STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

STANDARD SECURITY LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2009

DATE OF REPORT: MARCH 25, 2011

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EXAMINER: MARC TSE

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

Andrew M. Cuomo
Governor

James J. Wrynn
Superintendent

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

Sir:

In accordance with instructions contained in Appointment No. 30462, dated January 7, 2010 and annexed hereto, an examination has been made into the condition and affairs of Standard Security Life Insurance Company of New York, hereinafter referred to as “the Company,” at its home office located at 485 Madison Avenue, New York, New York 10022.

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

1. EXECUTIVE SUMMARY

The material findings and violations contained in this report are summarized below:

The examiner recommends that the Company compute reserves based upon appropriate assumptions and methodology as per the guidance from the Department. (See item 6F of this report)

The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by. taking reserve credit for reinsurance ceded in its filed annual statements for reinsurance contracts that did not contain an insolvency clause that states reinsurance shall be payable by the assuming insurer on the basis of liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer without any conditions. (See item 4C of this report)

The Company violated Section 403(d) of the New York Insurance Law, by utilizing applications and claim forms that do not contain the prescribed fraud language as stated in the Law. (See items 7B and 7C of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2009 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 Company'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 Company was audited annually, for the years 2007 through 2009, by the accounting firm of KPMG, LLP. The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company utilizes the internal audit department of its parent, Independence Holding Company, ("IHC") which, along with KPMG, was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, SOX workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendations 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 Company was incorporated as a stock life insurance company under the laws of New York on June 28, 1957, under the name American Security Life Insurance Company of New York. It was licensed and commenced business on December 22, 1958. The present name was adopted in 1958. Initial resources of $500,000, consisting of common capital stock of $500,000, were provided through the sale of 250,000 shares of common stock (with a par value of $2.00 each).

As of December 31, 2006, the Company had capital and paid-in and contributed surplus of $2,586,845 and $22,156,419, respectively. The Company's paid-in surplus increased by $2,618,084 due to a capital contribution in 2007 from its parent, Madison National Life Insurance Company ("MNL").

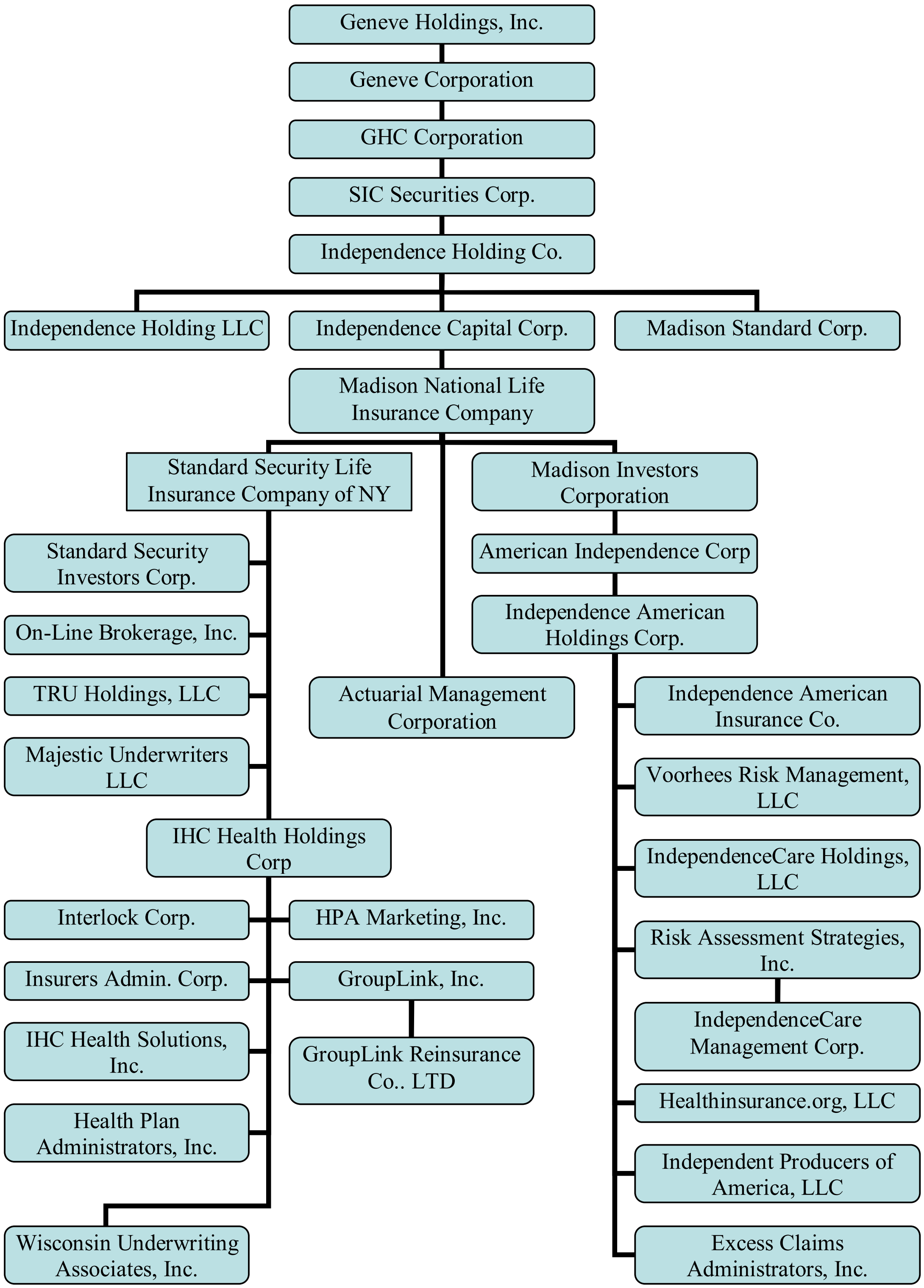
As of December 31, 2009, the Company had 1,034,738 shares of common stock authorized and outstanding with a par value of $2.50 per share. As of the same date, capital and paid-in and contributed surplus were $2,586,845 and $24,774,503, respectively.

B. Holding Company

The Company is a wholly owned subsidiary of MNL, a Wisconsin life insurance company, which sells group long-term disability and group term life products to school districts and municipalities in the Midwest. MNL is in turn a wholly owned indirect subsidiary of Independence Holding Company ("IHC"), a diversified financial company incorporated in the State of Delaware, and engaged principally in the life and health insurance business. The ultimate parent of the Company is Geneve Holdings, Inc., a Delaware holding company.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2009 follows:



D. Service Agreements

The Company had six active service agreements with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement	04/23/07	IHC Health Solutions	The Company	Sales training, marketing development	2007 $(491,534) 2008 $(632,127) 2009 $(537,934)
Service Agreement 35491 Amended 35491B	06/01/98 01/07/07	The Company	MNL Independence American Insurance Company ("IAIC") ICMN IHC American Independence Corp. ("AMIC") Independence Care- MidAtlantic Independence Care – Southwest Independence Care – Tennessee	Legal, tax, financial statement preparation, accounting and actuarial, Marketing, policy issuance and premium, and audit services	2007 $ 548,170 2008 $ 580,133 2009 $ 833,591
Service Agreement File No. 41464	01/01/05	Actuarial Management Corporation	The Company	First dollar actuarial development and maintenance	2007 $(371,517) 2008 $(421,701) 2009 $(558,553)
Amended Service Agreement 31939	11/25/03	Madison Standard Corp.	The Company	Data processing, actuarial, policy administrative and accounting services	2007 $ (141,153) 2008 $ (134,616) 2009 $ (174,304)
Amended Investment Counsel Agreement 30348	01/01/02	IHC	The Company	Investment counsel	2007 $(821,156) 2008 $(906,375) 2009 $(916,796)
Service Agreement 27266	11/01/99	Madison Standard Corp.	The Company	Underwriting, premium collection, agent administration and claims payment services	2007 $ (44,335) 2008 $ (43,527) 2009 $ (50,727)

* Amount of Income or (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement with IHC.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine nor more than 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders to be held at such time and place as the Board of Directors shall by resolution prescribe. As of December 31, 2009, the board of directors consisted of 10 members. Meetings of the board are held quarterly.

The 10 board members and their principal business affiliation, as of December 31, 2009, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Gary J. Balzofiore Staten Island, NY	Executive Vice President and Chief Financial Officer Standard Security Life Insurance Company of New York	2007
Bernard Eichwald* Rye, NY	Self-Employed Management Consultant	1960
Larry R. Graber Austin, TX	President Madison National Life Insurance Company	1996
John L. Lahey* Cheshire, CT	President Quinnipiac University	2006
Steven B. Lapin Stamford, CT	Vice Chairman Independence Holding Company	1992
Robert M. Leopold* Larchmont, NY	Self-Employed Consultant	1975
Rachel Lipari New York, NY	President and Chief Operating Officer Standard Security Life Insurance Company of New York	1989
Edward Netter Greenwich, CT	Chairman Geneve Holdings, Inc.	1973
James G. Tatum* Birmingham, AL	Principal J. Tatum Capital, LLC	2006

Name and Residence	Principal Business Affiliation	Year First Elected
Roy T.K. Thung White Plains, NY	Chairman and Chief Executive Officer Standard Security Life Insurance Company of New York	1990

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

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 Company as of December 31, 2009:

Name	Title
Roy T.K. Thung	Chairman and Chief Executive Officer
Rachel Lipari	President and Chief Operating Officer
Gary J. Balzofiore	Executive Vice President and Chief Financial Officer
Jeffrey C. Smedsrud	Senior Vice President and Chief Marketing Officer
C. Winfield Swarr	Senior Vice President, Underwriting
Adam C. Vandervoort	Senior Vice President, General Counsel and Secretary
David T. Kettig	Senior Vice President
Joel McKeever	Vice President, Underwriting
Norman J. Nichols, M.D.	Vice President and Medical Director
Richard Demarco	Vice President, Taxation
David B. Getz	Vice President and Controller
Thomas A. Gibbons*	Vice President and Chief Compliance Officer
David G. Melman	Departmental Vice President Business Transactions and Associate General Counsel
Leslie Kresin	Departmental Vice President Litigation Risk Management and Associate General Counsel

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

4. TERRITORY AND PLAN OF OPERATIONS

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 all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. In 2009, 31.4% of accident and health premiums were received from New York (22.2%) and Texas (9.2%). Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2009, the Company had $1,500,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per confirmations received from the following states which were reported in Schedule E of the 2009 filed annual statement an additional, $897,163 was being held by the states of Arkansas, Georgia, New Mexico, North Carolina, and South Carolina.

B. Direct Operations

The Company is not currently issuing participating policies. The Company does have participating policies on its books, which represent 3.2% of the life insurance in-force, from "Keeps" and from its assumption of life business from Monitor Life Insurance Company of New York, effective December 22, 2003. Keeps are life policies that were issued by the Company and remained with it after the Company sold the block of business to American General in 1986.

The Company's core products are employer medical stop-loss, group major medical, individual major medical, short-term major medical, dental and vision, and New York State short-term disability ("DBL"). The Company also writes group life, volunteer firefighter group life, managed health care, limited medical and student medical insurance. The Company began writing limited medical and student medical insurance in 2007. The Company also has existing business in-force in the following lines of business: individual accident and health; individual life; and single premium immediate annuities which are all currently in run-off.

The Company’s agency operations are conducted on a general agency and brokerage basis.

Group Term Life and Medical Excess Loss are primarily marketed through Managing General Underwriters (“MGUs”). MGUs are responsible for: underwriting accounts in accordance with the Company’s guidelines; billing and collecting premiums; paying commissions to agents, third party administrators and brokers; and processing claims. MGUs are non-salaried contractors who receive administrative fees.

Group Accident and Health products are sold in the majority of states through various distribution strategies. The majority of the premium is derived from small group major medical policies. The majority of the business is written through general agents, agents and brokers. The business is administered by the Company’s indirect subsidiaries: Insurers Administrative Corp.; Health Plan Administrators; Inc., and GroupLink, Inc.

In 2007, 2008 and 2009, Insurers Administrative Corp wrote 18.9%, 20.6% and 18.8% of the Company's Accident and Health Business.

C. <u>Reinsurance</u>

As of December 31, 2009, the Company had reinsurance treaties in effect with 48 companies, of which 11 were authorized or accredited. The Company’s life and accident and health business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum net retention limits for the Company are: $210,000 per life on individual life and the corresponding disability waiver of premium; no retention on accidental death benefits provided by rider to individual life policies; up to $1,000,000 on any one Medical Excess Loss claim; and up to $1,000,000 per calendar year for fully-insured medical claims. The Company also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business.

The total face amount of life insurance ceded as of December 31, 2009, was $30,355,357, which represents 8.1% of the total face amount of life insurance in force.

The Company ceded premiums for its group accident and health insurance business to 25 reinsurers. As of December 31, 2009, the Company ceded $144,641,484 of premiums under these reinsurance contracts, representing 59.5% of the accident and health direct premiums.

The total face amount of life insurance assumed as of December 31, 2009, was $15,089,043. The total amount of group accident and health insurance premiums assumed as of December 31, 2009, was $77,643,223.

The Company reported aggregate life and accident and health reserve credits taken for reinsurance ceded to unauthorized companies, totaling $6,367,696, this amount was supported by letters of credit, trust agreements and funds withheld. The Company also set up a liability of $526,444 for reinsurance in unauthorized companies.

On March 1, 2009, the Company entered into a Reinsurance and Assumption Agreement with Fidelity Security Life Insurance Company ("FSL"). Under the agreement, the Company will initially assume, on a 100% quota share basis, the liabilities related to insurance policies and certificates issued by FSL. The insurance policies and certificates provide individual market major medical insurance to insureds and their dependents under one insurance trust and one association containing 2,907 insureds. The certificates were issued in 19 different states and this is expected to generate approximately $19.2 million in annual premiums.

Section 1308(a)(2)(A) of the New York Insurance Law states, in part:

> "No credit shall be allowed, as an admitted asset or deduction from liability, to any ceding insurer for reinsurance ceded, renewed, or otherwise becoming effective after January first, nineteen hundred forty, unless:
>
> (i) the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer . . ."

A review of the Company's reinsurance treaties with Everest Re, Transatlantic Re and Munich Re America revealed the use of the following insolvency clause:

> "In the event of the insolvency of the Company **and the appointment of a conservator, liquidator or statutory successor**, the reinsurance provided by this Contract shall be payable by the Reinsurer directly to the Company or to its liquidator, receiver or statutory successor on the basis of the liability of the Company under the Policy or Policies reinsured. **Subject to the right of offset and the verification of coverage,** the Reinsurer shall pay its share of the loss

without diminution because of the insolvency of the Company…" (emphasis added)

A review of another reinsurance treaty with London Life revealed the following clause:

"In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator, or statutory successor immediately upon demand, **with reasonable provision for verification,** on the basis of the liability of the Company without diminution because of the insolvency of the Company…" (emphasis added)

The phrase "… and the appointment of a conservator, liquidator or statutory successor" adds an additional condition that modifies Section 1308 (a)(2)(A)(i) of the New York Insurance Law. Section 1308 (a)(2)(A)(i) of the New York Insurance Law states "insolvency", "not insolvency and the appointment of a conservator, liquidator or statutory successor". This language is inappropriate because there may be some period of time between the determination of insolvency and the appointment of a conservator, liquidator or statutory successor. The phrase "Subject to the right of offset and the verification of coverage" should not be in this part of the treaty. The "right of offset" should be in a separate section of the treaty which explains how the offset operates and which should state that offsets are with respect to amounts owed within this treaty only. The right of offset provision will continue whether or not the ceding company is insolvent. The phrases "verification of coverage" and "with reasonable provision for verification" should also be removed because they add an additional condition that modifies Section 1308(a)(2)(A)(i).

The Company entered into five reinsurance contracts with four reinsurers during the examination period, which contained an insolvency clause that provided the assuming carrier additional rights under the reinsurance agreement in the event of the Company's insolvency. The clauses as worded in these treaties appear to place additional documentation requirements upon a conservator, liquidator or statutory successor, before claims may be settled

The Company reported the reserve credit for these treaties in 2009 as follows:

Name of Company	Reserve Credit Taken December 31, 2009
Everest Reinsurance	4,705,619
London Life Reinsurance Co.	1,168,976
Munich Re America Health Care	4,957,926
Transatlantic Reinsurance Company	1,076,018
Total	11,908,539

The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by taking reserve credit for reinsurance ceded in its filed annual statements for reinsurance contracts that did not contain an insolvency clause that states reinsurance shall be payable by the assuming insurer on the basis of liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer without any conditions.

The examiner recommends that the Company amend the reinsurance agreements shown above so that the insolvency clause contained in each complies with Section 1308(a)(2)(A)(i) of the New York Insurance Law. A similar recommendation appears in the prior report on examination. The examiner also recommends that the Company modify its procedures to ensure that the proper insolvency clause is used in all new reinsurance contracts.

5. SIGNIFICANT OPERATING RESULTS

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

	December 31, 2006	December 31, 2009	Increase (Decrease)
Admitted assets	$355,699,622	$370,830,886	$15,131,264
Liabilities	$247,297,293	$255,775,393	$ 8,478,100
Common capital stock	$ 2,586,845	$ 2,586,845	$ 0
Gross paid in and contributed surplus	22,156,419	24,774,503	2,618,084
Group contingency life reserve	362,000	537,000	175,000
Additional deferred admitted tax asset	0	3,530,345	3,530,345
Unassigned funds (surplus)	83,297,065	83,626,800	329,735
Total capital and surplus	$108,402,329	$115,055,493	$ 7,137,406
Total liabilities, capital and surplus	$355,699,622	$370,830,886	$15,131,264

The Company's invested assets as of December 31, 2009 were mainly comprised of bonds (75.4%), and stocks (17.4%).

The majority (93.8%) of the Company's bond portfolio, as of December 31, 2009, 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:

	2007	2008	2009
Ordinary:			
Life insurance	$1,643,049	$ 168,830	$ 216,516
Individual annuities	73,559	356,067	(44,173)
Supplementary contracts	(4,843)	(294,911)	(26,907)
Total ordinary	$1,711,765	$ 229,986	$ 145,436
Group:			
Life	$ 237,000	$ 531,321	$ 828,627
Annuities	1,410,295	887,957	808,943
Total group	$1,647,295	$1,419,278	$1,637,570
Accident and health:			
Group	$1,348,612	$6,217,775	$6,804,783
Other	(124,495)	(48,337)	(68,322)
Total accident and health	$1,224,117	$6,169,438	$6,736,461
Total	$4,583,177	$7,818,702	$8,519,468

The Company reported $1,643,049 of gains form ordinary life in 2007. The unusual gain was largely attributed to an automatic reinsurance recapture of a block of business sold to American General in 1986. The recapture was effective July 1, 2006, however, the Company discovered that American General was not properly reporting certain transactions in their reinsurance settlements. American General agreed to make an adjustment to reflect these transactions, which generated a one time gain of $1,639,800 in 2007.

6. FINANCIAL STATEMENTS

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

A. Independent Accountants

The firm of KPMG, LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company 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.

KPMG, LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company 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	$235,938,000
Stocks:	
Preferred stocks	37,666,280
Common stocks	16,644,526
Cash, cash equivalents and short term investments	13,809,548
Contract loans	840,301
Other invested assets	6,322,289
Receivable for securities	1,795,157
Investment income due and accrued	2,066,796
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	19,496,350
Deferred premiums, agents' balances and installments booked but deferred and not yet due	377,377
Reinsurance:	
Amounts recoverable from reinsurers	142,173
Funds held by or deposited with reinsured companies	6,403,144
Other amounts receivable under reinsurance contracts	2,826,547
Net deferred tax asset	4,929,559
Electronic data processing equipment and software	149,980
Receivables from parent, subsidiaries and affiliates	6,923,685
Claim funds	14,274,943
Due from MGU settlements	224,231
Total admitted assets	$370,830,886

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 23,686,863
Aggregate reserve for accident and health contracts	55,488,826
Liability for deposit-type contracts	144,606,852
Contract claims:	
Life	208,008
Accident and health	611,012
Dividends apportioned for payment	16,728
Premiums and annuity considerations for life and accident and health contracts received in advance	50,310
Contract liabilities not included elsewhere:	
Interest maintenance reserve	809,510
Commissions to agents due or accrued	5,080,582
Commissions and expense allowances payable on reinsurance assumed	3,539,086
General expenses due or accrued	2,727,440
Taxes, licenses and fees due or accrued, excluding federal income taxes	2,605,857
Current federal and foreign income taxes	27,618
Amounts withheld or retained by company as agent or trustee	5,059
Remittances and items not allocated	2,340,537
Miscellaneous liabilities:	
Asset valuation reserve	474,346
Reinsurance in unauthorized companies	526,444
Funds held under reinsurance treaties with unauthorized reinsurers	1,754,564
Payable to parent, subsidiaries and affiliates	51,244
Funds held under coinsurance	7,962,673
Payable for securities	2,984,658
Reserve for unpresented checks	203,146
Premium deposit funds	14,030
Total liabilities	$255,775,393
Common capital stock	$2,586,845
Gross paid in and contributed surplus	24,774,503
Group contingency life reserve	537,000
Additional admitted deferred tax asset	3,530,345
Unassigned funds (surplus)	83,626,800
Surplus	$112,468,648
Total capital and surplus	$115,055,493
Total liabilities, capital and surplus	$370,830,886

D. Condensed Summary of Operations

	2007	2008	2009
Premiums and considerations	$205,681,627	$199,213,752	$181,253,056
Investment income	15,154,383	14,631,480	13,205,213
Commissions and reserve adjustments on reinsurance ceded	29,150,042	22,985,061	21,839,493
Miscellaneous income	1,724,855	40,835	224,963
Total income	$251,710,907	$236,871,128	$216,522,725
Benefit payments	$145,788,893	$146,954,404	$140,936,519
Increase in reserves	14,480,844	(2,123,853)	(10,078,222)
Commissions	55,256,977	52,988,065	48,367,467
General expenses and taxes	28,255,557	28,352,446	27,563,011
Increase in loading on deferred and uncollected premium	(11,488)	(7,674)	(12,058)
Total deductions	$244,770,783	$226,163,388	$206,236,717
Net gain	$ 6,940,124	$ 10,707,740	$ 10,286,008
Dividends	20,134	17,528	15,906
Federal and foreign income taxes incurred	2,336,813	2,871,510	1,750,634
Net gain (loss) from operations before net realized capital gains	$ 4,583,177	$ 7,818,702	$ 8,519,468
Net realized capital gains (losses)	33,694	(11,621,807)	263,151
Net income	$ 4,616,871	$ (3,803,105)	$ 8,782,619

E. Capital and Surplus Account

	2007	2008	2009
Capital and surplus, December 31, prior year	$108,402,239	$109,648,172	$114,274,390
Net income	$ 4,616,871	$ (3,803,105)	$ 8,782,619
Change in net unrealized capital gains (losses)	(1,759,595)	(7,729,833)	(6,000,064)
Change in net deferred income tax	223,340	3,244,545	(979,191)
Change in non-admitted assets and related items	(2,523,509)	15,071,783	7,524,018
Change in liability for reinsurance in unauthorized companies	(40,063)	48,715	(502,570)
Change in asset valuation reserve	110,715	2,294,113	(243,709)
Surplus adjustment - Paid in	2,618,084	0	0
Dividends to stockholders	(2,000,000)	(4,500,000)	(7,800,000)
Net change in capital and surplus for the year	$ 1,245,843	$ 4,626,218	$ 781,103
Capital and surplus, December 31, current year	$109,648,172	$114,274,390	$115,055,493

F. Reserves

The Department conducted a review of reserves as of December 31, 2009. During the review, the Department found that greater conservatism is needed in the assumptions and methodology used for asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Company incorporated various refinements in a manner acceptable to the Department. These refinements produced additional reserves in the amount of $3.2 million.

The Examiner recommends that the Company compute reserves based upon appropriate assumptions and methodology as per the guidance from the Department.

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.

Section 403(d) of the New York Insurance Law states:

> (d) Except with respect to automobile insurance, all claim forms for insurance, and all applications for commercial insurance and accident and health insurance, provided to any person residing or located in this State in connection with insurance policies for issuance or issuance for delivery in this State, 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."

The examiner's review of a sample of 20 DBL application forms revealed 15 claim forms that did not have the prescribed fraud language. The Examiner's review of 5 Dental applications forms revealed 3 applications without the prescribed fraud language.

The Company violated Section 403(d) of the New York Insurance Law, by utilizing applications forms that do not contain the prescribed fraud language as stated in the Law.

The examiner recommends that the Company review all its applications for compliance with Section 403(d) of the New York Insurance 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.

The examiner's review of the vision claims revealed that the Company utilized an Out-of-Network claim form that violated Section 86.4(d) of Department Regulation No. 95, by failing to place the fraud warning immediately above the space provided for the signature of the person executing the application or claim form.

The examiner's review of a sample of 30 disability claim files revealed that the Company's disability claim forms do not have the prescribed fraud language.

The Company violated Section 403(d) of the New York Insurance Law; by utilizing claim forms that did not contain the prescribed fraud language as stated in the Law. A similar violation was identified in the prior report on examination.

The examiner recommends that the Company review all its claim forms for compliance with Section 403(d) of the New York Insurance Law.

8. DATA FILES

On January 10, 2010, prior to the commencement on the on-site field examination, the examiner made requests for various data files. Among the data files requests were in force policy/certificate listings and claims listings. The requests required that the data include certain fields such as resident state, contract state to help the examiner choose policies under New York jurisdiction. In addition the claims lists were requested to include the dates that the Company was notified of the claim, the date the claim was received and the date that the claim was paid. The data files were also required to be reconciled to the appropriate line and exhibit in the annual statement.

The Examiner's review of the Company's response to the data requests noted the following:

- The Company was unable to provide the contract state and resident state for all of its policy and certificate level data.
- The Company was unable to provide the dates that the Company was notified of the claim, the date the claim was received for all of its data.
- The Company was not able to reconcile its claim data to the appropriate Exhibit in the annual statement until September 21, 2010.

The examiner recommends that the Company maintain data in a manner to include the various fields requested by the examiner along with reconciliations to the Annual Statement Exhibits to better facilitate future examinations.

9. 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 Company in response to each citation:

Item	Description
A	The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to establish one or more committees comprised solely of directors who are not officers or employees of the Company to recommend the selection of independent certified public accountants, review the Company's financial condition, the scope and results of the independent audit and any internal audit and recommend to the board of directors the selection of principal officers.
	The Examiner's review indicated that the Company complied with Section 1202(b)(2) of the New York Insurance Law.
B	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to evaluate the performance of officers deemed to be principal officers of the Company.
	The Examiner's review indicated that the Company complied with Section 1202(b)(2) of the New York Insurance Law.
C	The examiner recommended that in the future the Company attach all approvals associated with purchases and sales of securities to the Finance Committee minutes.
	The approval of purchases and sales of securities were reflected in the minutes of the Independent Committee.
D	The examiner recommended that the Company revise reinsurance agreements so that the insolvency clause complies with Section 1308(a)(2)(A)(i) of the New York Insurance Law.
	The Examiner's review revealed 5 new reinsurance contracts that contained errant insolvency clauses.

E The Company violated Section 91.4(c)(2) and Section 91.4(c)(3) of Department Regulation No. 33 by failing to distribute net investment income to the major annual statement lines of business: in proportion to the total mean policy reserves and liabilities of each major annual statement lines of business; in proportion to the total mean funds of each such major annual statement lines of business; or by using the investment year method.

The Company complied with Section 91.4(c)(2) and Section 91.4(c)(3) of Department Regulation No. 33 by utilizing the mean reserve method to distribute net investment income.

F The examiner recommended that the Company develop the proper expenses for the supplementary contracts line of business.

The Company developed the proper expenses for the supplementary contracts line of business by conducting a time study.

G The Company violated Section 2108(a)(3) of the New York Insurance Law by contracting with third parties, who are not licensed adjusters, to provide claims adjudication services with regard to its stop-loss policies.

The Examiner's review did not reveal any instances of violations of Section 2108(a)(3) of the New York Insurance Law.

H The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not filed with and approved by the Superintendent.

The Examiner's review did not reveal instances whereby the Company violated Section 3201(b)(1) of the New York Insurance Law

I The Company violated Section 4235(h) of the New York Insurance Law by not filing premium rate schedules used for its stop-loss policies with the Superintendent.

The Company filed its premium rate schedules.

J The Company violated Section 243.2 (b)(8) of Department Regulation No. 152 by failing to maintain information that would allow the examiner to determine the initial deposit, the writing agent, and the date the contractholder received evidence that the contract was issued, for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.

The Company currently maintains the cited information in its application files.

K The examiner recommended that the state where the application was signed be recorded in the upper section of page one of application Form No. APPGA99 in the future.

The Company has revised procedures with respect to application Form No. APPGA99 to have the information, including the state where the application was signed, recorded in the upper section of page One, and the Agent's Report section, of the application.

L The examiner recommended that the agent state: the amount received for the group annuity; the application date; and sign and date the lower section of page one and the Agent's Report section of Form No. APPGA99 in the future.

The Company has revised procedures with respect to application Form No. APPGA99 to have the information, including the state where the application was signed, recorded in the upper section of page One, and the Agent's Report section, of the application.

M The Company violated Section 243.2(b)(4) of Department Regulation No. 152 for failing to maintain claim files that show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received.

The Company instituted procedures to have all claim records and documentation date stamped.

N The Company violated Section 403(d) of the New York Insurance Law for failing to include the required fraud language in the annuity death claim form.

The Company repeated the violation of Section 403(d) of the New York Insurance Law for failing to include the required fraud language in its disability claim form.

10. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by taking reserve credit for reinsurance ceded in its filed annual statements for reinsurance contracts that did not contain an insolvency clause that states reinsurance shall be payable by the assuming insurer on the basis of liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer without any conditions.	14
B	The examiner recommends that the Company amend its reinsurance agreements to comply with Section 1308(a)(2)(A)(i) of the New York Insurance Law. A similar recommendation appears in the prior report on examination. The examiner also recommends that the Company modify its procedures to ensure that the proper insolvency clause is used in all new reinsurance contracts.	14
C	The Examiner recommends that the Company compute reserves based upon appropriate assumptions and methodology as per the guidance from the Department.	21
D	The Company violated Section 403(d) of the New York Insurance Law, by utilizing applications forms do not contain the prescribed fraud language as stated in the Law.	23
E	The examiner recommends that the Company review all its application forms for compliance with Section 403(d) of the New York Insurance Law.	23
F	The Company violated Section 403(d) of the New York Insurance Law; by utilizing claim forms that do not contain the prescribed fraud language as stated in the Law. A similar violation was identified in the prior report on examination.	23
G	The examiner recommends that the Company review all its claim forms for compliance with Section 403(d) of the New York Insurance Law.	23

H	The examiner recommends that the Company maintain data in a manner to include the various fields requested by the examiner along with reconciliations to the annual statement Exhibits to better facilitate future examinations.	24

Respectfully submitted,

_______/s/_________________
Marc Tse
Associate Insurance Examiner

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

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

_______/s/_________________
Marc Tse

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 30462

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:

MARC TSE

as a proper person to examine into the affairs of the

STANDARD SECURITY 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 7th day of January, 2010

JAMES J. WRYNN
Superintendent of Insurance

Superintendent