

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
POLISH NATIONAL ALLIANCE OF BROOKLYN, USA
AS OF
DECEMBER 31, 2002

DATE OF REPORT:

JANUARY 30, 2004

EXAMINER:

JOHN T. RAFFA

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 30, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 22100, dated November 5, 2003 and annexed hereto, an examination has been made into the condition and affairs of the Polish National Alliance of Brooklyn, USA, hereinafter referred to as "the Society," at its home office located at 155 Noble Street, Brooklyn, New York 11222.

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 Society's financial condition as presented in its financial statements contained in the December 31, 2002 filed annual statement. (See item 5 of this report)

The examiner's review of the Society's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Society. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002, 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, 2002 to determine whether the Society's 2002 filed annual statement fairly presents its financial condition. The examiner reviewed the Society'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:

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

The examiner reviewed the corrective actions taken by the Society with respect to violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 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 SOCIETY

A. History

The Society was incorporated in 1905 as the Polish National Alliance of Brooklyn, New York. The Society received its certificate of authority to transact business in the state of New York on April 25, 1905. The name of the organization was changed to the Polish National Alliance of Brooklyn, United States of America on July 3, 1918. On May 23, 1960, the Department approved an agreement of merger and consolidation of the Society with the Polish American Aid Fund, a domestic fraternal benefit society. This merger resulted in an assumption of 5,043 members with \$2,686,187 of life insurance in force being assumed from the Polish American Aid Fund. The merger resulted in the Society attaining its peak membership of 23,792 at the end of 1960. Membership has declined every year since 1960.

B. Management

The Society's by-laws provide that the board of directors shall be comprised of 11 members, five of whom shall be officers of the Society. Directors are elected for a period of four years at the quadrennial convention of the Society held in June of the quadrennial year. Meetings of the board are held six times per year.

The 11 board members and their principal business affiliation, as of December 31, 2002, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Grazyna Bober * Budd Lake, NJ	Real Estate Broker	1998
William Dobranski * Brooklyn, NY	New York City Police Officer	2002
Rita Friend * Bayonne, NJ	Retired	1994
Jolanta Kulpa Gubernat, MD * Brooklyn, NY	Chief Medical Examiner Long Island College Hospital	1994

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Halina Kalitka Maspeth, NY	Secretary Polish National Alliance of Brooklyn, USA	1990
Alexander J. Malewski, Jr. Seaford, NY	Vice President Polish National Alliance of Brooklyn, USA	1994
Christine J. McMullan Lake Hopatcong, NJ	President and Chief Executive Officer Polish National Alliance of Brooklyn, USA	1978
Michael Pajak Brooklyn, NY	Treasurer Polish National Alliance of Brooklyn, USA	1990
Wanda Senko * Hempstead, NY	Funeral Director Senko Funeral Home	1986
Rev. Joseph Szpilski Ansonia, CT	Chaplain Polish National Alliance of Brooklyn, USA	1982
Thomas Wojslawowicz * Bayonne, NJ	Teacher/Coach Bayonne High School	1994

* Not affiliated with the Society

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 following is a listing of the principal officers of the Society as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Christine J. McMullan*	President and Chief Executive Officer
Alexander J. Malewski, Jr.	Vice President
Michael Pajak	Treasurer
Halina Kalitka	Secretary
Rev. Joseph Szpilski	Chaplain

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

C. Territory and Plan of Operation

The Society is authorized to write life insurance and accident and health insurance as defined in paragraphs 1 and 3 of Section 1113(a) of the New York Insurance Law.

The Society is licensed to transact business in four states, namely Connecticut, Michigan, New Jersey, and New York. In 2002, 86% of life premiums were received from New York and 11% of life premiums were received from New Jersey. Policies are written on a participating basis.

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

D. Reinsurance

As of December 31, 2002, the Society had reinsurance treaties in effect with Optimum Reinsurance, an accredited reinsurer. The Society's life insurance is ceded on a yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$30,000. The total face amount of life insurance ceded as of December 31, 2002, was \$2,254,424, which represents 13.7% of the total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Society 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 Society's financial decline during the period under review:

	December 31, <u>1999</u>	December 31, <u>2002</u>	Increase (Decrease)
Admitted assets	<u>\$7,345,023</u>	<u>\$6,446,751</u>	<u>\$(898,272)</u>
Liabilities	\$4,887,455	\$4,533,364	\$(354,091)
Unassigned funds (surplus)	<u>2,457,568</u>	<u>1,913,387</u>	<u>(544,181)</u>
Total liabilities and surplus	<u>\$7,345,023</u>	<u>\$6,446,751</u>	<u>\$(898,272)</u>

The Society's invested assets as of December 31, 2002 were mainly comprised of mortgage loans (31.9%), bonds (18.7%), mutual funds (16.5%), cash and short term investments (20.9%), and real estate (11.4%). The Society's investments in bonds and mortgage loans have decreased by approximately 29% and 30% respectively from the prior examination period, while its cash holdings have increased by approximately 61%.

The majority (85.3%) of the Society's bond portfolio, as of December 31, 2002, was comprised of investment grade obligations. All of the Society's mortgage loans, as of December 31, 2002, were in good standing.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total insurance	\$ 22,009	\$(104,819)	\$(233,235)
Fraternal operations	<u>(78,237)</u>	<u>0</u>	<u>0</u>
Total	<u>\$(56,228)</u>	<u>\$(104,819)</u>	<u>\$(233,235)</u>

Fraternal operations results for the years 2001 and 2002 are included in the total insurance line. This was the result of a reporting error made by the Society for the two years.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities and surplus as of December 31, 2002, as contained in the Society's 2002 filed annual statement, a condensed summary of operations and a reconciliation of the 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 Society's financial condition as presented in its financial statements contained in the December 31, 2002 filed annual statement.

A. ASSETS, LIABILITIES, AND SURPLUS AS OF DECEMBER 31, 2002

<u>Admitted Assets</u>	
Bonds	\$1,192,101
Stocks:	
Preferred stocks	90,000
Common stocks	962,864
Mortgage loans	
First liens	2,028,492
Real estate	
Properties occupied by the Society	726,502
Policy loans	36,590
Cash and short term investments	1,327,918
Electronic data processing equipment and software	13,951
Premiums actually collected by subordinate lodges not yet remitted to home office	1,717
Life insurance premiums and annuity considerations:	
deferred and uncollected on in force business	6,529
Investment income due and accrued	44,062
Prepaid realty tax	11,114
Returned checks	<u>4,911</u>
 Total admitted assets	 <u>\$6,446,751</u>

Liabilities and Surplus

Aggregate reserve for life policies and contracts	\$3,746,653
Liability for deposit-type contracts	551,793
Policy and contract claims	
Life	114,847
Policy and contract liabilities	
Interest maintenance reserve	25,648
Commissions to fieldworker's due or accrued – life and annuity contracts	1,981
Taxes, licenses and fees due or accrued	1,031
Amounts withheld or retained by Society as agent or trustee	2,089
Miscellaneous liabilities	
Asset valuation reserve	80,247
Reserve for group secretaries	<u>9,075</u>
Total liabilities	<u>\$4,533,364</u>
Unassigned funds (surplus)	<u>\$1,913,387</u>
Total liabilities and surplus	<u>\$6,446,751</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Premiums and considerations	\$ 87,796	\$ 98,662	\$ 92,040
Investment income	339,011	301,809	248,540
Miscellaneous income	<u>20,746</u>	<u>25,686</u>	<u>21,553</u>
Total income	<u>\$447,553</u>	<u>\$ 426,157</u>	<u>\$ 362,133</u>
Benefit payments	\$251,066	\$ 331,980	\$ 189,416
Increase in reserves	(91,035)	(163,338)	(30,332)
Commissions	0	1,958	5,096
Taxes	24,306	25,546	40,493
General expenses and fraternal expenses	319,444	334,830	390,313
Miscellaneous deductions	<u>0</u>	<u>0</u>	<u>382</u>
Total deductions	<u>\$503,781</u>	<u>\$ 530,976</u>	<u>\$ 595,368</u>
Net gain (loss)	\$ (56,228)	\$(104,819)	\$(233,235)
Net realized capital gains (losses)	<u>0</u>	<u>(12,356)</u>	<u>(6,339)</u>
Net income	<u>\$ (56,228)</u>	<u>\$ (117,175)</u>	<u>\$ (239,574)</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Surplus, December 31, prior year	<u>\$2,457,568</u>	<u>\$2,388,230</u>	<u>\$2,217,875</u>
Net income	\$ (56,228)	\$ (117,175)	\$ (239,574)
Change in net unrealized capital gains (losses)	24,875	(79,688)	(178,115)
Change in non-admitted assets and related items	7,663	8,374	24,220
Change in asset valuation reserve	(45,648)	18,299	88,981
Aggregate write-ins for gains and losses (prior year)	<u>0</u>	<u>(165)</u>	<u>0</u>
Net change in capital and surplus	<u>\$ (69,338)</u>	<u>\$ (170,355)</u>	<u>\$ (304,488)</u>
Surplus, December 31, current year	<u>\$2,388,230</u>	<u>\$2,217,875</u>	<u>\$1,913,387</u>

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

Based upon the review, 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.

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Society violated Section 4504(b) of the New York Insurance Law when it amended its Constitution and by-laws in 1998 and did not file these changes with the Superintendent.</p> <p>The Society filed the amendments to its Constitution and by-laws with the Superintendent.</p>
B	<p>The Society violated Section 4515(i) of the New York Insurance Law when it failed to obtain a waiver from the Superintendent suspending the life insurance expense limit for 1999.</p> <p>The Society obtained a waiver from the Superintendent suspending the life insurance expense limit for 2003. In addition, the Department determined that there were no issues with expenses that may have been in excess of the life insurance expense limits in calendar years prior to 2003.</p>
C	<p>The Society violated Section 2112 of the New York Insurance Law when it accepted insurance from agents who were not appointed to act on its behalf.</p> <p>A review of a sample of agent appointments and licenses for the period under examination did not reveal any discrepancies.</p>
D	<p>The examiner recommends that the Society enter into a custodian agreement with an appropriate bank for the safekeeping of its securities.</p> <p>A review revealed that the Society entered into a custodian agreement with Chase Manhattan Bank.</p>
E	<p>The examiner recommends that the Society institute the proper procedures and controls to ensure the integrity of the amounts reported in the annual statement's Exhibit of Life Insurance.</p> <p>A review of the Society's accounting procedures and controls revealed no material lapses, errors, misrepresentations or omissions that affected the integrity of the amounts reported in the annual statement.</p>

<u>Item</u>	<u>Description</u>
F	<p>The Society violated Section 701 of the New York Abandoned Property Law when it did not file abandoned property reports for the years 1997, 1998, and 1999.</p> <p>A review indicated that the Society filed abandoned property reports for the examination period.</p>
G	<p>The Society violated Section 700(1)(b) of the New York Abandoned Property Law when it failed to pay to the State Comptroller's Office the funds due superannuated policyholders.</p> <p>A review indicated that the Society escheated sums due to superannuated policyholders in accordance with the New York Abandoned Property Law.</p>
H	<p>The Society violated Section 1404(a)(4)(iv)(III) of the New York Insurance Law when it made a mortgage loan in 1997 that exceeded 90% of the value of the real property securing the loan.</p> <p>A review indicated that the Society no longer issues any mortgage loans that exceed 90% of the real property securing the loan.</p>

Respectfully submitted,

/s/

John T. Raffa
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

John T. Raffa, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/

John T. Raffa
Senior Insurance Examiner

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 22100

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:

JOHN RAFFA

as a proper person to examine into the affairs of the

**POLISH NATIONAL ALLIANCE OF BROOKLYN
UNITED STATES OF AMERICA**

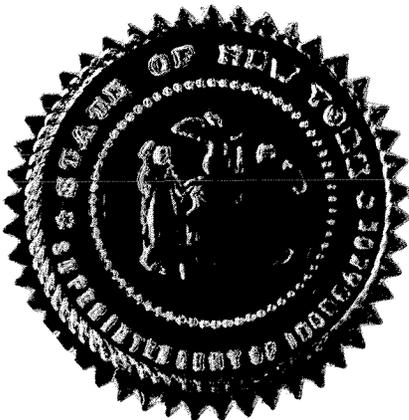
and to make a report to me in writing of the condition of the said

SOCIETY

with such other information as he shall deem requisite.

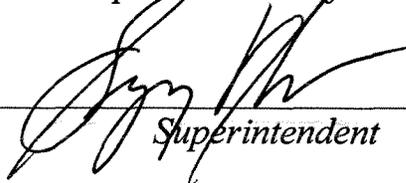
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 5th day of November, 2003



GREGORY V. SERIO

Superintendent of Insurance


Superintendent