

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

INTRAMERICA LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

MARCH 1, 2002

EXAMINER:

ANTHONY MAURO

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

March 1, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21757, dated August 1, 2001 and annexed hereto, an examination has been made into the condition and affairs of Intramerica Life Insurance Company, hereinafter referred to as ("the Company" or "Intramerica") at its home office located at One Allstate Drive, Farmingville, New York, 11738.

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

On July 1, 1999, Allstate Life Insurance Company (“ALIC”) acquired all 300,000 outstanding shares of the Company. ALIC is a wholly owned subsidiary of Allstate Insurance Company (“AIC”). The ultimate parent is The Allstate Corporation. (See item 3A of this report)

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, 2000 filed annual statement. (See item 5 of this report)

The Company did not prepare formal working papers to support its report on race-based underwriting; as a result, the Company’s report could not be verified. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the period from January 1, 1996 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 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, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- 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 prior report on examination which did not contain any violations, recommendations or comments.

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 March 23, 1965, was licensed on March 24, 1966 and commenced business on April 5, 1966. Initial resources of \$2,800,000, consisting of common capital stock of \$600,000 and paid in and contributed surplus of \$2,200,000, were provided through the sale of 300,000 shares of common stock (with a par value of \$2 each) for \$9.33 1/3 per share. In 1982, the par value was increased to \$5 per share; thereby increasing capital to \$1,500,000, with \$900,000 transferred from paid in surplus. In 1984, par value was increased to \$7 per share; increasing capital to \$2,100,000, with \$600,000 transferred from paid in surplus.

At its inception, the Company was a wholly owned subsidiary of Intramerica Life Corporation of New York. On June 30, 1968, Intramerica Life Corporation of New York was merged into Colonial Penn Group, Inc. ("Colonial").

On December 31, 1985, the Department approved the acquisition of Colonial and Intramerica by FPL Group Capital, Inc. ("Florida").

In April 1991, Florida and Leucadia National Corporation ("Leucadia") entered into a stock purchase agreement in which Leucadia purchased all of the outstanding stock of Colonial. Pursuant to the terms of the agreement, Leucadia assigned to its wholly-owned subsidiary, Charter National Life Insurance Company ("Charter"), its rights and obligations under the agreement. In August 1991, Charter acquired all the outstanding stock of Colonial.

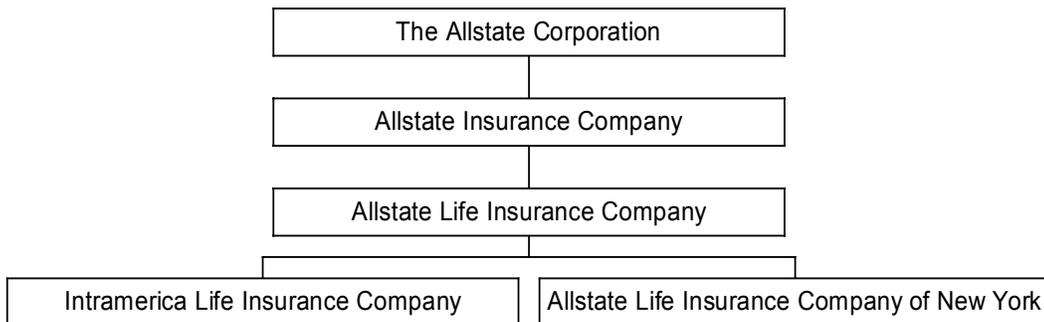
As part of the Department approval of Charter's acquisition of Colonial and Intramerica, Charter agreed to merge or sell its wholly owned New York subsidiary, First Charter Life Insurance Company ("First Charter"). Intramerica and First Charter were merged as of November 1, 1992 and retained the name Intramerica Life Insurance Company.

On July 1, 1999, ALIC acquired all of the outstanding shares of the Company at \$7 a share.

B. Holding Company

The Company is a wholly owned subsidiary of ALIC, an Illinois corporation, which in turn is a wholly owned subsidiary of Allstate Insurance Company (“AIC”). The ultimate parent is The Allstate Corporation.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had 3 service agreements in effect as of December 31, 2000.

1. An administrative services agreement with AIC, effective July 1, 1999, that calls for AIC to provide the following: accounting; data processing; tax; auditing; governmental filings; administration of separate accounts; telecommunications; printing; purchasing; human resources; reinsurance administration; premium collection; underwriting; claims settlement; policyholder; advertising; marketing; actuarial; and legal services.
2. An expense allocation agreement with Allstate Life Insurance Company of New York (“ALNY”), effective July 1, 1999, that calls for ALNY to make available clerical services, office space and use of equipment at its home office.
3. An investment advisory agreement with AIC, effective July 1, 1999, that calls for AIC to provide investment advisory and management services.

### 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 15 directors. Directors are elected annually at the stockholders' annual meeting held on the fourth Tuesday of February of each year. As of December 31, 2000, the board of directors consisted of 14 members. Meetings of the board are held during the year on such dates as determined by the board.

The board has one standing committee called the operations review committee, which is comprised entirely of five outside directors.

The 14 board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Marcia Alazraki * Slingerlands, NY	Attorney Simpson, Thacher & Bartlett	1999
Margaret Dyer Winnetka, IL	Vice President Allstate Life Insurance Company	1999
Marla Friedman Northbrook, IL	Vice President Allstate Life Insurance Company	1999
Vincent Fusco Dix Hills, NY	Vice President Allstate Life Insurance Company	1999
Cleveland Johnson, Jr. * Bay Shore, NY	Retired Mariga Communications Corp.	1999
John Lounds Long Grove, IL	Vice President Allstate Life Insurance Company	2000
J. Kevin McCarthy North Barrington, IL	Vice President Allstate Life Insurance Company	2000
Kenneth O'Brien * Merrick, NY	Chief Executive Officer O'Brien Asset Management, Inc.	1999
John Raben, Jr. * Riverside, CT	Vice President J.P. Morgan Securities, Inc.	1999

Year First

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Elected</u>
Sally Slacke * Kings Park, NY	President Slacke Test Boring, Inc.	1999
Michael Velotta Libertyville, IL	Vice President, Secretary and General Counsel Intramerica Life Insurance Company Allstate Life Insurance Company	1999
Steven Verney Wadsworth, IL	Vice President Allstate Life Insurance Company	2000
Patricia Wilson Barrington, IL	Assistant Vice President Allstate Life Insurance Company	1999
Thomas Wilson, II Chicago, IL	Chairman and President Intramerica Life Insurance Company Allstate Life Insurance Company	1999

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

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

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Thomas Wilson, II	Chairman and President
Michael Velotta	Vice President, Secretary and General Counsel
James Zils	Treasurer
Casey Sylla	Chief Investment Officer
James Brazda*	Chief Administrative 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 twenty-six states and Puerto Rico. In 2000, 63.4% of life premiums and 91% of annuity considerations were received from New York. Since its acquisition by ALIC, the Company no longer issues any new business but receives additional contributions on existing variable annuity contracts and renewal premiums on its ordinary life, group life and other accident and health policies. Existing policies were written on a non-participating basis.

The Company's agency operations were conducted on a direct response basis.

#### E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with two companies, both of which were authorized or accredited. The total face amount of life insurance ceded, as of December 31, 2000, was \$68,961,600, which represents the total face amount of life insurance in force.

Effective January 1, 1997, the Company entered into two reinsurance agreements as follows:

- 1) The Company sold certain business to Consec Life Insurance Company of New York ("Consec Life"), by means of an assumption and indemnity reinsurance agreement. The agreement transfers 100% of the Company's rights, liabilities, and obligations on life, accident and health, and fixed annuity policies and contracts issued to residents of the State of New York; and
- 2) The Company also transferred 100% of its non-New York coverages to Consec Direct Life Insurance Company ("Consec Direct") by means of an assumption reinsurance agreement.

Policies and contracts that were not transferred by means of assumption reinsurance have been 100% reinsured with Consec Life (New York residents) or Consec Direct (non-New York residents) on an indemnity basis.

In connection with the assumption reinsurance and indemnity reinsurance agreements, the Company and Consec Life entered into an administrative service agreement whereby

Conseco Life performs all services required for complete support and administration of the reinsured policies, including both the New York and non-New York policies.

#### 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:

	<u>December 31,</u> <u>1995</u>	<u>December 31,</u> <u>2000</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$124,746,773</u>	<u>\$80,076,260</u>	<u>\$(44,670,513)</u>
Liabilities	<u>\$ 94,822,263</u>	<u>\$62,421,100</u>	<u>\$(32,401,163)</u>
Common capital stock	\$ 2,100,000	\$ 2,100,000	\$ 0
Gross paid in and contributed surplus	700,000	700,000	0
Aggregate write-ins for special surplus funds	107,865	109,398	1,533
Unassigned funds (surplus)	<u>27,016,645</u>	<u>14,745,762</u>	<u>(12,270,883)</u>
Total capital and surplus	<u>\$ 29,924,510</u>	<u>\$17,655,160</u>	<u>\$(12,269,350)</u>
Total liabilities, capital and surplus	<u>\$124,746,773</u>	<u>\$80,076,260</u>	<u>\$(44,670,513)</u>

The majority (76%) of the Company's admitted assets, as of December 31, 2000, is derived from separate accounts.

The decrease in admitted assets, liabilities, capital and surplus relates to the Company's transfer and reinsurance of 100% of its life, accident and health and annuity policies and contracts through assumption and indemnity reinsurance.

The Company's invested assets as of December 31, 2000, exclusive of separate accounts, were mainly comprised of bonds (84.5%) and cash and short-term investments (13.5%).

The Company's entire bond portfolio, as of December 31, 2000, 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>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:					
Life insurance	\$ 907,305	\$17,486,091	\$ 0	\$ (9,628)	\$ 0
Individual annuities	<u>78,550</u>	<u>929,559</u>	<u>3,287,181</u>	<u>640,597</u>	<u>808,845</u>
Total ordinary	<u>\$ 985,855</u>	<u>\$18,415,650</u>	<u>\$3,287,181</u>	<u>\$630,969</u>	<u>\$808,845</u>
Group life	\$ <u>47,131</u>	\$ <u>183,981</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Other accident and health	\$ <u>6,214</u>	\$ <u>1,564</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Total	<u>\$1,039,200</u>	<u>\$18,601,195</u>	<u>\$3,287,181</u>	<u>\$630,969</u>	<u>\$808,845</u>

The gains reported in 1997 resulted from a reinsurance commission of \$25,000,000 from the sale of its ordinary life, group life and annuity products to Conseco Life and Conseco Direct.

The changes in 1998 resulted from the transfer of all of the non-annuity business to Conseco Life and Conseco Direct. (See item 3E of this report) The increase in the net gain for individual annuities during 1998 is a result of a reinsurance agreement with ALNY, allocation of 100% of net investment income to this line and federal income taxes.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

### A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

#### Admitted Assets

Bonds	\$15,973,240
Common stocks	385,308
Cash and short term investments	2,548,630
Reinsurance ceded – other amounts receivable under reinsurance contracts	6,434
Federal income tax recoverable	111,915
Investment income due and accrued	358,618
From Separate Accounts statement	<u>60,692,115</u>
Total admitted assets	<u>\$80,076,260</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 278,629
Policy and contract liabilities:	
Other amounts payable on reinsurance assumed	71,545
Interest maintenance reserve	273,845
General expenses due or accrued	67,980
Taxes, licenses and fees due or accrued	29,047
Amounts withheld or retained by company as agent or trustee	557
Remittances and items not allocated	743,414
Miscellaneous liabilities:	
Asset valuation reserve	39,331
Payable to parent, subsidiaries and affiliates	85,852
Reserve for checks issued and outstanding	136,372
Uncashed checks pending escheatment	2,412
From Separate Accounts statement	<u>60,692,115</u>
 Total liabilities	 <u>\$62,421,100</u>
 Common capital stock	 \$ 2,100,000
Gross paid in and contributed surplus	700,000
Group contingency life reserve	109,398
Unassigned funds (surplus)	<u>14,745,762</u>
 Total capital, surplus and other funds	 <u>\$17,655,160</u>
 Total liabilities, capital, surplus and other funds	 <u>\$80,076,260</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$17,224,717	\$(55,916,809)	\$ 3,394,338	\$ 2,001,459	\$ 1,269,369
Investment income	4,861,238	1,585,473	825,059	879,165	1,042,483
Net gain from operations from Separate Accounts	27,500	(2,070)	0	0	0
Commissions and reserve adjustments on reinsurance ceded	(140)	25,097,048	6,090	197,859	29,690
Miscellaneous income	<u>7</u>	<u>0</u>	<u>544,907</u>	<u>381,934</u>	<u>472,947</u>
 Total income	 <u>\$22,113,322</u>	 <u>\$(29,236,358)</u>	 <u>\$ 4,770,394</u>	 <u>\$ 3,460,416</u>	 <u>\$ 2,814,490</u>
 Benefit payments	 \$11,099,800	 \$ 2,977,011	 \$ 2,316,347	 \$ 3,415,223	 \$ 5,630,271
Increase in reserves	(182,103)	(56,454,266)	(166,161)	73,262	(18,924)
Commissions	21,890	25,248	22,814	11,773	2,016
General expenses and taxes	6,511,743	561,924	715,841	480,169	334,155
Increase in loading and cost of collection	(6,152)	(2,530,749)	0	0	0
Net transfers to (from) Separate Accounts	2,588,908	(221,634)	880,372	(1,398,781)	(4,307,961)
Miscellaneous deductions	<u>36</u>	<u>263,913</u>	<u>0</u>	<u>1,676</u>	<u>(40)</u>
 Total deductions	 <u>\$20,034,122</u>	 <u>\$(55,378,553)</u>	 <u>\$ 3,769,213</u>	 <u>\$ 2,583,323</u>	 <u>\$ 1,639,517</u>
 Net gain	 \$ 2,079,200	 \$ 26,142,195	 \$ 1,001,181	 \$ 877,093	 \$ 1,174,974
Federal income taxes	<u>1,040,000</u>	<u>7,541,000</u>	<u>(2,286,000)</u>	<u>246,126</u>	<u>366,129</u>
Net gain from operations before net realized capital gains	\$ 1,039,200	\$ 18,601,195	\$ 3,287,181	\$ 630,967	\$ 808,845
Net realized capital gains (losses)	<u>(4,812)</u>	<u>507</u>	<u>1,573</u>	<u>0</u>	<u>0</u>
 Net income	 <u>\$ 1,034,388</u>	 <u>\$ 18,601,702</u>	 <u>\$ 3,288,754</u>	 <u>\$ 630,967</u>	 <u>\$ 808,845</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>29,924,510</u>	\$ <u>24,971,442</u>	\$ <u>13,014,018</u>	\$ <u>16,300,887</u>	\$ <u>16,927,289</u>
Net income	\$ 1,034,388	\$ 18,601,702	\$ 3,288,754	\$ 630,967	\$ 808,845
Change in non-admitted assets and related items	82,212	322,026	172	0	(55,502)
Change in reserve valuation basis	(126,454)	0	0	0	0
Change in asset valuation reserve	56,786	118,848	(2,057)	(4,565)	(25,471)
Surplus (contributed to) Separate Account during the period	(500,000)	525,430	0	0	0
Other changes in surplus in Separate Accounts statement	500,000	(525,430)	0	0	0
Dividends to stockholders	<u>(6,000,000)</u>	<u>(31,000,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	\$ <u>(4,953,068)</u>	\$ <u>(11,957,424)</u>	\$ <u>3,286,869</u>	\$ <u>626,402</u>	\$ <u>727,871</u>
Capital and surplus, December 31, current year	\$ <u>24,971,442</u>	\$ <u>13,014,018</u>	\$ <u>16,300,887</u>	\$ <u>16,927,289</u>	\$ <u>17,655,160</u>

## 6. MARKET CONDUCT ACTIVITIES

The examiner reviewed the response to Supplement No. 1 to Department Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000. The Supplement notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company indicated that a consultant performed the race-based underwriting review. The consultant performed an investigation, which included a review of documents, and reported that the Company does not have any business on the books for which race was used as a basis for premium rates, underwriting ratings, or dividends. In summary, the Company’s findings were that race, color, creed or national origin were never used as pricing or underwriting criteria.

However, the Company did not prepare formal working papers to support its report on race-based underwriting; as a result, the Company’s report could not be verified.

7. SUMMARY AND CONCLUSIONS

Following is the comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company did not prepare formal working papers to support its report on race-based underwriting; as a result the Company's report could not be verified.	15



APPOINTMENT NO. 21757

STATE OF NEW YORK  
**INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**ANTHONY MAURO**

as a proper person to examine into the affairs of the

**INTRAMERICA 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 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 1<sup>st</sup> day of August, 2001



**GREGORY V. SERIO**

Superintendent of Insurance

A handwritten signature in black ink, appearing to read "Gregory V. Serio", is written over a horizontal line.

Superintendent