STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

UNITY MUTUAL LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT: MARCH 23, 2001

EXAMINER: VINCENT TARGIA

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Company	4
	A. History	4
	B. Subsidiaries	5
	C. Management	6
	D. Territory and plan of operation	8
	E. Reinsurance	9
	F. Cost reduction plan	11
4.	Significant operating results	11
5.	Financial statements	14
	A. Assets, liabilities, surplus and other funds	14
	B. Condensed summary of operations	16
	C. Surplus account	17
	D. Reserves	18
6.	Subsidiary reporting	18
7.	Market conduct activities	19
	A. Advertising and sales activities	19
	B. Underwriting and policy forms	21
	C. Treatment of policyholders	22
	D. Subsequent events	22
8.	Actuarial	23
9.	Prior report summary and conclusions	24
10.	Summary and conclusions	25

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

March 23, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21516, dated March 16, 2000 and annexed hereto, an examination has been made into the condition and affairs of Unity Mutual Life Insurance Company, hereinafter referred to as "the Company," at its home office located at One Unity Plaza at Franklin Square, Syracuse, New York 13250.

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 that materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 1999 filed annual statement. (See item 5 of this report)

The Department has not certified, as to accuracy or adequacy, the Company's reserves for the year ending December 31, 1999. The Department has concerns with respect to completeness of supporting formula reserve details, and justification of certain assumptions with respect to the Company's asset adequacy analysis. (See item 5D of this report)

During December 2000, the Company initiated a cost reduction plan that is estimated to generate a $2.6 million decrease in general expenses. (See item 3F of this report)

The Company has been named as a defendant in litigation regarding race-based underwriting practices. The Department is currently reviewing the Company's race-based underwriting practices in a separate examination. (See item 7D of this report)

The Company violated Section 1712 of the New York Insurance Law by providing an interest free loan to one of its subsidiaries. (See item 3B 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 1999 filed annual statement fairly presents its financial condition. With respect to the verification of liabilities, it is noted that the Department has not certified, as to accuracy or adequacy, the Company's reserves as of December 31, 1999 (see item 5D of this report). 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
- Officers' and employees' welfare and pension plans
- 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 the violations 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 organized as a fraternal benefit society in 1903 under the name of the Imperial Order Tycoons and commenced business in 1905. The name of the Society was changed in 1908 to the Unity Insurance Society, in 1918 to The Unity Protective Insurance Association and in 1928 to The Unity Life and Accident Insurance Association.

Effective January 1, 1957, the Society was converted to a mutual life insurance company, pursuant to the provisions of Section 487 (now Section 7304) of the New York Insurance Law. At the time of conversion, the name of the Company was changed to The Unity Mutual Life Insurance Company of New York. The present name, Unity Mutual Life Insurance Company was adopted in September 1972.

Effective December 1983, Guarantee Mutual Life Insurance Company was merged with and into the Company.

Effective December 31, 1985, Empire State Mutual Life Insurance Company was merged with and into the Company.

Effective September 30, 1987, Volunteer Firemen's Mutual Life Insurance Company was merged with and into the Company.

Effective November 30, 1989, Progressive Life Insurance Company was merged with and into the Company.

Effective May 31, 1993, Eastern Mutual Life Insurance Company of New Jersey was merged with and into the Company.

Effective December 30, 1993, Empire State Life Insurance Company, a subsidiary of the Company, was merged with and into the Company.

B. Subsidiaries

The following are significant subsidiaries of the Company.

1. Empire Management Agency, Inc. ("EMA") is a wholly owned subsidiary of the Company. EMA was acquired through the merger of the Company and Empire State Life Insurance Company in 1993. EMA was organized as an agency but currently only collects renewal commissions on outstanding policies. As of December 31, 1999, EMA had assets of $33,871 and stockholder's equity of $33,816.
2. Univest Clinton, Inc. ("UNIVEST") is a wholly owned subsidiary of the Company. UNIVEST was formed as a subsidiary to purchase an interest (20%) in Congress Asset Management ("CAM"), a Boston based investment advisory firm. CAM performs investment-related activities for the Company. As of December 31, 1999, UNIVEST had assets of $3,210,152 and stockholder's equity of $2,441,687.
3. Unity Financial Life Insurance Company ("UFLIC") is a stock life insurance company licensed in thirty-three states and the District of Columbia. UFLIC is authorized to write life insurance, annuities and accident and health insurance. On August 31, 1993, Unity purchased 100% of the issued and outstanding common shares of UFLIC. As of December 31, 1999, UFLIC had assets of $11,811,706 and capital and surplus of $9,527,271.
4. Unity Financial Group, LLC ("UFGLLC") was formed on October 28, 1998 as a limited liability company for the purpose of purchases and acquisitions. The Company is the sole member of UFGLLC via a $1,000,000 capital contribution. As a result, the Company has a sharing ratio of 100% with respect to any economic interest (profits, losses and distributions). As of December 31, 1999, UFGLLC had assets of $2,976,231 and members equity of $537,707.
5. Millennium Agency, Inc. ("Millenium") was formed on February 5, 1998 as a subsidiary to house the debit insurance business purchased from the R.O. Lan Insurance Agency, Inc. The Company purchased 100% of the outstanding shares of R.O. Lan Agency, Inc., for $600,000. As of December 31, 1999, Millenium had assets of $579,176 and stockholders equity of $536,400.

Section 1712 of the New York Insurance Law states, in part:

" . . . All transactions between the parent corporation and its subsidiaries shall be fair and equitable . . . "

The Company's subsidiary UFGLLC purchased Confidential Planning Corporation ("CPC") on October 31, 1998. To finance the purchase, the Company guaranteed a loan given by Chase Manhattan Bank to UFGLLC in the amount of $1.6 million and made an interest free loan to the subsidiary in the amount of $600,000. The Company has not received any reimbursement from the subsidiary on the $600,000 interest free loan. (See item 5D of this report)

The Company violated Section 1712 of the New York Insurance Law by providing an interest free loan to its subsidiary in the amount of $600,000.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected for a period of three years at the annual meeting of the policyholders held in April of each year. As of December 31, 1999, the board of directors consisted of 16 members. Meetings of the board are held in March, May, September and November.

The 16 board members and their principal business affiliation, as of December 31, 1999, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Joyce F. Brown* New York, NY	President Fashion Institute of Technology	1995
Frank T. Crohn* Rhinebeck, NY	Chairman Eastport Fish & Lobster Company	1983
Arnold G. Gough, Jr.* Hindsdale, IL	Partner Winston & Strawn	1998

Name and Residence	Principal Business Affiliation	Year First Elected
Eugene T. Herbert* Great Falls, VA	Attorney	1987
George R. Hornig* New York, NY	Managing Director Deutsche Morgan Grenfell Corporation	1995
John F.X. Mannion Lafayette, NY	Chairman of the Board Unity Mutual Life Insurance Company	1974
Patrick A. Mannion Fayetteville, NY	President and Chief Executive Officer Unity Mutual Life Insurance Company	1991
Terence A. J. Mannion* Syracuse, NY	Partner Mannion & Copani	1998
Joseph Masella Syracuse, NY	Executive Vice President Unity Mutual Life Insurance Company	1987
William L. O'Halloran, S.J.* Worcester, MA	Vice President Holy Cross College	1983
Robert D. Pietrafesa* Vero Beach, FL	Consultant Ardmore Associates, Inc.	1977
Elaine M. Ryan* Washington, DC	Government Affairs Director American Public Human Service Association	1998
Kenneth A. Shaw* Syracuse, NY	Chancellor and President Syracuse University	1992
Edward J. Slaby Manlius, NY	Senior Vice President-Investments and Actuarial Unity Mutual Life Insurance Company	1987
Phillip A. Turberg* Newtown Square, PA	Independent Consulting Actuary	1988
Joseph N. Walsh, Jr.* Bedford, NY	Independent Consultant	1983

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

Effective May 9, 2000, Scott R. Harrison was elected as an additional member of the Company's board of directors.

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, 1999:

Name	Title
Patrick A. Mannion*	President and Chief Executive Officer
Joseph Masella	Executive Vice President
Joyce H. Kopcik	Senior Vice President-Insurance Operations and Information Systems
Edward J. Slaby	Senior Vice President-Investments and Actuarial
Jay W. Wason, Jr.	Senior Vice President-General Counsel and Secretary
John D. Cico	Senior Vice President-Chief Financial Officer

* 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 in all fifty states, the District of Columbia and Puerto Rico. The following table shows the percentage of direct life insurance premiums and annuity considerations received by major states during 1999:

Life Insurance Premiums	
New York	50.5%
New Jersey	30.2
Subtotal	80.7%
All others	19.3
Total	100.0%

Annuity Considerations	
New York	90.2%
Subtotal	90.2%
All others	9.8
Total	100.0%

During the examination period, the Company primarily sold life insurance, annuity and accident and health products. The life insurance line included regular ordinary, monthly debit ordinary, universal life and group life insurance. The Company exited the group credit insurance business through a 100% coinsurance agreement in 1996. The annuity line included individual, group, single premium and single premium indexed annuities. Effective January 1998, the Company discontinued the sale of its single premium indexed annuities. In addition, the Company reinsured 100% of its universal life business in 1997 and 100% of its Volunteer Firefighters Division group annuity and group term life business in 1999. (See item 3E of this report)

The Company's agency operations are conducted on a general agency basis. The following is a composition of the Company's sales force for each of the years under review:

	1997	1998	1999
Branch offices	5	4	4
General agents	378	386	448
Agents	2,300	2,463	3,482

The increase in the Company's field force was a result of aggressive agent recruitment related to the marketing of the Company's final expense life insurance product. However, the Company does not write final expense business in New York.

E. Reinsurance

As of December 31, 1999, the Company had reinsurance treaties in effect with 18 companies, of which 12 were authorized or accredited. The treaties are for various types of reinsurance including coinsurance, modified coinsurance, yearly renewable term, accidental death, group and disability. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $150,000. The total face amount of life insurance ceded, as of December 31, 1999, was $771,250,765, which represents 56.4% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $24,460,225 was supported by letters of credit and/or trust agreements.

Following are significant reinsurance transactions, which the Company engaged in during, and subsequent to, the examination period under review:

1. Effective October 1, 1997, with the Department's approval, the Company entered into a coinsurance agreement with Life Reassurance Corporation of America, subsequently acquired by Swiss RE during 1998. Under the Agreement, Unity reinsured 100% of their liability under its existing block of universal life policies, including a small block of fixed premium universal life policies. The universal life block consisted of 5,353 policies with reserves of $38,366,170; the fixed premium block consisted of 684 policies with reserves of $3,417,824. As part of the transaction, the assets supporting the policies were transferred and removed from the Company's balance sheet.
2. Effective April 1, 1999, with the Department's approval, the Company entered into a coinsurance agreement with Standard Security Life Insurance Company to cede 100% of all Volunteer Firefighters Division group annuity and group term life policies. Under the terms of the agreement, the Company ceded $32.7 million of reserves and transferred $31.7 million of assets to the reinsurer. In addition, the Company entered into a 2-year consulting agreement with the reinsurer for $750,000, of which $375,000 was paid upon execution of the agreement and the remaining $375,000 was paid in 2000. The reinsurer also paid the Company $750,000 for franchise rights and other intangible assets.
3. Effective December 1, 1999, the Company entered into a coinsurance agreement with AFC Re Limited, a reinsurer domiciled in Bermuda, to cede 49% of single premium deferred annuity ("SPDA") policies on a prospective basis effective as of January 1, 1999. Under the terms of the agreement, the Company ceded $30.4 million of reserves to the reinsurer and transferred $19.3 million of assets to a trust account in the name of the reinsurer at Manufacturers and Traders Trust Company. The Company recognized income of $1.1 million for commission and expense reimbursement in accordance with the agreement. Effective March 31, 2000, with the Department's approval, the agreement was amended to allow the Company to reinsure 90% of the SPDA business.

F. Cost Reduction Plan

During December 2000, the Company began to implement a plan of cost reductions. The Company initiated the plan by reducing their home office staff by approximately 22% (33 employees). Similarly, plans have been adopted to close branch offices during 2001 in the Company's Atlantic Region. The reduction in personnel is estimated to generate a $2.6 million decrease in the Company's general expenses for the year 2001.

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, 1996	December 31, 1999	Increase (Decrease)
Admitted assets	$490,902,346	$483,359,273	$ (7,543,073)
Liabilities	$468,617,964	$457,900,034	$(10,717,930)
Guaranty fund – State of Colorado	$ 400,000	$ 400,000	$ 0
Group contingency life reserve	217,349	259,302	41,953
Unassigned funds (surplus)	21,667,033	24,799,937	3,132,904
Total surplus	$ 22,284,382	$ 25,459,239	$ 3,174,857
Total liabilities and surplus	$490,902,346	$483,359,273	$ (7,543,073)

The decrease in admitted assets is primarily attributable to the transfer of $34 million of assets backing the Company's Volunteer Firefighters' Division group annuity and group life business pursuant to a 100% coinsurance agreement with Standard Security Life Insurance Company of New York.

The Company's invested assets as of December 31, 1999, were mainly comprised of bonds (88.7%) and policy loans (5.4%). The majority (95.7%) 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:

	1997	1998	1999
Industrial life	$ 1,248,271	$ 615,791	$ 803,526
Ordinary:			
Life insurance	$ 1,962,665	$ 163,886	$ 98,872
Individual annuities	(1,832,428)	(1,624,326)	(1,391,882)
Supplementary contracts	(85,835)	136,469	(132,300)
Total ordinary	$ 44,402	$(1,323,971)	$(1,425,310)
Credit life	$ (74,498)	$ 16,932	$ 0
Group:			
Life	$ (325,822)	$ (319,225)	$ (14,028)
Annuities	(265,675)	(424,289)	996,781
Total group	$ (591,497)	$ (743,514)	$ 982,753
Accident and health:			
Group	$ (245,454)	$ (146,581)	$ (280,105)
Credit	(70,989)	6,192	1,708
Other	(75,175)	92,883	(126,278)
Total accident and health	$ (391,618)	$ (47,506)	$ (404,675)
Total	$ 235,060	$(1,482,268)	$ (43,706)

The fluctuation in net gain from operations for the industrial and ordinary life lines of business for the years 1997 and 1998 was due primarily to two factors. The first factor is the gain from reinsurance in 1997. The Company coinsured 100% of its in-force universal life insurance business. The commissions and expense allowances recorded resulted in a $1.3 million improvement in income before taxes for the ordinary life line of business. The second factor is a one-time charge incurred for severance pay and other write-offs. The one-time charge resulted in a $2.2 million reduction in income for 1998.

The losses in the individual annuity line of business were primarily due to unmatched interest rate swap hedges for the Company's single premium indexed deferred annuity ("SPIDA") product. The Company ceased writing this product in 1998.

The fluctuation in the group annuity and group life lines of business for the years 1998 and 1999 is a result of $1.6 million in coinsurance allowances and proceeds from the sale of the Company's Volunteer Firefighters Division business in April 1999.

The losses in the group accident and health line of business were primarily due to poor claims experience and inadequate loss reserves on the Company's stop loss medical insurance product. The Company exited this business in 1998 and ceased writing new groups in 1999. Although the Company ceased writing new business in 1998, runoff claims were incurred in 1999 resulting in losses.

The fluctuation in the net gain from operations for the other accident and health line of business is a result of positive claims experience in 1998 as compared to 1997 and 1999.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds as of December 31, 1999, as contained in the Company's 1999 filed annual statement, a condensed summary of operations and a reconciliation of the surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 1999 filed annual statement; however the Department has not certified, as to accuracy or adequacy, the Company's reserves as of December 31, 1999. (See item 5D of this report)

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

Admitted Assets

Bonds	$413,802,668
Stocks:	
Preferred stocks	2,000,000
Common stocks	11,408,422
Mortgage loans	
First liens	23,330
Real estate:	
Properties occupied by the company	206,972
Investment real estate	163,276
Policy loans	25,386,527
Cash and short term investments	13,761,825
Other invested assets	30,000
Other collateralized loans	41,806
Reinsurance ceded:	
Amounts recoverable from reinsurers	2,519,272
Commissions and expense allowances due	373,876
Electronic data processing equipment	419,448
Life insurance premiums and annuity considerations deferred and uncollected on in force business	(632,504)
Accident and health premiums due and unpaid	15,429
Investment income due and accrued	12,372,959
Receivable from parent, subsidiaries and affiliates	1,455,960
Reserve adjustments due reinsurers	(234,995)
Other assets	245,001
Total admitted assets	$483,359,272

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$422,769,522
Aggregate reserve for accident and health policies	812,543
Supplementary contracts without life contingencies	7,974,715
Policy and contract claims:	
Life	2,344,546
Accident and health	146,639
Policyholders' dividend and coupon accumulations	8,953,211
Policyholders' dividends and coupons due and unpaid	(115,316)
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts	
Dividends apportioned for payment	1,996,578
Premiums and annuity considerations received in advance	135,746
Liability for premium and other deposit funds	
Policyholder premiums	71,166
Policy and contract liabilities	
Interest maintenance reserve	577,264
Commissions to agents due or accrued	48,709
General expenses due or accrued	2,167,648
Taxes, licenses and fees due or accrued	184,148
Federal income taxes due or accrued	613,625
Unearned investment income	52,864
Amounts withheld or retained by company as agent or trustee	216,429
Amounts held for agents' account	119,360
Remittances and items not allocated	2,201,707
Miscellaneous liabilities:	
Asset valuation reserve	3,630,081
Reinsurance in unauthorized companies	8,636
Drafts outstanding	1,206,664
Deferred compensation fund	1,594,499
Accrued interest on policy and contract funds and other liabilities	45,163
Miscellaneous liabilities	143,888
Total liabilities	$457,900,035
Guaranty fund – State of Colorado	$ 400,000
Group contingency life reserve	259,302
Unassigned funds (surplus)	24,799,937
Total surplus and other funds	$ 25,459,239
Total liabilities, surplus and other funds	$483,359,274

B. CONDENSED SUMMARY OF OPERATIONS

	1997	1998	1999
Premiums and considerations	$ 75,903,464	$ 68,690,419	$ 80,408,026
Investment income	35,421,005	34,400,598	33,305,945
Commissions and reserve adjustments on reinsurance ceded	3,958,458	1,580,775	3,940,782
Miscellaneous income	27,942	72,507	1,154,256
Total income	$115,310,869	$104,744,299	$118,809,009
Benefit payments	$ 60,373,413	$ 56,451,033	$ 51,678,347
Increase in reserves	(16,275,489)	22,570,253	(12,986,622)
Commissions	7,913,252	6,255,158	6,987,721
General expenses and taxes	18,631,649	17,026,904	17,024,293
Increase in loading and cost of collection	60,168	8,694	189,528
Miscellaneous deductions	42,676,457	2,204,996	54,655,662
Total deductions	$113,379,450	$104,517,038	$117,548,929
Net gain	$ 1,931,419	$ 227,261	$ 1,260,080
Dividends	1,798,549	2,161,160	2,024,292
Federal income taxes	(102,191)	(451,630)	(720,507)
Net gain (loss) from operations before net realized capital gains	$ 235,060	$ (1,482,269)	$ (43,706)
Net realized capital gains	828,548	919,165	2,515,631
Net income	$ 1,063,608	$ (563,104)	$ 2,471,925

The fluctuation in "Increase in reserves" and "Miscellaneous deductions" during the examination period was primarily due to three factors. The first was the Company's 1997 coinsurance agreement with Life Reassurance Corporation of America, whereby the Company reinsured 100% of their liability under its existing block of universal life policies (see item 3E1 of this report). The second was the Company's 1999 coinsurance agreement with Standard Security Life Insurance Company, whereby the Company reinsured 100% of all Volunteer Firefighters Division group annuity and group term life policies (see item 3E2 of this report). The third was the Company's 1999 coinsurance agreement with AFC Re Limited, whereby the Company reinsured 49% of its single premium deferred annuity business (see item 3E3 of this report).

C. SURPLUS ACCOUNT

	1997	1998	1999
Capital and surplus, December 31, prior year	$22,284,382	$27,717,511	$25,341,877
Net income	$ 1,063,608	$ (563,104)	$ 2,471,925
Change in net unrealized capital gains (losses)	1,313,510	(1,210,419)	(3,072,636)
Change in nonadmitted assets and related items	(5,215)	334,380	36,886
Change in liability for reinsurance in unauthorized companies	(212,926)	197,818	31,441
Change in reserve valuation basis	(398,236)	(389,770)	(335,223)
Change in asset valuation reserve	1,639,388	(141,552)	1,081,361
Surplus adjustments			
Change in surplus as a result of reinsurance	2,033,000	(602,987)	(96,391)
Net change in capital and surplus	$ 5,433,129	$ (2,375,635)	$ 117,363
Capital and surplus, December 31, current year	$27,717,511	$25,341,876	$25,459,240

D. RESERVES

The Department has not certified, as to accuracy or adequacy, the Company's reserves as of December 31, 1999. The Department has concerns with respect to completeness of supporting formula reserve details, and justification of certain assumptions with respect to the Company's asset adequacy analysis.

While the Company has been cooperative in working toward resolution of these concerns, the certificate of reserve valuation will not be issued until the Department's concerns are resolved.

6. SUBSIDIARY REPORTING

The Company failed to report the value of four of its subsidiaries to the Securities Valuation Office as called for in the Purposes and Procedures Manual of the NAIC Securities Valuation Office. The Subsidiaries are: Univest Clinton, Inc. with a reported value of $2,441,697; Unity Financial Group, LLC with a reported value of $537,706; Millenium Agency, Inc. with a reported value of $546,400; and Empire Management Agency, Inc. with a reported value of $33,816.

In addition, the Company did not properly complete Schedule D Part 6 of the Annual Statement, including the required disclosure of the intangible assets of its subsidiaries. A review of the financial statements of Unity Financial Group, LLC and Millenium Agency, Inc. indicated that they reported intangible assets of $2,621,998, and $525,726 respectively, as of December 31, 1999.

It is recommended that the Company report the value of all of its subsidiaries to the Securities Valuation Office as called for in the Purposes and Procedures Manual of the NAIC Securities Valuation Office. It is also recommended that the Company exercise due care in properly completing Schedule D Part 6 of the Annual Statement, including the required disclosure of the intangible assets of its subsidiaries.

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.

1. Section 51.7(b) of Department Regulation No. 60 states:

> "No insurer, agent, representative, officer, or employee of an insurer or any other licensee of this Department shall fail to comply with or engage in other practices that would prevent the orderly working of this Part in accomplishing its intended purpose in the protection of policyholders and contractholders. Any person failing to comply with this Part, or engaging in other practices that would prevent the orderly working of this Part, shall be subject to penalties under the Insurance Law of the State of New York, which may include, but not be limited to, monetary restitution, restoration of policies or contracts, removal of directors or officers, suspension or revocation of agent's or company's licenses and monetary fines."

Kenneth Wirth is a resident agent of New York who is licensed in New York, Connecticut, New Jersey and Maine. His insurance agency, Greenwich Financial Services, is located in Greenwich, Connecticut.

Mr. Wirth wrote 89 annuity contracts during the examination period (46 contracts in 1998 and 43 contracts in 1999). Of the 46 contracts written in 1998, 26 involved the replacement of contracts by New York residents, all of which were written in New York (i.e., applications signed in New York). Of the 43 contracts written in 1999, 27 involved the replacement of contracts by New York residents, all of which were written in Connecticut (i.e., applications signed in Connecticut). The shift in contract situs from New York to Connecticut for all New York replacement applications would not appear to be explained by normal market influences.

Department Regulation No. 60 was rewritten and became effective November 10, 1998. As a result of the changes in Department Regulation No. 60, the duties of an agent regarding replacement contracts increased significantly. The circumstances surrounding the signing of annuity contract applications by New York State residents in the State of Connecticut by clients of Mr. Wirth coincides exactly with the change in Department Regulation No. 60. This is a clear circumvention of the requirements of Department Regulation No. 60 that is not in the best interest of New York consumers.

The Company violated Section 51.7(b) of Department Regulation No. 60 by failing to closely monitor its agents annuity replacement business thereby preventing the orderly working of the Regulation.

2. 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, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later"

A review of 28 replacement policies revealed that in 15 of the cases (53.6%), the Company failed to maintain copies of the notification of replacement to the insurer whose life insurance policy was being replaced.

The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain copies of the notification of replacement to the insurer whose life insurance policy was being replaced.

B. Underwriting and Policy Forms

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

1. Section 3207(c) of the New York Insurance Law states, in part:

> "An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months, for an amount or amounts of life insurance which may be in excess of the limits specified in subsection (b) of this section, provided that such policy or policies are effectuated by a person or persons having an insurable interest in the life of such minor or by a person or persons upon whom such minor is dependent for support and maintenance and provided further that an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of ten thousand dollars or the limit of fifty per centum (five thousand dollars or the limit of twenty-five per centum in the case of a minor under the age of four years and six months) of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . . "

A review was made of policies issued to minors between the ages of zero and 14 during the examination period. Out of a sample of 84 such policies issued in New York, 29 (34.5%) of the policies were issued for amounts of insurance in excess of the limits set forth in Section 3207(c) of the New York Insurance Law.

The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the limits of such section. This is a repeat violation. (See item 9B of this report)

2. Section 2611 of the New York Insurance Law states, in part:

> "(a) No insurer or its designee shall request or require an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the written informed consent of such individual prior to such testing . . .
> (b) Written informed consent to an HIV related test shall consist of a written authorization that is dated . . . "

The examiner reviewed 127 cases for which Company underwriting requirements dictated that a blood test, which included an HIV screen, be given to the applicant. In 17 of the cases (13.4%), the Company: failed to obtain a written consent form from the applicant (6 cases);

failed to date the consent form (2 cases); or obtained the signed consent form after the specimen was taken and HIV testing was already performed (9 cases).

The Company violated Section 2611 of the New York Insurance Law by not obtaining signed and/or dated written consent forms prior to performing HIV related tests.

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.

D. Subsequent Events

The Company has been named as a defendant in a complaint filed by a policyholder in the U.S. District Court for the Southern District of New York alleging, among other things, that the Company sold policies which were underwritten on the basis of the race of the insured. The policyholder is seeking class action status on behalf of the affected policyholders, and the Company is currently evaluating the merits of the claim and its defenses. The claim seeks unspecified damages.

8. ACTUARIAL

Section 4228(f)(1)(A) of the New York Insurance Law states, in part:

> "A company shall make annual information filings with respect to any newly-introduced plans or changes under which the company makes payments to agents if such plans are commission plans . . . These filings shall consist of a summary of information in enough detail to generally describe the filing content, and shall be made not later than the last day of February next following the year in which such plans were placed in use or changed. The first such filing shall be due not later than the last day of February following the end of the year which includes the effective date of this section."

Section 4228 of the New York Insurance Law was revised effective January 1, 1998. As a result of the changes to the Law, the Department considers every agent compensation plan in existence at the start of 1998 as a new plan under the revised Section of Law. Therefore, the Company should have filed with the Department all existing agent compensation plans no later than February 28, 1999. The Company did not file its existing plans with the Department until October 2, 2000.

The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by failing to file all agent compensation plans by February 28, 1999.

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:

Item	Description
A	The Company violated Section 1322(i)(2)(B) of the New York Insurance Law by advertising its risk-based capital levels.
	A review indicated that in July 1998, the reference to risk-based capital was removed from the Company's website and all remaining stock of the advertisement containing a reference to the Company's risk-based capital level was destroyed.
B	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the limits set forth in such section.
	A review indicated that the Company failed to take corrective action in response to this prior report violation. (See item 7B1 of this report)
C	The Company violated Section 91.5(b) of Department Regulation No. 33 by revising its asset segmentation procedures without having first obtained the superintendent's approval.
	A review indicated that the Company is currently operating under a segmentation plan that was filed with and approved by the Department.
D	The Company violated Section 1403(d)(3)(B) of the New York Insurance Law by exceeding its investment limitations.
	A review indicated that the Company restructured its swap agreements in December 1999 to comply with Section 1403(d)(3)(B) of the New York Insurance Law.

10. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 1712 of the New York Insurance Law by providing an interest free loan to one of its subsidiaries.	6
B	The Department has not certified, as to accuracy or adequacy, the Company's reserves for the year ending December 31, 1999. The Department has concerns with respect to completeness of supporting formula reserve details, and justification of certain assumptions with respect to the Company's asset adequacy analysis.	18
C	It is recommended that the Company report the value of all of its subsidiaries to the Securities Valuation Office as called for in the Purposes and Procedures Manual of the NAIC Securities Valuation Office.	18
D	It is recommended that the Company exercise due care in properly completing Schedule D Part 6 of the Annual Statement, including the required disclosure of the intangible assets of its subsidiaries.	18
E	The Company violated Section 51.7(b) of Department Regulation No. 60 by failing to closely monitor its agents annuity replacement business thereby preventing the orderly working of the Regulation.	19 – 20
F	The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain copies of the notification of replacement to the insurer whose life insurance policy is being replaced.	20
G	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the limits of such section. This is a repeat violation.	21
H	The Company violated Section 2611 of the New York Insurance Law by failing to obtain signed and/or dated written consent forms prior to performing HIV related tests.	21 – 22
I	The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by failing to file all agent compensation plans by February 28, 1999.	23

Respectfully submitted,

____
Vincent Targia
Senior Insurance Examiner

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

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

____
Vincent Targia

Subscribed and sworn to before me

this__________ day of ____________________2001.

APPOINTMENT NO. 21516

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

VINCENT TARGIA

as proper person to examine into the affairs of the

UNITY MUTUAL LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he/she shall deem requisite.

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

this 16th day of March 2000

NEIL LEVIN
Superintendent of Insurance

(by) *Superintendent*

Form 7 (rev. 11/87)