

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
POLISH NATIONAL ALLIANCE OF BROOKLYN, USA
AS OF
DECEMBER 31, 1999

DATE OF REPORT:

FEBRUARY 23, 2001

EXAMINER:

DENNIS G. BENSEN

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

February 23, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21627, dated October 4, 2000 and annexed hereto, an examination has been made into the condition and affairs of the Polish National Alliance of Brooklyn, USA, hereinafter referred to as "the Society," at its home office located at 155 Noble Street, Brooklyn, New York 11222.

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

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Society's financial condition as presented in its financial statements contained in the December 31, 1999 filed statement. (See item 5 of this report)

During the examination period, the Society adopted several changes to its Constitution and By-Laws. The Society violated Section 4504(b) of the New York Insurance Law when it failed to file these changes with the Superintendent. (See item 3B of this report)

During the period under examination the Society's securities were transferred to a brokerage firm. Based upon the guidance provided in Circular Letter No. 2, 1977, a brokerage firm is not an acceptable custodian for securities. (See item 7 of this report)

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

The Society violated Section 701 of the New York Abandoned Property Law, when it did not file abandoned property reports for any of the years under examination. (See item 9 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 Society's filed 1999 annual statement fairly presents its financial condition. The examiner reviewed the Society's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

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

The examiner reviewed the corrective actions taken by the Society with respect to violations, recommendations and comments contained in the prior report on examination. The results of the examiner's review are contained in item 11 of this report.

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

3. DESCRIPTION OF SOCIETY

A. History

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

B. Management

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

In June 1998, the Society adopted several changes to its Constitution and By-Laws, which included reducing the number of directors from 16 to 11.

Section 4504(b) of the New York Insurance Law states:

“A domestic society may amend its constitution and by-laws...by the action of its supreme governing body at any regular meeting or special meeting thereof...Such amendment to the constitution or by-laws shall be filed with the superintendent within not more than ninety days after the adoption thereof...”

The Society has not filed the 1998 changes to its Constitution and By-Laws with the Superintendent and is therefore in violation of Section 4504(b) of the New York Insurance Law.

The 11 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>
Irene Bekker Brooklyn, NY	Vice President Polish National Alliance of Brooklyn, USA	1958
Grazyna Bober Budd Lake, NJ	Real Estate Broker	1998
Rita Friend Bayonne, NJ	Retired	1994
Jolanta Kulpa Gubernat, MD Brooklyn, NY	Chief Medical Examiner Long Island College Hospital	1994
Halina Kalitka Maspeth, NY	Secretary Polish National Alliance of Brooklyn, USA	1990
Alexander J. Malewski Jr. Seaford, NY	Attorney Private practice	1994
Christine J. McMullan Lake Hopatcong, NJ	President Polish National Alliance of Brooklyn, USA	1978
Michael Pajak Brooklyn, NY	Treasurer Polish National Alliance of Brooklyn, USA	1990
Wanda Senko Hempstead, NY	Funeral Director Senko Funeral Home	1986
Rev. Joseph Szpilski Ansonia, CT	Chaplain Polish National Alliance of Brooklyn, USA	1982
Thomas Wojslawowicz Bayonne, NJ	Teacher/Coach Bayonne High School	1994

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

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

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

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

C. Territory and Plan of Operation

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

The Society is licensed to transact business in four states, namely Connecticut, Michigan, New Jersey, and New York. In 1999, 81% of life premiums were received from New York and 14% of life premiums were received from New Jersey. Policies are written on a participating basis.

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

D. Reinsurance

As of December 31, 1999, the Society had reinsurance treaties in effect with Lincoln National Insurance Company, an accredited reinsurer. Reinsurance of the Society's life insurance is ceded on a yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$30,000. The total face amount of life insurance ceded as of December 31, 1999, was \$1,582,000, which represents 10% of the total face amount of life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

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

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

	December 31, <u>1996</u>	December 31, <u>1999</u>	<u>(Decrease)</u>
Admitted assets	<u>\$7,753,781</u>	<u>\$7,345,023</u>	<u>\$(408,758)</u>
Liabilities	<u>\$5,010,413</u>	<u>\$4,887,455</u>	<u>\$(122,958)</u>
Unassigned funds (surplus)	<u>\$2,743,368</u>	<u>\$2,457,568</u>	<u>\$(285,800)</u>
Total liabilities, and unassigned funds	<u>\$7,753,781</u>	<u>\$7,345,023</u>	<u>\$(408,758)</u>

The Society's invested assets as of December 31, 1999 were mainly comprised of mortgage loans (39.8%), bonds (23.2%), mutual funds (14.2%), cash and short term investments (11.4%), and real estate (9.6%). The Society decreased its investments in mortgage loans by approximately 10% from the prior examination period, while it increased its investments in mutual funds by approximately 14%.

The majority (96%) of the Society's bond portfolio as of December 31, 1999 was comprised of investment grade obligations. The majority (99.9%) of the Society's mortgage loans as of December 31, 1999 were in good standing.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Total insurance	\$ (37,601)	\$ 26,139	\$ 25,364
Fraternal operations	\$(<u>104,574</u>)	\$(<u>95,817</u>)	\$(<u>77,657</u>)
Total	\$(<u>142,175</u>)	\$(<u>69,678</u>)	\$(<u>52,293</u>)

Section 4515(i) of the New York Insurance Law states:

“...If any such society shall in any calendar year make or incur total life insurance expenses in excess of the total life insurance expense limit, the superintendent may, upon written application of such society, suspend such limit for such society for the calendar year in which such excess was incurred.”

The Society's 1999 life insurance expenses were \$372,454. The Society's 1999 life insurance expense limit was \$196,719. The Society exceeded its 1999 expense limit by \$175,735 and failed to submit to the superintendent a request for the suspension of such limit.

The Society violated Section 4515(i) of the New York Insurance Law for 1999.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 1999, as contained in the Society'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 Society's financial condition as presented in its financial statements contained in the December 31, 1999, filed statement. Failure of items to add to the totals shown in any table in this report is due to rounding.

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

Admitted Assets

Bonds	\$1,684,386
Stocks:	
Preferred stocks	90,000
Common stocks	1,028,545
Mortgage loans: First liens	2,889,174
Real estate: property occupied by the Society	697,868
Certificate loans and liens	46,460
Cash and short term investments	824,627
Prepaid realty tax	8,619
Life insurance premiums and annuity considerations deferred and uncollected on in force business	4,504
Investment income due and accrued	<u>70,840</u>
 Total admitted assets	 <u>\$7,345,023</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for life certificates and contracts	\$4,031,358
Life policy and contract claims	49,211
Refund accumulations	603,507
Premiums and annuity considerations received in advance	644
Liability for premium and other deposit funds	3,220
Interest maintenance reserve	22,301
General expenses due or accrued	3,011
Taxes, licenses and fees due or accrued	20,409
Amounts withheld or retained by Society as agent or trustee	2,839
Asset valuation reserve	141,880
Reserve for group secretaries	<u>9,075</u>
Total liabilities	<u>\$4,887,455</u>
Unassigned funds (surplus)	<u>\$2,457,568</u>
Total liabilities and surplus	<u>\$7,345,023</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Premiums and considerations	\$ 99,775	\$105,621	\$ 99,824
Investment income	447,773	386,465	379,156
Amortization of interest maintenance reserve	3,559	3,475	3,204
Miscellaneous income	<u>13,788</u>	<u>22,895</u>	<u>18,644</u>
Total income	\$ <u>564,895</u>	\$ <u>518,456</u>	\$ <u>500,828</u>
Benefit payments	\$ 321,223	\$256,316	\$242,802
Increase in reserves	(30,393)	(64,172)	(40,831)
Commissions	4,692	6,640	25
General expenses and fraternal expenses	378,973	364,377	328,007
Taxes	<u>32,575</u>	<u>24,973</u>	<u>23,118</u>
Total deductions	\$ <u>707,070</u>	\$ <u>588,134</u>	\$ <u>553,121</u>
Net realized capital losses	\$ 0	\$ 0	\$ (1,477)
Net income	\$ <u>(142,175)</u>	\$ <u>(69,678)</u>	\$ <u>(53,770)</u>

C. SURPLUS ACCOUNT

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Capital and surplus, December 31, prior year	\$ <u>2,743,368</u>	\$ <u>2,639,057</u>	\$ <u>2,561,970</u>
Net income	\$ (142,175)	\$ (69,678)	\$ (53,770)
Change in net unrealized capital gains (losses)	0	(4,468)	42,961
Change in nonadmitted assets and related items	0	516	(29,486)
Change in liability for reinsurance in unauthorized companies	4,651	0	0
Change in asset valuation reserve	<u>33,216</u>	<u>(3,455)</u>	<u>(64,105)</u>
Net change in surplus	\$ <u>(104,311)</u>	\$ <u>(77,087)</u>	\$ <u>(104,402)</u>
Surplus, December 31, current year	\$ <u>2,639,057</u>	\$ <u>2,561,970</u>	\$ <u>2,457,568</u>

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

Section 2112 of the New York Insurance Law states:

“(a) Every ...fraternal benefit society...doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such...fraternal benefit society.

(c) Certificates of appointment shall be valid until...(iii) the license expires and is not renewed.”

In 1999 the Society failed to renew the licenses of all its agents which resulted in the termination of their appointments to do business on behalf of the Society. However, the Society permitted its agents to continue to sell insurance on its behalf.

The Society is in violation of Section 2112 of the New York Insurance Law by failing to appoint agents to act on its behalf.

B. Underwriting and Policy Forms

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

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

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

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

7. CUSTODIAN AFFIDAVIT

Department Circular Letter No. 2, 1977 sets forth affidavits to be used to confirm insurers securities held by custodian banks. Based upon the guidance provided by this Circular Letter, brokerage firms are not acceptable custodians for securities.

In 1980, the Society entered into a custody agreement with Chase Manhattan Bank, N. A. for the storage and safekeeping of its securities. In November of 1998, the Society signed an agreement with Chase Investment Services Corporation (“CISC”) for the management of its securities. The Society indicated that CISC was the custodian of its securities. CISC was mailed a custodian affidavit, but advised the Department that it could not sign such affidavit because the language contained in the affidavit was inconsistent with the responsibilities of CISC.

The examiner’s review indicated that when CISC began managing the securities in 1998, the securities were transferred to the National Financial Services Corporation (“NFSC”), a brokerage clearing house. NFSC is the current custodian for the Society’s securities. Neither CISC nor NFSC are deemed appropriate custodians by the New York Insurance Department.

The Examiner recommends that the Society enter into a custodial agreement with an appropriate bank for the safekeeping of its securities.

8. EXHIBIT OF LIFE INSURANCE

A review of the Society's Exhibit of Life Insurance was conducted for each of the years under examination. The examiner attempted to reconcile source records for new issues, death claims, policy surrenders, lapses, and maturities, including dollar amounts, with the Exhibit of Life Insurance. With the exception of maturities in 1998, the examiner was unable to reconcile any of the source records with figures reported in the Exhibit of Life Insurance for 1997, 1998 and 1999.

The Examiner recommends that the Society institute proper procedures and controls to ensure the integrity of the amounts reported in the Annual Statement's Exhibit of Life Insurance.

9. ABANDONED PROPERTY

Article VII, Section 701(1) of the New York Abandoned Property Law states:

“On or before the first day of each April in each year, every life insurance corporation shall make a verified report to the State Comptroller, which shall contain a true and accurate statement, as to the first day of January next preceding, of all abandoned property specified in section seven hundred, held or owing by it.”

The Society has not filed abandoned property reports since 1994. The Society is in violation of Article VII and Section 701(1) of the New York Abandoned Property Law because it failed to file the required report with the State Comptroller's office. A similar comment was made in the prior report on examination.

Article VII 700(1)(b) of the New York Abandoned Property Law states:

“The following unclaimed property held or owing by life insurance corporations shall be deemed abandoned property;... (b) Any moneys held or owing by any life insurance corporation which are payable under other kinds of life insurance policies to any person whose last-known address, according to the records of the corporation, is within this state, where the insured, if living, would prior to the thirty-first day of December next preceding the report required by section seven hundred one, have attained the limiting age under the mortality table on which the reserves are based...”

As of December 31, 1999, the Society had 193 superannuated certificates on its books. The Examiner recommends that the Society pay such unclaimed funds to the State. A similar comment was contained in the last two reports on examination.

10. MORTGAGE LOAN

A review of mortgage loans made by the Society during the period under examination indicated that the Society made a mortgage loan on October 29, 1997 in the amount of \$125,000. The property sold for \$127,900 at the same time that the mortgage loan was issued. It is the position of the New York Insurance Department that the selling price is the best representation of the actual market value. The loan to value ratio of the mortgage loan is 98%.

Section 1404(a)(4)(iv) of the New York Insurance Law states:

“(iv) Amount of loan. The amount of the loan ...shall not exceed the following percentages of the value of the real property or leasehold securing the loan...(III) ninety percent, if the loan is secured by a first mortgage on real property improved primarily with a residential building...”

The Society violated Section 1404(a)(4)(iv)(III) of the New York Insurance Law when it made a mortgage loan that exceeded ninety percent of the value of the property. A similar comment was made in the prior report on examination.

11. 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 Society in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>Comment that five board members missed a substantial number of board meetings</p> <p>The Society reduced the number of board members from 16 to 11. The five members with the worst attendance records were asked not to run for re-election. The five members were not re-elected and the new board's attendance has improved significantly.</p>
B	<p>The Society violated Section 1404(a)(4) of the New York Insurance Law when it issued one mortgage loan in excess of two percent of its admitted assets.</p> <p>The review of the Society's current mortgage loan portfolio indicated that during the period under examination no mortgage loans were made in excess of two percent of admitted assets.</p>
C	<p>The Society violated Section 1404(a)(4) of the New York Insurance Law when it issued two mortgages loans in excess of ninety percent of the value of the real property securing the loans. The Examiner recommended that the Society not make any loans in excess of the ninety percent limit.</p> <p>The Society again made a loan in excess of ninety percent of the value of the property securing the loan. (See item 10 of this report)</p>
D	<p>The Society violated of Section 2101 of the New York Insurance Law when it accepted insurance solicited by seventeen agents who were not licensed.</p> <p>The Society again accepted insurance from unlicensed agents. (See item 6A of this report)</p>
E	<p>The Society violated of Section 2114(a) of the New York Insurance Law when it paid commissions to seventeen agents who were not licensed.</p> <p>The Society did not pay any commissions on new business during the period under examination.</p>

<u>Item</u>	<u>Description</u>
F	<p>The Examiner recommends that the Society pay any monies due superannuated certificateholders who cannot be located.</p> <p>The Society again failed to pay monies due superannuated certificateholders. (See item 8 of this report)</p>
G	<p>The Society was in violation of Section 701 of the Abandoned Property Law when it did not file an abandoned property report for the years 1994, 1995, and 1996.</p> <p>The Society has still not filed any Abandoned Property Reports. (See item 8 of this report)</p>

12. SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Society violated Section 4504(b) of the New York Insurance Law when it amended its Constitution and By-Laws in 1998 and did not file these changes with the Superintendent	4
B	The Society violated Section 4515(i) of the New York Insurance Law when it failed to obtain a waiver from the Superintendent waiving the life insurance expense limit for 1999.	8
C	The Society violated Section 2112 of the New York Insurance Law when it accepted insurance from agents who were not appointed to act on its behalf.	12
D	The Examiner recommends that the Society enter into a custodian agreement with an appropriate bank for the safekeeping of its securities.	13
E	The Examiner recommends that the Society institute the proper procedures and controls to ensure the integrity of the amounts reported in the Annual Statement's Exhibit of Life Insurance.	14
F	The Society violated Section 701 of the New York Abandoned Property Law when it did not file abandoned property reports for the years 1997, 1998, and 1999. This violation is repeated from the prior report on examination.	14
G	The Society violated Section 700(1)(b) of the New York Abandoned Property Law when it failed to pay to the State Comptroller's Office the funds due superannuated policyholders. This violation is repeated from the prior two reports on examination.	15
H	The Society violated Section 1404(a)(4)(iv)(III) of the New York Insurance Law when it made a mortgage loan in 1997 that exceeded ninety percent of the value of the real property securing the loan. This violation is repeated from the prior report on examination.	15

Respectfully submitted,

Dennis G. Bensen
Senior Insurance Examiner

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

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

Dennis G. Bensen

Subscribed and sworn to before me
this _____ day of _____ 2001.

APPOINTMENT NO. 21627

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:

DENNIS BENSEN

as a proper person to examine into the affairs of the

POLISH NATIONAL ALLIANCE OF BROOKLYN, U.S.A.

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

SOCIETY

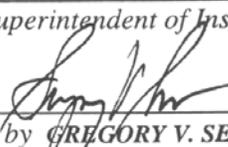
with such other information as he shall deem requisite.

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

this 4th day of October, 2000



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent