysis. This follow-up reserve review will be completed subsequent to the examination.	15
D	The Association violated Section 86.4 of Department Regulation No. 95 by using claim forms that were not in the form and placement as required by Section 86.4 of Department Regulation No. 95 and, by not submitting the Fraud Warning Statement to the Insurance Frauds Bureau for prior approval as required.	17

APPOINTMENT NO. 30532

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, JAMES J. WRYNN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

JACQUELINE TUCKER

as a proper person to examine into the affairs of the

BAPTIST LIFE ASSOCIATION

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

FRATERNAL BENEFIT SOCIETY

with such other information as she 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 27th day of May, 2010

JAMES J. WRYNN
Superintendent of Insurance


Superintendent

