

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST CITICORP LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT:

JANUARY 5, 2001

EXAMINER:

JO ANN LOEBER

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

January 5, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21611, dated September 1, 2000 and annexed hereto, an examination has been made into the condition and affairs of First Citicorp Life Insurance Company, hereinafter referred to as "the Company" or "FCLIC", at its home office located at 333 West 34<sup>th</sup> Street, New York, New York 10001.

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 Company is a wholly owned subsidiary of Citicorp Life Insurance Company ("CLIC"), which is wholly owned by Citigroup Inc., a financial services holding company. Citigroup Inc. was formed in October 1998 as a result of the merger of Citicorp and Travelers Group Inc.

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, 1999 filed statement. (See item 5 of this report)

The Company violated Section 310(a) of the New York Insurance Law for not facilitating the examination of the Company. (See item 7 of this report)

The Company violated Section 325(a) of the New York Insurance Law for not maintaining its books of account and the complete minutes of its board of directors meetings at its principal office in this state. (See item 8 of this report)

The Company violated Sections 243.2(a) and 243.2(b)(8) of Department Regulation No. 152 by not maintaining certain records subject to examination by the Superintendent for six years from its creation or until after the filing of a report on examination. (See item 8 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law for receiving services from affiliates without filed service agreements. Similar violations have appeared in the two prior reports on examination. (See item 3B of this report)

The Company violated Section 91.4 of Department Regulation No. 33 for not maintaining support of the actual basis of allocation of expenses. (See item 5D of this report)

The Company violated Section 216.11 of Department Regulation No. 64 for not maintaining claim files so that the examiner could reconstruct the claims. This is a repeat violation from the prior report on examination. (See item 6C of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covers the period from January 1, 1997 through December 31, 1999. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 1999 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, 1999 to determine whether the Company's filed 1999 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
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations, recommendations and comments 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

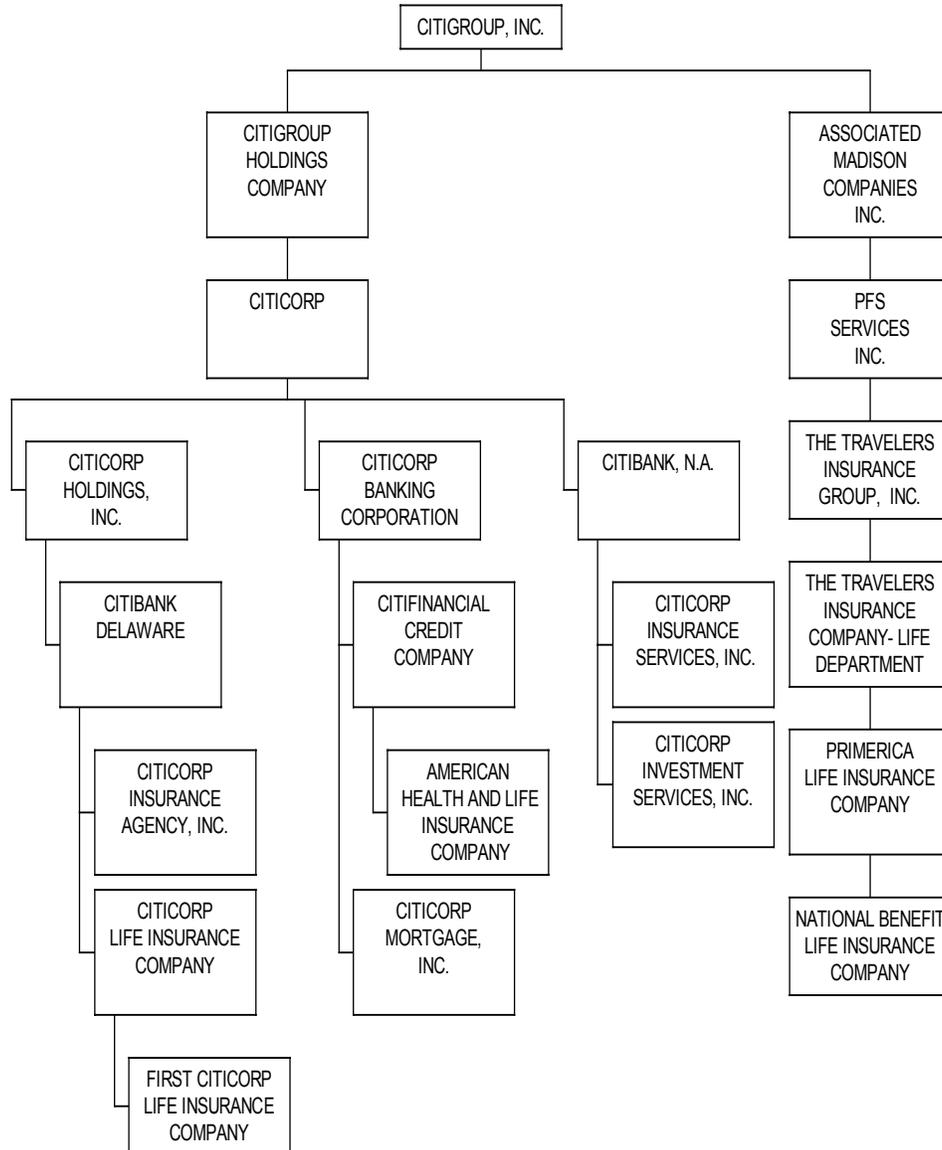
The Company was incorporated as a stock life insurance company under the laws of New York on April 17, 1978, and was licensed and commenced business on August 11, 1981. The Company was originally incorporated as Family Guardian Life Insurance Company of New York. Its current name was adopted on January 1, 1993. Initial resources of \$6,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,000,000, were provided through the sale of 400,000 shares of common stock (with a par value of \$5 each) for \$15 per share. The Company received a capital contribution of \$9,000,000 in 1997 and an additional capital contribution of \$19,000,000 in 1998 from its parent, Citicorp Life Insurance Company.

#### B. Holding Company

The Company is a wholly owned subsidiary of Citicorp Life Insurance Company, an Arizona insurance corporation, which is wholly owned by Citigroup Inc., the ultimate parent, a Delaware holding company.

In October 1998, a merger between Citicorp and Travelers Group Inc. resulted in a new holding company, Citigroup Inc. This resulted in a change of the Company's ultimate parent from Citicorp to Citigroup Inc.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 1999 follows:



The Company had the following 11 service agreements in effect with various affiliates as of December 31, 1999.

- 1) An administrative service agreement between FCLIC and Citicorp Insurance Services, Inc. (“CISI”) dated August 1, 1993, whereby CISI provided administrative services for the Company’s credit life, ordinary life and annuity business out of the Dover, Delaware operations center. These services included accounting, budget preparation, financial reporting, data processing, tax, legal, actuarial, personnel, product development, marketing, claims and underwriting.
- 2) A general agency agreement between FCLIC and Citicorp Investment Services (“CIS”) dated May 1, 1993, established for the sale of annuity contracts.
- 3) A general agency agreement between FCLIC and Citibank Insurance Agency, Inc. (“CIAI”) dated May 1, 1993, established for the sale of individual term life insurance. Services were not provided under this agreement during the examination period.
- 4) A general agency agreement between FCLIC and Citicorp Insurance Agency, Inc. (“CIA”) dated December 1, 1997, established for the sale of annuity contracts.
- 5) An administrative service agreement between FCLIC and Citibank N.A. dated January 1, 1998 that calls for Citibank N.A. to provide administrative services for the credit insurance it is selling for FCLIC.
- 6) An administrative service agreement between FCLIC and Citibank New York State, dated January 1, 1998, that calls for Citibank New York State to provide administrative services for the credit insurance it is selling for FCLIC.
- 7) An investment advisory agreement between FCLIC and Travelers Asset Management, Inc. (“TAMIC”) dated January 4, 1999.
- 8) A custodian agreement between FCLIC and Citibank N.A. dated November 1, 1995.
- 9) A sublease agreement for the Company’s New York home office between FCLIC and National Benefit Life Insurance Company (“NBLIC”) dated August 1, 1999.
- 10) A lock-box agreement between FCLIC and Citibank Delaware dated October 1, 1994.
- 11) A mortgage loan servicing agreement between FCLIC and Citicorp Mortgage, Inc. dated October 6, 1988.

In addition to these 11 service agreements, the Company is involved in participation agreements with two affiliates, Salomon Brothers Asset Management, Inc. and Travelers Series Fund. In both cases, the affiliates provide investment vehicles for the Company's variable annuity contracts.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto . . . and he has not disapproved it within such period . . .

(3) rendering of services on a regular or systematic basis . . . ”

Prior to August of 2000, CISI, located in Dover, Delaware, was the major provider of administrative services for the Company. In August of 2000 the Dover operations center was closed. At that time CISI moved to Fort Worth Texas where it shares space with American Health and Life Insurance Company (“AHL”), a subsidiary of Citigroup Inc. The Travelers Insurance Company (“Travelers”), also a subsidiary of Citigroup Inc., began administering FCLIC's individual life and annuity business in Hartford, Connecticut. There are no service agreements between the Company and AHL or Travelers for the services rendered.

The Superintendent's approval letter for the service agreement between the Company and CISI for the administrative services being provided by CISI during the examination period, directed the Company to maintain a dedicated toll free “800” phone number for its policyholders. The phone number made available by the Company is answered “Citicorp Insurance Services Annuity Line.” A dedicated “800” phone number is not maintained, therefore the Company is not following the terms of the service agreement that was filed with the Superintendent.

The service agreement between the Company and TAMIC for investment advisory services has a service fee charge of 12 basis points (.12%). The Company only pays eight basis points (.08%). The service agreement was never updated and the change was never filed with the Superintendent. The Company is not following the terms of a service agreement that was filed with the Superintendent.

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from affiliates without filed service agreements and by not complying with the terms and conditions of approved agreements on file with the Superintendent. Similar violations of other service agreements have appeared in the two previous reports on examination. (See item 9A of this report)

### C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 23 directors. In the event the Company's admitted assets exceed \$1.5 billion, the number of directors shall be increased to not less than 13 within one year following the end of the calendar year in which the Company's admitted assets exceeded \$1.5 billion. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 1999, the board of directors consisted of nine members. Meetings of the board are held quarterly.

The nine board members and their principal business affiliation, as of December 31, 1999, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Jack S. Berger Mahwah, NJ	Vice President Citibank	1981
Frederick W. Bradley, Jr. * Westfield, NJ	Retired	1992
Elizabeth C. Craig New York, NY	Vice President Citibank	1997
Carl W. Desch * Garden City, NY	Retired	1988
Alice B. Leopold New York, NY	Vice President Citicorp Investment Services	1999
Charles H. Masland, IV Dover, DE	Senior Vice President First Citicorp Life Insurance Company	1996
Frederic W. Thomas, Jr. * Thetford Center, VT	Retired	1978

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John M. Walbridge * Shorthills, NJ	Retired	1988
Larry D. Williams Dover, DE	Senior Vice President First Citicorp Life Insurance Company	1992

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

In April 2000, Jack S. Berger, Elizabeth C. Craig, Charles H. Masland, IV and Larry D. Williams resigned from the board and were replaced by: George C. Kokulis, President and Chief Executive Officer of The Travelers Insurance Company; Glenn D. Lammey, Executive Vice President and Chief Financial Officer of The Travelers Insurance Company; Marla B. Lewitus, Senior Vice President and General Counsel of The Travelers Insurance Company; and Marc P. Weill, Senior Vice President and Chief Investment Officer of The Travelers Insurance Company. Marc P. Weill resigned from the board in June 2000. Elizabeth C. Craig and David A. Tyson, Senior Vice Presidents of The Travelers Insurance Company, were appointed to the board in July 2000.

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.

Section 4211 of the New York Insurance Law states, in part:

“(a) No election of directors of a domestic stock life insurance company shall be valid unless a copy of the notice of election shall have been filed in the office of the superintendent at least ten days before the day of such election . . .

(b) Whenever any directors . . . shall have resigned and successors shall have been chosen pursuant to the provisions of the bylaws, such successors shall not take office nor exercise their duties until ten days after written notice of their election shall have been filed in the office of the superintendent.”

The Company did not notify the Superintendent when Daniel Forcade was elected to the board of directors in April of 1998, when Selig Erlich was elected in April of 1999, or when Elizabeth C. Craig was appointed in July of 1999.

The Company violated Sections 4211(a) and (b) of the New York Insurance Law for not notifying the Superintendent of the election and appointment of directors.

The following is a listing of the principal officers of the Company as of December 31, 1999:

<u>Name</u>	<u>Title</u>
Marc J. Fink	Senior Vice President
Charles H. Masland, IV	Senior Vice President
Catherine S. Mulholland	Senior Vice President
Walter J. Smith, Jr.	Vice President and Treasurer
Benjamin G. Spurgeon	Senior Vice President and Chief Actuary
Larry D. Williams	Senior Vice President
Richard M. Zuckerman	Vice President

The office of the president was vacant as of December 31, 1999.

The Company's administrative office in Dover, Delaware closed in August of 2000. At that time all but two of the Company's employees and officers were terminated or resigned. The Company's administrative responsibilities were transferred to affiliates in Hartford, Connecticut and Fort Worth, Texas. The Company's board of directors appointed new officers in those locations. On May 9, 2000, George C. Kokulis was appointed President and Chief Executive Officer of the Company. In addition, Marla B. Lewitus replaced Catherine Mulholland as Senior Vice President and General Counsel, William H. White replaced Walter J. Smith, Jr. as Vice President and Treasurer, Linn K. Richardson replaced Benjamin G. Spurgeon as Senior Vice President and Chief Actuary and Ernest J. Wright replaced Richard M. Zuckerman as Vice President and Secretary. On July 19, 2000, William R. Hogan replaced Charles H. Masland, IV as Senior Vice President and Mary Jean Thornton replaced Larry D. Williams as Senior Vice President.

On December 31, 1999, the Company's designated consumer services officer per Section 216.4(c) of Department Regulation No. 64 was Rosemary Lombardi. Carol J. Mitnick replaced Rosemary Lombardi as consumer services officer on July 19, 2000.

#### D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in Arizona, Delaware and New York. However, the Company only wrote business in New York during the examination period. Policies are written on a non-participating basis only.

Prior to 1993, the Company wrote life and disability insurance associated with loans and finance contracts made by Citicorp's subsidiaries, and reinsured credit business associated with such affiliates' banking operations. In 1993, the Company began writing single and flexible premium deferred annuity business in the general account and in 1995, the Company began writing variable annuity business in the separate account. During the period under examination, the Company also wrote credit life and credit accident and health business.

The only products currently being written by the Company are annuities, both fixed and variable, with an emphasis on variable annuities. Beginning in 1998, the Company discontinued writing ordinary life and group business. Also in 1998, the Company reinsured all its direct ordinary life, group life and group accident and health business. The Company assumes a small amount of group life business. All credit insurance is currently in runoff.

The Company's agency operations are conducted on a general agency basis. The Company has agreements with three general agencies which are all affiliated companies. During the examination period, the general agency agreements with CIS and CIAI were utilized by the Company for the sale of its annuity products. The general agency agreement with CIA, established for the sale of individual term life, was not used during the examination period. All current agents are licensed to write variable annuities, which is the Company's major line of business. CIS and CIAI market these products through Citibank's existing New York customer base by placing licensed agents in the New York branch offices of Citibank, N.A.

#### E. Reinsurance

As of December 31, 1999, the Company had reinsurance treaties in effect with three companies to reinsure its life and accident and health insurance risks. The Company also assumed credit life, group life and group accident and health business from two companies. The

Company's direct individual and group life business is 100% reinsured. The Company's direct and assumed accident and health insurance is also 100% reinsured. All reinsurers were authorized or accredited. The Company's life insurance policies are ceded on a coinsurance or yearly renewable term basis. Reinsurance is provided on an automatic or facultative basis.

#### 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

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

	December 31, <u>1996</u>	December 31, <u>1999</u>	Increase (Decrease)
Admitted assets	<u>\$291,720,101</u>	<u>\$1,209,608,300</u>	<u>\$917,888,199</u>
Liabilities	<u>\$272,567,912</u>	<u>\$1,176,312,795</u>	<u>\$903,744,883</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,000,000	32,000,000	28,000,000
Unassigned funds (surplus)	<u>13,152,189</u>	<u>(704,495)</u>	<u>(13,856,684)</u>
Total capital and surplus	<u>\$ 19,152,189</u>	<u>\$ 33,295,505</u>	<u>\$ 14,143,316</u>
Total liabilities, capital and surplus	<u>\$291,720,101</u>	<u>\$1,209,608,300</u>	<u>\$917,888,199</u>

The majority (61%) of the Company's admitted assets as of December 31, 1999 is derived from separate accounts.

The Company's invested assets as of December 31, 1999, exclusive of separate accounts, were mainly comprised of bonds (93.3%) and cash and short term investments (6.7%). The majority (97.8%) of the Company's bond portfolio as of December 31, 1999, 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>1997</u>	<u>1998</u>	<u>1999</u>
Ordinary:			
Life insurance	\$ 302,302	\$ 436,824	\$ (511,730)
Individual annuities	(1,498,203)	(5,477,786)	(5,570,324)
Supplementary contracts	<u>27,934</u>	<u>178,781</u>	<u>(102,928)</u>
Total ordinary	\$(1,167,967)	\$(4,862,181)	\$(6,184,982)
Credit life	\$ <u>40,306</u>	\$ <u>(26,325)</u>	\$ <u>246,048</u>
Group life	\$ <u>123,211</u>	\$ <u>93,536</u>	\$ <u>(72,219)</u>
Accident and health:			
Group	\$(1,672,006)	\$ 1,524,165	\$ 13,036
Credit	<u>(74,559)</u>	<u>18,486</u>	<u>60,393</u>
Total accident and health	\$(1,746,565)	\$ 1,542,651	\$ 73,429
Total	\$( <u>2,751,016</u> )	\$( <u>3,252,319</u> )	\$( <u>5,937,724</u> )

In 1999, the loss in the ordinary life line resulted from an increase in the reserves for guaranteed minimum death benefits on variable annuity contracts. Losses in the individual annuity line of business were the result of costs associated with the large increases in the amount of new business issued. The loss in 1999 in the group life line was a result of an increase in death claims. The loss in 1997 in the group accident and health line was a result of an increase in federal income taxes resulting from income tax audits of prior years. The gain in the group accident and health line in 1998 was due to commissions and expense allowances received as a result of the sale of the group accident and health business in 1998.

## 5. FINANCIAL STATEMENTS AND ACCOUNTING RECORDS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 1999, as contained in the Company's filed 1999 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, 1999 filed statement.

### A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 1999

#### Admitted Assets

Bonds	\$ 431,253,168
Mortgage loans	
First liens	431,707
Cash and short term investments	30,690,930
Investment income due and accrued	5,411,563
Due from reinsurers	83,875
From Separate Accounts Statement	<u>741,737,057</u>
 Total admitted assets	 <u>\$1,209,608,300</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 441,545,530
Aggregate reserve for accident and health policies	41,292
Supplementary contracts without life contingencies	808,444
Policy and contract claims:	
Life	1,105,917
Accident and health	12,071
Interest maintenance reserve	647,829
Commissions to agents due or accrued	561,712
General expenses due or accrued	1,218,962
Transfers to Separate Accounts due or accrued	(14,992,874)
Taxes, licenses and fees due or accrued	200,000
Federal income taxes due or accrued	(1,709,671)
Amounts withheld or retained by company as agent or trustee	18,878
Remittances and items not allocated	(233,687)
Miscellaneous liabilities:	
Asset valuation reserve	791,701
Payable to parent, subsidiaries and affiliates	1,463,483
Payable for securities	3,078,049
Sundry payable	18,102
From Separate Accounts Statement	<u>741,737,057</u>
 Total liabilities	 <u>\$1,176,312,795</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	32,000,000
Unassigned funds (surplus)	<u>(704,495)</u>
 Total capital, surplus and other funds	 <u>\$ 33,295,505</u>
 Total liabilities, capital, surplus and other funds	 <u>\$1,209,608,300</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Premiums and considerations	\$250,565,989	\$293,310,347	\$331,489,668
Investment income	20,993,820	25,372,586	28,871,126
Net gain from operations from Separate Accounts	(472,560)	0	0
Commissions and expense allowances on reinsurance ceded	1,099	2,159,513	95,635
Miscellaneous income	<u>1,193,607</u>	<u>4,094,765</u>	<u>6,598,755</u>
Total income	<u>\$272,281,955</u>	<u>\$324,937,211</u>	<u>\$367,055,184</u>
Benefit payments	\$ 46,746,167	\$ 59,436,091	\$ 79,635,929
Increase in reserves	65,710,272	66,116,913	64,510,742
Commissions	14,200,628	17,449,134	21,108,112
General expenses and taxes	5,260,127	8,479,807	8,481,984
Increase in loading and cost of collection	(45)	(5,061)	0
Net transfers to Separate Accounts	<u>141,267,186</u>	<u>177,175,741</u>	<u>204,573,640</u>
Total deductions	<u>\$273,184,336</u>	<u>\$328,652,625</u>	<u>\$378,310,407</u>
Net gain (loss)	\$ (902,380)	\$ (3,715,414)	\$(11,255,223)
Federal income taxes	<u>1,848,635</u>	<u>(463,095)</u>	<u>(5,317,493)</u>
Net gain (loss) from operations before net realized capital gains	\$ (2,751,016)	\$ (3,252,319)	\$ (5,937,730)
Net realized capital gains (losses)	<u>0</u>	<u>0</u>	<u>(2,088,000)</u>
Net income	<u>\$ (2,751,016)</u>	<u>\$ (3,252,319)</u>	<u>\$ (8,025,730)</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Capital and surplus, December 31, prior year	<u>\$19,152,191</u>	<u>\$25,211,818</u>	<u>\$40,694,558</u>
Net income	\$ (2,751,016)	\$ (3,252,319)	\$ (8,025,730)
Change in non admitted assets and related Items	197	0	0
Change in asset valuation reserve	(189,555)	(264,941)	626,677
Surplus adjustments Paid in	<u>9,000,000</u>	<u>19,000,000</u>	<u>0</u>
Net change in capital and surplus	<u>\$ 6,059,625</u>	<u>\$15,482,740</u>	<u>\$ (7,399,053)</u>
Capital and surplus, December 31, current year	<u>\$25,211,816</u>	<u>\$40,694,558</u>	<u>\$33,295,505</u>

#### D. FINANCIAL STATEMENT REPORTING AND ACCOUNTING RECORDS

Several deficiencies in financial reporting and accounting records were noted during the examination. A description of each item and recommendations are outlined below.

1. The list of outstanding checks provided to the examiner dated August 2000 contained checks aged over six months. The Company's procedure is to retain outstanding checks as part of the cash account until paid, in accordance with the abandoned property laws (i.e., three years or longer). The examiner recommends that the Company remove "stale" outstanding checks from the cash account to a liability account.
2. The cash confirmation received from Citibank indicates that the Company directed the bank to update its records to include three new authorized signatories to the Company's operating account beginning in August of 2000. At that time, the Company directed the bank to keep the names of the previous authorized signatories, who are no longer employees of the Company, on the list of authorized signatories in order to allow outstanding checks to clear. It is recommended that the Company notify the bank that checks written after August 1, 2000 should only contain the three new authorized signatories. The examiner also recommends that the Company notify Citibank to change the name on all Company accounts from Family Guardian Life Insurance Company of New York, the Company's original name prior to 1993, to First Citicorp Life Insurance Company.
3. Discrepancies between Schedule D and the custodian statement received from Citibank were noted. The examiner recommends that the Company perform a reconciliation between Schedule D and the custodian statement received from Citibank. In instances where Schedule D is incorrect, the Company should correct Schedule D to reflect the proper information. In instances where the custodian statement is incorrect, the Company should notify the bank of the discrepancies in order for the bank to correct their information.
4. Payments to TAMIC for investment advisory services and NBLIC for rent for the period September through December of 1999 were not reported as affiliate transactions and were not included on Schedule Y. It is recommended that all transactions with affiliates be included on Schedule Y.

5. Section 91.4(a) of Department Regulation No. 33 states, in part:

“ . . . (2) Each life insurer shall maintain records with sufficient detail to show fully . . .

(ii) the actual bases of allocation . . .

(5) Allocations of income and expenses between companies shall be treated in the same manner as if made for major annual statement lines of business. . . .”

Section 91.4(f)(5) of Department Regulation No. 33 states, in part:

“General indexes such as premium volume, number of policies, and insurance in force shall not be used as a basis for distributing costs among major annual statement lines of business, except where the incidence of cost is closely related to such general indexes, or except where there is no more appropriate basis for measurement. . . .”

The Company indicated that it uses time studies prepared by CISI employees to allocate expenses by line of business. However, the Company was unable to supply copies of these time studies. In addition, CISI allocates expenses between companies based on number of policies. Number of policies should not be used as a basis for allocating expenses between companies except where the incidence of cost is closely related to such index or where there is no more appropriate basis of measurement available.

The Company violated Section 91.4(a)(2)(ii) of Department Regulation No. 33 for not maintaining support of the actual basis of allocation of expenses. As a result, the examiner was also unable to determine whether the allocation of expenses between companies, which was based on the number of policies, was done properly.

## 6. MARKET CONDUCT ACTIVITIES

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

### A. Advertising and Sales Activities

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

Section 51.6(b) of Department Regulation No. 60 states, in part:

“Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .  
(6) . . . maintain copies of . . . the notification of replacement to the insurer whose life insurance policy or annuity contract is to be replaced indexed by agent . . .”

The Company was unable to provide copies of the notification of replacement to the insurer whose policy or contract was replaced, indexed by agent.

Section 51.6(c) of Department Regulation No. 60 states, in part:

“Where a replacement has occurred or is likely to occur, the insurer whose life insurance policy or annuity contract is to be replaced shall:  
(1) Upon notice that its existing coverage may be replaced, maintain copies of such notification, indexed by insurer notifying it of such replacement . . .”

The Company did not maintain copies of the notification of replacement, indexed by insurer, where the Company's policy or contract was replaced.

The Company violated Section 51.6(b)(6) and (c)(1) of Department Regulation No. 60 by not maintaining copies of the notification of replacement indexed by agent, in the case of Section 51.6(b)(6), and by insurer, in the case of Section 51.6(c)(1).

## B. Underwriting and Policy Forms

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

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

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent . . . .”

On February 20, 1998, the Department approved form 63-1804(08-96)(a) to be used as the application form for the Company’s variable annuity product. This application replaced three previously used application forms: form 63-1804(08-96) used from January 17, 1997 through February 20, 1998; form 63-1803(08-95) used from September 25, 1995 through January 17, 1997; and form 63-1802(05-94) used prior to September 25, 1995. A review of the policy applications used during the examination period indicated that in 11 cases the Company was still using an application that had been replaced by a newer version of the application.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using application forms that had been replaced.

## 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 216.11 of Department Regulation No. 64 states, in part:

“ . . . To enable department personnel to reconstruct an insurer’s activities, all insurers . . . must maintain within each claim file all communications, transactions, notes and workpapers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer. Claim files must be so maintained that all events relating to a claim can be reconstructed by the Insurance Department examiners. Insurers shall either make a notation in the file or retain a copy of all forms mailed to claimants.”

In reviewing annuity surrenders, the Company was unable to provide any evidence of payment for the Automatic Clearing House (wire transfer) payments made prior to February 1998.

In reviewing annuity death claims, the Company could not provide documentation to support the calculation of interest paid on claims.

The Company violated Section 216.11 of Department Regulation No. 64 for failing to maintain claim files such that claims could be reconstructed by the examiner. This is a repeat violation from the prior report on examination. (See item 9G of this report)

Section 3214(c) of the New York Insurance Law states, in part:

“If no action has been commenced, interest upon the principal sum paid to the beneficiary . . . shall be computed daily at the rate of interest currently paid by the insurer on proceeds left under the interest settlement option, from the date of the death of an insured or annuitant in connection with a death claim on such a policy of life insurance or contract of annuity . . . to the date of payment and shall be added to and be part of the total sum paid.”

The examiner recalculated the interest amounts for a sample of death claims. The examiner found that annuity death claim interest was not being calculated according to the provisions of Section 3214(c) of the New York Insurance Law. The Company was unable to demonstrate how the interest amounts on a sample of claims were calculated.

The Company violated Section 3214(c) of the New York Insurance Law for not paying interest on death claims in accordance with the law.

## 7. FACILITATION OF EXAMINATION

Section 310(a) of the New York Insurance Law states, in part:

“ . . . (2)Any examiner authorized by the superintendent shall be given convenient access at all reasonable hours to the books, records, files, securities and other documents of such insurer or other person, including those of any affiliated or subsidiary companies thereof, which are relevant to the examination . . .

(3)The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so. . . .”

The examiner notified the Company from the start of the examination that examination requests were to be completed within five business days of the request. The Company took an average of 14.9 business days to respond to requests. For 16 of the 43 requests, the Company took 18 or more business days to respond. In eight of these 16 cases the Company was ultimately unable to provide all of the requested information. The Company's untimely and incomplete responses to these requests significantly delayed the progress of the examination.

On-line access to the Company's computer records was not granted in a timely basis. The Company's computer records for its annuity business are maintained on Travelers' mainframe computer. The first day letter to the Company dated June 5, 2000 began the initial correspondence requesting access to the Company's computer systems. A modem for dial-in capability to Travelers' mainframe was finally installed at the Company's New York office on December 1, 2000. The Company provided access to Travelers' mainframe on December 11, 2000, two weeks prior to the scheduled completion of the examination, and six months after initial contact with the Company concerning the upcoming examination. Access to the Company's computer records may have improved the examiner's ability to obtain requested information on a timely basis.

The Company violated Section 310(a) of the New York Insurance Law for not facilitating the examination.

## 8. BOOKS OF ACCOUNT AND MAINTANCE OF RECORDS

Section 325(a) of the New York Insurance Law states, in part:

“ . . . Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state . . . its books of account . . . the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof.”

The Company does not maintain its books of account (general ledgers or subsidiary ledgers) at the principal office of the Company in this state. The Company also did not maintain the complete minutes of the board of directors meetings at its principal office in this state.

The Company violated Section 325(a) of the New York Insurance Law for not maintaining its books of account and complete minutes of its board of directors meetings at its principal office in this state.

Section 243.2(a) of Department Regulation No.152 states, in part:

“ . . . every insurer shall maintain its claims, rating, underwriting marketing, complaint, financial, and producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provisions of this Part.”

Section 243.2(b)(8) of Department Regulation No. 152 states, in part:

“ . . . 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.”

In response to examiner requests, the Company was unable to provide the following:

- a) Credit life applications and credit life death claims for the period under examination;
- b) Detailed support for amounts used in the calculation of the interest maintenance reserve liability;
- c) Support for the valuation of private placements for 1999;
- d) Evidence of the Automatic Clearing House (wire transfer) payments made prior to February 1998;
- e) Evidence of payment of salary expenses for 1999;
- f) Brokers advices for trades prior to 1999;

- g) Ten policy files that related to consumer complaints and abandoned property; and
- h) Three New York complaint files that were reported to the Department.

The Company violated Sections 243.2(a) and 243.2(b)(8) of Department Regulation No. 152 by not maintaining records subject to examination by the Superintendent for six years from its creation or until after the filing of a report on examination.

## 9. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law for failing to notify the Superintendent before entering into two service agreements with its affiliates.</p> <p>The two service agreements in question were filed with the Department in June 1997. However, during the current examination period the Company received services from two affiliates for the administration of its policies without notifying the Superintendent. The Company has again violated Section 1505(d)(3) of the New York Insurance Law. (See item 3B of this report)</p>
B	<p>The examiner recommended that the Company allocate rent expenses and any forgiveness of such rent should be treated as gross paid in and contributed capital.</p> <p>The Company did not include any forgiveness of rent as gross paid in and contributed capital. The amount was deemed to be insignificant and had no effect on surplus. The rent agreement with Citibank N.A., to which this comment refers, is no longer in effect. During the time the agreement was in effect, the Company only remitted two months rent to Citibank N.A, in the amount of \$11,896. In August of 1999, the Company began renting office space for its New York office from NBLIC. Rent is currently being paid on a regular basis in accordance with the approved sublease agreement.</p>
C	<p>The Company violated Section 4228(d)(5) of the New York Insurance Law for paying its agents upon a plan other than commissions without submitting such plan of compensation to the Superintendent before it was made effective.</p> <p>This compensation plan was submitted to the Department in February of 1996. The Company no longer uses the submitted compensation plan.</p>
D	<p>The examiner recommended that the Company report investment transactions that occur from its December cut off date to each year-end so that its filed annual statement reflects all transactions that occur through December 31<sup>st</sup>.</p> <p>All December transactions are now reflected in the annual statement for that year.</p>

<u>Item</u>	<u>Description</u>
E	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law for using policy forms which were not filed with and approved by the Superintendent.</p> <p>These forms were never filed with the Department. The forms are no longer actively used by the Company due to the Company's withdrawal from the lines of business that necessitated them. However, the Company is in violation of Section 3201(b)(1) of the New York Insurance Law for using application forms that were replaced. (See item 6B of this report)</p>
F	<p>The Company failed to use a written consent which would meet all the requirements as prescribed in Section 2611(b) of the New York Insurance Law.</p> <p>The Company has amended its AIDS consent form to comply with all the standards required under the New York Insurance Law. A copy was filed with the Department. The forms are no longer actively used by the Company due to the Company's withdrawal from the lines of business that necessitated them.</p>
G	<p>The Company violated Section 216.11 of Department Regulation No. 64 for failing to maintain within each claim file all communications, transactions, notes and workpapers relating to the claim.</p> <p>A repeat violation of Section 216.11 of Department Regulation No. 64 appears in this report. (See item 6C of this report)</p>
H	<p>The Company violated Section 701 of the New York Abandoned Property Law for failing to file the required abandoned property reports.</p> <p>Abandoned property reports have been filed for the years 1997 through 1999.</p>

## 10. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law for receiving services from affiliates without filed service agreements.	7 - 8
B	The Company violated Section 4211 of the New York Insurance Law for not notifying the Superintendent of the election of certain directors.	9 – 10
C	The examiner recommends that the Company remove “stale” outstanding checks from the cash account to a liability account.	18
D	The examiner recommends that the Company notify Citibank that checks written after August 1, 2000 should only contain the three new authorized signatories.	18
E	The examiner recommends that the Company notify Citibank to change the name on all Company accounts to First Citicorp Life Insurance Company.	18
F	The examiner recommends that the Company perform a reconciliation between Schedule D and its Citibank custodian statement and correct all discrepancies.	18
G	The examiner recommends that all transactions with affiliates be recorded on Schedule Y.	18
H	The Company violated Section 91.4(a)(2)(ii) of Department Regulation No. 33 for not maintaining support of the actual basis of allocation of expenses.	19
I	The Company violated Sections 51.6(b)(6) and (c)(1) of Department Regulation No. 60 by not maintaining copies of the notification of replacement indexed in the appropriate manner.	20
J	The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms that have been replaced.	21

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
K	The Company violated Section 216.11 of Department Regulation No. 64 for not maintaining claim files so that the examiner could reconstruct the claims.	22
L	The Company violated Section 3214(c) of the New York Insurance Law for not paying interest on death claims in accordance with the law.	22
M	The Company violated Section 310(a) of the New York Insurance Law for not facilitating the examination of the Company.	23
N	The Company violated Section 325(a) of the New York Insurance Law for not maintaining its books of account and the complete minutes of its meetings at its principal office in this state.	24
O	The Company violated Sections 243.2(a) and 243.2(b)(8) of Department Regulation No. 152 by not maintaining certain records subject to examination by the Superintendent for six years from its creation or until after the filing of a report on examination.	24 - 25

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Jo Ann Loeber  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
Jo Ann Loeber

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_ 2001.

APPOINTMENT NO. 21611

STATE OF NEW YORK  
**INSURANCE DEPARTMENT**

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**JOANN LOEBER**

as a proper person to examine into the affairs of the

**FIRST CITICORP LIFE INSURANCE COMPANY**

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

**COMPANY**

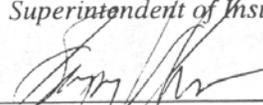
with such other information as she shall deem requisite.

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

this 1st day of September, 2000



NEIL D. LEVIN  
Superintendent of Insurance

  
by GREGORY V. SERIO  
First Deputy Superintendent