



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
NIAGARA LIFE AND HEALTH INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2009

DATE OF REPORT:

FEBRUARY 7, 2011

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OF THE
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AS OF
DECEMBER 31, 2009

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EXAMINER:

SHARON REYNOLDS

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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

February 7, 2010

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

Sir:

In accordance with instructions contained in Appointment No. 30515, dated April, 28, 2009 and annexed hereto, an examination has been made into the condition and affairs of Niagara Life and Health Insurance Company, hereinafter referred to as “the Company” or “Forethought.” The Company’s home office is located at 300 Corporate Parkway, Amherst, New York, 14226. The examination was conducted at the New York Insurance Department.

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 ultimate parent of Forethought was Forethought Financial Group, Inc. (“FFG”). On June 29, 2007, the Department approved an application for acquisition of control of FFG, including Forethought, by Century Capital Partners III, L.P. and a number of affiliated entities, as well as several individuals.

On September 9, 2009, the Department approved an application for acquisition of Control of Forethought by Companion Life Insurance Company (“Companion”), a South Carolina stock company. Companion is in turn a wholly owned subsidiary of Blue Cross and Blue Shield of South Carolina. On October 20, 2009 Forethought’s name was changed to Niagara Life and Health Insurance Company.

2. SCOPE OF EXAMINATION

This examination covers the period from July 21, 2005 through December 31, 2009. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2009 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, 2009 to determine whether the Company's 2009 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
- Territory and plan of operation
- Growth of Company
- Accounts and records
- Financial statements

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of the State of New York on October 24, 2000, was licensed and commenced business on July 21, 2005 as Forethought Life Insurance Company of New York (“Forethought”). Initial resources of \$6,250,000, consisting of paid in and contributed surplus of \$4,250,000 and common capital stock of \$2,000,000, were provided through the sale of 400 shares of common stock with a par value of \$5,000 per share.

The ultimate parent of Forethought was Forethought Financial Group, Inc. (“FFG”). On June 29, 2007, the Department approved an application for acquisition of control of FFG, including Forethought, by Century Capital Partners III, L.P. and a number of affiliated entities, as well as several individuals.

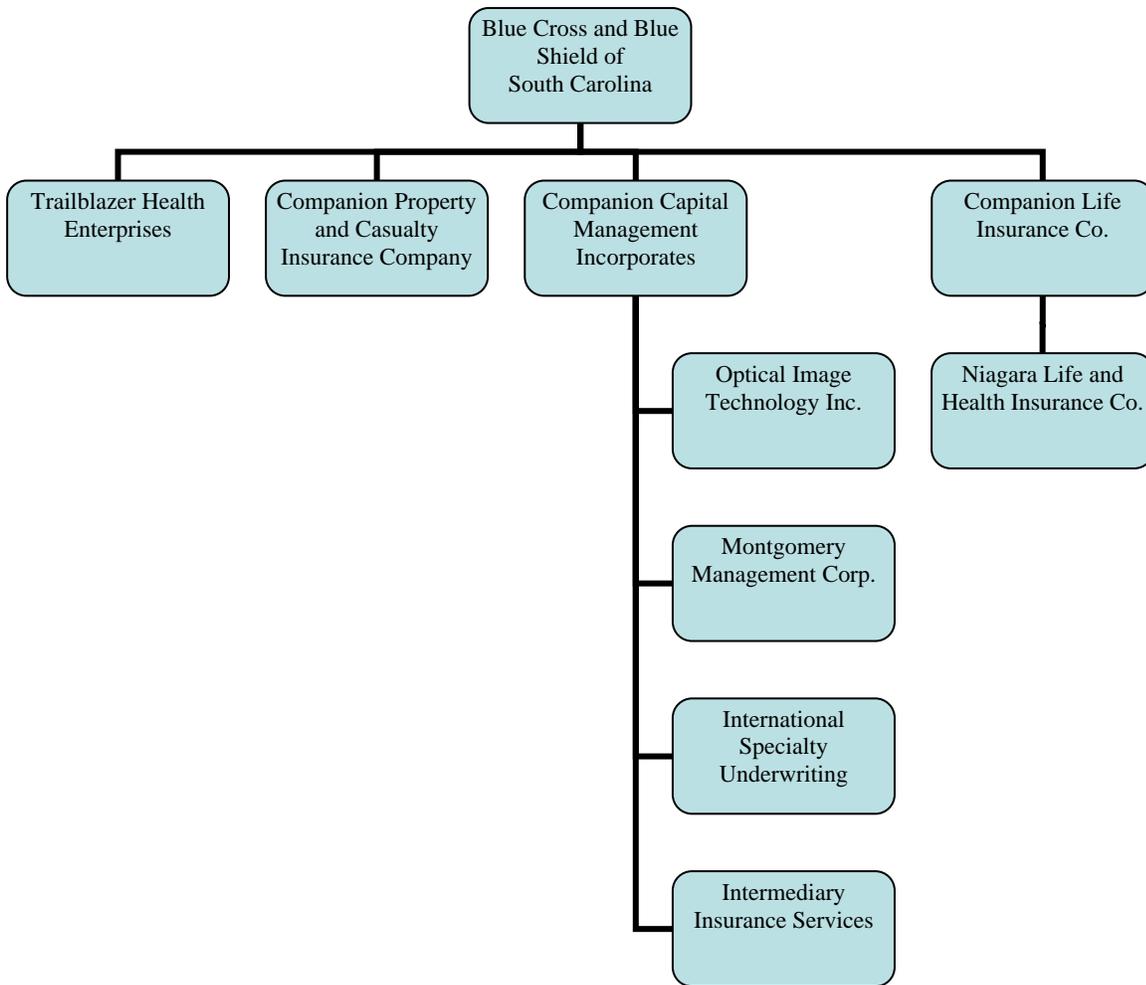
On September 9, 2009, the Department approved an application for acquisition of control of Forethought by Companion Life Insurance Company, a South Carolina stock company. Companion is a wholly owned subsidiary of Blue Cross and Blue Shield of South Carolina.

On October 20, 2009, Forethought’s name was changed to Niagara Life and Health Insurance Company.

B. Holding Company

The Company is a wholly owned subsidiary of Companion Life Insurance Company, a South Carolina stock company, which is in turn a wholly owned subsidiary of Blue Cross and Blue Shield of South Carolina. The ultimate parent of the Company is Blue Cross and Blue Shield of South Carolina.

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



C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than twelve directors. Directors are elected to hold office until their successors are chosen at the annual meeting of the stockholders held in April or May of each year. As of December 31, 2009, the board of directors consisted of 10 members.

The 10 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>
Stephen T. Carter Columbia, South Carolina	Vice President of Actuarial Services Companion Life Insurance Company	2009
Judith M. Davis Columbia, South Carolina	Executive Vice President , Chief Legal Officer Blue Cross Blue Shield of South Carolina	2009
Trescott N. Hinton, Jr. Chapin, South Carolina	President and Chief Operating Officer Companion Life Insurance Company	2009
Catherine G. Huddle* Chapin, South Carolina	V.P Sales and Marketing Conceptual MindWorks, Inc.	2009
Karl C. Kemmerlin Elgin, South Carolina	Vice President and Chief Financial Officer Companion Life Insurance Company	2009
Robert A. Leichtle Columbia, South Carolina	Executive Vice President , Treasurer and CFO Blue Cross Blue Shield of South Carolina	2009
Robert J. Looney* Summit New Jersey	Investment Banking Keybank Capital Markets	2009
Duncan S. McIntosh Columbia, South Carolina	Vice President and General Counsel Blue Cross Blue Shield of South Carolina	2009
Pat Peri, Jr.* Grand Island, New York	Employee Benefit Specialist Self-employed	2009
Mark R Rozeen* Port Washington, New York	Public Relation Golin Harris	2009

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

In April, 2010, Mr. Pat Peri, Jr. resigned from the board and was replaced by Mr. Rickey Carl Williams.

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:

<u>Name</u>	<u>Title</u>
Trescott N. Hinton, Jr.	President
Karl C. Kemmerlin	Chief Financial Officer
Stephen T. Carter	Chief Actuary
Robert A. Leichtle	Treasurer
Duncan S. McIntosh	Secretary
David Wythe*	Director of Compliance

* 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 only in the State of New York.

The Company was expected to begin marketing life, accident and health insurance products in the first half of 2010. As of February 7, 2011, the Company has not issued any new policies. The Company filed the following policy forms for approval with the Department: small group dental; large group dental; voluntary group dental; large group life; voluntary group life; voluntary group short term disability; group long term disability; group vision; and stop loss. The Department has approved the voluntary group short term disability, the group long term disability, the group vision, and the stop loss policy forms.

The Company had originally sold life insurance linked with pre-arranged funerals through financial planners. It sold a minimal amount of such business in 2005 and 2006; since then, no premium has been received. The Company has no insurance policies in force.

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 (decline) during the period under review:

	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2009</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$7,090,365</u>	<u>\$6,140,442</u>	\$ <u>(949,923)</u>
Liabilities	<u>\$1,029,422</u>	\$ <u>15,496</u>	<u>\$(1,013,926)</u>
Common capital stock	\$2,000,000	\$2,000,000	\$ 0
Gross paid in and contributed surplus	4,252,990	4,278,190	25,200
Unassigned funds (surplus)	<u>(192,047)</u>	<u>(153,243)</u>	<u>38,804</u>
Total capital and surplus	<u>\$6,060,943</u>	<u>\$6,124,946</u>	\$ <u>64,003</u>
Total liabilities, capital and surplus	<u>\$7,090,365</u>	<u>\$6,140,442</u>	<u>\$ (949,923)</u>

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:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Group:					
Life	<u>\$(192,766)</u>	<u>\$86,962</u>	<u>\$133,427</u>	<u>\$(32,169)</u>	<u>\$(33,846)</u>
Total	<u>\$(192,766)</u>	<u>\$86,962</u>	<u>\$133,427</u>	<u>\$(32,169)</u>	<u>\$(33,846)</u>

5. 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. Assets, Liabilities, Capital and Surplus as of December 31, 2009

Admitted Assets

Bonds	\$ 249,998
Cash, cash equivalents and short term investments	5,885,406
Investment income due and accrued	4,162
Net deferred tax asset	<u>876</u>
Total admitted assets	<u>\$6,140,442</u>

Liabilities, Capital and Surplus

General expenses due or accrued	\$ 15,300
Payable to parent, subsidiaries and affiliates	<u>196</u>
Total liabilities	<u>\$ 15,496</u>
Common capital stock	\$2,000,000
Gross paid in and contributed surplus	4,278,190
Unassigned funds (surplus)	<u>(153,243)</u>
Total capital and surplus	<u>\$6,124,946</u>
Total liabilities, capital and surplus	<u>\$6,140,442</u>

B. Condensed Summary of Operations

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Premiums and considerations	\$ 2,427	\$ 7,407	\$ 0	\$ 0	\$ 0
Investment income	<u>145,199</u>	<u>309,033</u>	<u>316,273</u>	<u>121,278</u>	<u>8,586</u>
Total income	\$ <u>147,626</u>	\$ <u>316,440</u>	\$ <u>316,273</u>	\$ <u>121,278</u>	\$ <u>8,586</u>
Benefit payments	\$ 0	\$ 2,525	\$ 8,500	\$ 0	\$ 0
Increase in reserves	1,885	2,750	(4,635)	0	0
Commissions	146	1,262	500	0	0
General expenses and taxes	<u>310,447</u>	<u>192,315</u>	<u>108,284</u>	<u>153,447</u>	<u>17,232</u>
Total deductions	\$ <u>312,478</u>	\$ <u>198,852</u>	\$ <u>112,649</u>	\$ <u>153,447</u>	\$ <u>17,232</u>
Net gain (loss)	\$(164,852)	\$117,588	\$203,624	\$ (32,169)	\$ (8,646)
Federal and foreign income taxes incurred	<u>27,914</u>	<u>30,626</u>	<u>70,197</u>	<u>0</u>	<u>25,200</u>
Net gain (loss) from operations before net realized capital gains	\$(192,766)	\$ 86,962	\$133,427	\$ (32,169)	\$(33,846)
Net realized capital gains (losses)	<u>12</u>	<u>768</u>	<u>(1,210)</u>	<u>0</u>	<u>0</u>
Net income	\$ <u>(192,754)</u>	\$ <u>87,730</u>	\$ <u>132,217</u>	\$ <u>(32,169)</u>	\$ <u>(33,846)</u>

C. Capital and Surplus Account

	2005	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus, December 31, prior year	\$ <u>0</u>	\$ <u>6,060,943</u>	\$ <u>6,144,497</u>	\$ <u>6,160,744</u>	\$ <u>6,151,655</u>
Net income	\$ (192,754)	\$ 87,730	\$ 132,217	\$ (32,169)	\$ (33,846)
Change in net deferred income tax	85,040	(10,809)	(640)	9,999	(80,664)
Change in non-admitted assets and related items	(80,896)	10,348	(118,879)	9,478	62,601
Change in asset valuation reserve	(3,437)	(3,715)	3,549	3,603	0
Capital changes:					
Paid in	2,000,000	0	0	0	0
Surplus adjustments:					
Paid in	<u>4,252,990</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,200</u>
Net change in capital and surplus for the year	\$ <u>6,060,943</u>	\$ <u>83,554</u>	\$ <u>16,247</u>	\$ <u>(9,089)</u>	\$ <u>(26,709)</u>
Capital and surplus, December 31, current year	\$ <u>6,060,943</u>	\$ <u>6,144,497</u>	\$ <u>6,160,744</u>	\$ <u>6,151,655</u>	\$ <u>6,124,946</u>

Respectfully submitted,

Sharon Reynolds
Senior Insurance Examiner

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

SHARON REYNOLDS, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Sharon Reynolds

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 30515

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:

SHARON REYNOLDS

as a proper person to examine into the affairs of the

NIAGARA LIFE AND HEALTH INSURANCE COMPANY

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

COMPANY

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 28th day of April, 2010



JAMES J. WRYNN
Superintendent of Insurance

James J. Wrynn
Superintendent