

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

JULY 13, 2001

EXAMINER:

SHIRLEY NICHOLAS

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

July 13, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21671, dated January 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of the First Great-West Life & Annuity Insurance Company, hereinafter referred to as "the Company," at its home office located at 125 Wolf Road, Albany, New York 12205.

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 was unable to verify two assets totaling approximately \$1.6 million, representing approximately 5.9% of capital and surplus, due to questions regarding collectibility and the lack of supporting documentation. The assets involved were amounts recoverable from reinsurers (\$942,669) and Separate Accounts common stock (\$669,621). (See items 5 and 13 of this report)

The Company violated Section 310(a)(3) of the New York Insurance Law by failing to facilitate the examination. (See item 8 of this report)

The Company violated Section 325(a) of the New York Insurance Law by not keeping and maintaining its books of account at its principal office in Albany, New York. (See item 7 of this report)

The Company violated Section 1507(a) of the New York Insurance Law by failing to maintain its separate operating identity. (See item 13 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to comply with its approved service agreements. (See item 3B of this report)

The Company violated various sections of Department Regulation No. 33 for failing to maintain records concerning: the allocation of net investment income and general expenses to major lines of business; and inter-company expenses. (See item 10 of this report)

The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A for improper advertising. (See item 6A of this report)

The Company violated multiple sections of Department Regulation No. 60 regarding required replacement forms and statements. (See item 6B of this report)

On December 1, 1999, the Company entered into an assumption reinsurance agreement with Anthem Health & Life Insurance Company of New York, ("AH&L-NY") to acquire a block of group life and accident and health insurance business. (See item 3E of this report)

2. SCOPE OF EXAMINATION

This is the first examination of the Company since it was licensed on May 28, 1997. This examination covers the period from the date the Company commenced business 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
- 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

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

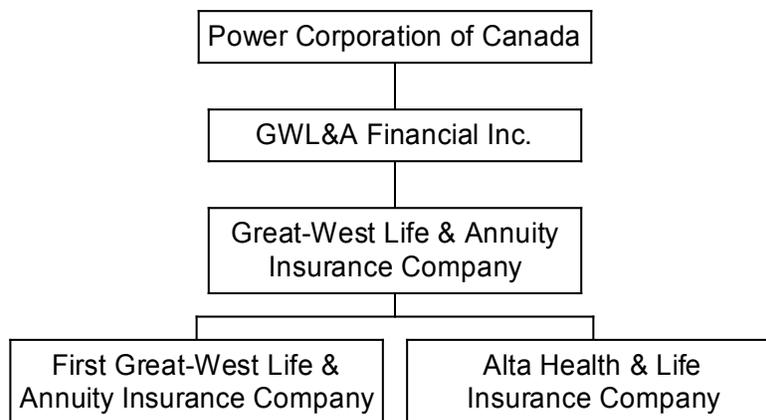
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on April 9, 1996, commenced business on April 4, 1997 and was licensed on May 28, 1997. 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 2,000 shares of common stock (par value of \$1,000 per share) for \$3,000 per share to Great-West Life and Annuity Insurance Company (“GWL&A”). On December 29, 1997, the Company sold an additional 500 shares of common stock to GWL&A for \$500,000 bringing total common capital stock to \$2,500,000. GWL&A, the parent, also made additional capital contributions of \$8,600,000 in 1998 and \$16,000,000 in 1999, bringing total gross paid in and contributed surplus to \$28,600,000.

B. Holding Company

The Company is a wholly owned subsidiary of GWL&A, a life insurance company domiciled in Colorado. GWL&A is in turn a wholly owned subsidiary of GWL&A Financial Inc., a Delaware holding company. The ultimate parent of the Company is the Power Corporation of Canada (“Power Corporation”), a Canadian holding and management company.

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 two service agreements in effect as of December 31, 2000, with its parent. The following is a brief description of the service agreements:

1. An Administrative Services Agreement with GWL&A dated May 15, 1997, whereby GWL&A provides corporate support services, investment services, marketing administrative services and other back-office administrative services with respect to the Company's insurance business and operations. In addition, the Company uses certain property, equipment, personnel and facilities of GWL&A.
2. An Administrative Services Agreement with GWL&A dated August 31, 1999, whereby GWL&A provides facilities and trained personnel of the kind necessary to perform underwriting, policyholder services, claims processing and marketing with respect to the Company's new group life and accident and health insurance business.

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, or such shorter period as he may permit, and he has not disapproved it within such period . . .
(3) rendering of services on a regular or systematic basis . . .”

The Administrative Services Agreement with GWL&A dated May 15, 1997, requires that GWL&A maintain the Company's policyowner records for annuities at the home offices of both the Company and GWL&A. The information is to be maintained either on-line, on microfilm or in hard copy.

The Company's annuity records are maintained on GWL&A's annuity system and were not available at the Company's home office. During the examination, annuity application and withdrawal files that were maintained on GWL&A's system had to be e-mailed from GWL&A in Colorado.

The Company violated Section 1505(d)(3) of the New York Insurance Law for failing to comply with its approved service agreements.

The Company stated in note 6(f) in the Notes to the Financial Statements of the 2000 annual statement, that it received a payment of \$19,000 from its parent for administrative and underwriting services provided by the only employee who is paid directly by the Company. The

Company also stated that a portion of the employee's salary was allocated to the parent on a quarterly basis. There is no service agreement in effect for this service.

The Company violated Section 1505(d)(3) of the New York Insurance Law when it provided a service to its parent on a regular basis without first notifying the Superintendent of its intention to enter into such transaction.

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 21 directors. However, within one year following the end of the calendar year in which the admitted assets of the Company equals or exceeds \$500 million, the number of directors shall be increased to not less than 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in June of each year. As of December 31, 2000, the board of directors consisted of nine members. Meetings of the board are held at least four times in each calendar year.

The nine 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 D. Alazraki* Slingerlands, NY	Partner Kalkines, Arky, Zall and Bernstein LLP	1996
James Balog* Vero Beach, FL	Retired	1997
James W. Burns Winnipeg, Canada	Chairman of the Board Great-West Lifeco Inc. and The Great-West Life Assurance Company	1997
Orest T. Dackow* Castle Rock, CO	Retired	2000
Paul Desmarais, Jr. Montreal, Canada	Chairman and Co-Chief Executive Officer Power Corporation of Canada	1997

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert Gratton Montreal, Canada	President and Chief Executive Officer Power Financial Corporation	1997
Stuart Z. Katz* New York, NY	Partner Fried, Frank, Harris, Shriver and Jacobson	1997
William T. McCallum Greenwood Village, CO	Chairman, President and Chief Executive Officer First Great-West Life & Annuity Insurance Company President and Chief Executive Officer Great-West Life & Annuity Insurance Company	1997
Brian E. Walsh* Rye, NY	Co-Founder and Managing Partner Veritas Capital Management, LLC	1997

* 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>
William T. McCallum	Chairman, President and Chief Executive Officer
Mitchell T.G. Graye	Executive Vice President, Chief Financial Officer
James D. Motz	Executive Vice President, Employee Benefits
Douglas L. Wooden	Executive Vice President, Financial Services

David C. Aspinwall is the 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 two states, namely Iowa and New York. In 2000, 99.6 % of life premiums, 91.8% of accident and health premiums, and 96.3% of deposit type funds were received from New York. Policies are written on a non-participating basis.

The Company has concentrated its marketing efforts on the sale of ordinary life insurance, individual and group annuities, group life and group accident and health insurance. The Company sells individual variable qualified and non-qualified deferred annuities through Charles Schwab & Co., Inc. The Company also administers various blocks of self-funded business.

The Company offers its group life, group annuity, and group accident and health products to the employer market. The Company maintains a group sales office in New York that is staffed by representatives that develop relationships with independent brokers who sell group insurance products to employers for the benefit of their employees.

The individual life insurance product currently offered by the Company is sold by representatives of the Clark Bardes Company and Benefit Compensation Strategies. This product is marketed in two ways; as bank owned life insurance and as corporate owned life insurance (no corporate owned life insurance was sold during the examination period). The bank owned life insurance product is a non-participating modified single premium universal life insurance product designed for sale through the institutional insurance market.

The Company offers a flexible premium annuity with both fixed and variable investment options. Individual annuities are marketed exclusively through Charles Schwab & Co., Inc. Marketing of the product is done through direct mail to Schwab customers, through Schwab Advisors (brokers), through the Schwab Internet site and through the Schwab Call Center where potential clients can obtain information on the product and have an informational package and application sent to them.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with 12 companies, all of which are authorized or accredited. The Company's individual life and individual annuity products are ceded on a yearly renewable term basis. The Company's group life and health products are ceded on a coinsurance basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is \$250,000. The total face amount of life insurance ceded as of December 31, 2000 was \$125,687,894 which represents 26.8% of the total face amount of life insurance in force.

The total face amount of life insurance assumed as of December 31, 2000, was \$2,811,300.

On December 1, 1999, the Company entered into an assumption reinsurance agreement with Anthem Health & Life Insurance Company of New York, ("AH&L-NY") to acquire a block of group life and accident and health insurance business. The assumption was part of a larger transaction with GWL&A, in which GWL&A acquired the non-New York business and the Company acquired the New York business. At December 31, 1999, this business represented approximately 76% of the Company's total insurance in-force.

In conjunction with the AH&L-NY assumption transaction, AH&L-NY's obligations as ceding insurer on certain group business were effectively transferred to the Company as a result of existing reinsurance agreements that AH&L-NY had entered into. Some of these reinsurance treaties have not been amended to reflect the Company as the ceding insurer.

The examiner recommends that the Company amend the reinsurance treaties transferred from AH&L-NY to reflect the Company as the ceding insurer.

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 from the year it commenced business to the examination date:

	December 31, <u>1997</u>	December 31, <u>2000</u>	Increase (Decrease)
Admitted assets	\$ <u>16,109,885</u>	\$ <u>233,362,806</u>	\$ <u>217,252,921</u>
Liabilities	\$ <u>9,640,965</u>	\$ <u>206,364,070</u>	\$ <u>196,723,105</u>
Common capital stock	\$ 2,500,000	\$ 2,500,000	\$ 0
Gross paid in and contributed surplus	4,000,000	28,600,000	24,600,000
Unassigned funds (surplus)	<u>(31,080)</u>	<u>(4,101,264)</u>	<u>(4,070,184)</u>
Total capital and surplus	\$ <u>6,468,920</u>	\$ <u>26,998,736</u>	\$ <u>20,529,816</u>
Total liabilities, capital and surplus	\$ <u>16,109,885</u>	\$ <u>233,362,806</u>	\$ <u>217,252,921</u>

The Company's invested assets as of December 31, 2000, exclusive of separate accounts, were comprised of bonds (89.9%) and cash and short-term investments (10.1%).

The Company's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Group Life</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued & Increases</u>	<u>In Force</u>
1998	\$251,792	\$251,792	\$ 0	\$ 0
1999	\$ 77,554	\$329,346	\$ 0	\$1,075,000
2000	\$139,117	\$468,463	\$409,390	\$ 673,618

The Company sold only individual annuities during 1997. The Company began selling ordinary life insurance during 1998. The group life insurance business in force in 1999 was assumed on December 1, 1999. The decrease in group life insurance in force in 2000 is due to the non-renewal of group contracts.

The Company failed to report any individual ordinary annuities and group variable annuities in the Exhibit of Annuities for the years 1998 through 2000.

Following are the numbers that should have been reported in the Exhibit of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>			
	<u>1997</u>	<u>1998*</u>	<u>1999*</u>	<u>2000*</u>
Outstanding, end of previous year	0	136	324	405
Issued during the year	136	203	97	141
Other net changes during the year	<u>0</u>	<u>(15)</u>	<u>(16)</u>	<u>(27)</u>
Outstanding, end of current year	<u>136</u>	<u>324</u>	<u>405</u>	<u>519</u>

*The numbers for 1998, 1999 and 2000 were determined as per the examination.

	<u>Group Annuities</u>			
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000*</u>
Outstanding, end of previous year	0	0	0	0
Issued during the year	0	0	0	127
Other net changes during the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Outstanding, end of current year	<u>0</u>	<u>0</u>	<u>0</u>	<u>127</u>

*The numbers for 2000 were determined as per the examination.

The examiner recommends that the Company properly complete the Exhibit of Annuities and include all individual ordinary annuities and group variable annuities in all future annual statements filed with the Department.

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>	<u>2000</u>
Ordinary:				
Life insurance	\$ 0	\$(2,404,179)	\$ (61,233)	\$ (953,669)
Individual annuities	<u>(45,989)</u>	<u>(77,404)</u>	<u>(16,582)</u>	<u>(121,066)</u>
Total ordinary	<u>\$(45,989)</u>	<u>\$(2,481,583)</u>	<u>\$ (77,815)</u>	<u>\$(1,074,735)</u>
Group:				
Life	\$ 0	\$ 0	\$ 88,205	\$ 553,245
Annuities	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,451)</u>
Total group	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 88,205</u>	<u>\$ 550,794</u>
Accident and health Group	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,204</u>	<u>\$ 647,888</u>
All other lines	<u>\$ 26,687</u>	<u>\$ 299,840</u>	<u>\$ 1,118,453</u>	<u>\$ (96,539)</u>
Total	<u>\$(19,302)</u>	<u>\$(2,181,743)</u>	<u>\$ 1,202,047</u>	<u>\$ 27,408</u>

The Company began selling its ordinary life insurance product in 1998. It is a single premium product with sales levels that fluctuate from year to year. The losses for the years under review are due to start up acquisition costs, commissions and taxes. The gains reported in 1999 for the group life and accident and health insurance lines of business, which was assumed in December 1999, reflects one month's gain as opposed to a full year's gain reported in 2000. 'All other lines' is used by the Company to allocate some operating expenses and some income tax expenses that were not directly attributable to another line of business. The increase in the net gain for this line in 1999 is due to a decrease in federal income taxes by \$1.3 million which was not allocated to other lines of business.

The examiner was unable to determine how net investment income was distributed to major annual statement lines of business. (See item 10 of this report)

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>1999</u>	<u>2000</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	1,029.9%	104.7%
Commissions	24.1	11.3
Expenses	<u>(40.4)</u>	<u>(31.7)</u>
	<u>(1013.6)%</u>	<u>(84.3)%</u>
Underwriting results	<u>(913.6)%</u>	<u>15.7%</u>

Due to the assumption of the group business in late 1999, the Company received only one to two months of premium on this business. However, all of the claim reserves were moved to the Company at year-end, thus producing the large negative results for 1999.

The negative expenses are due to the fee income received from self funded group plans that the Company administers, which exceeded actual general expenses incurred.

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.

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

Admitted Assets

Bonds	\$148,522,158
Cash and short-term investments	16,764,923
Reinsurance ceded	0
Amounts recoverable from reinsurers	942,699
Life insurance premiums and annuity considerations deferred and uncollected	412,241
Accident and health premiums due and unpaid	2,056,114
Investment income due or accrued	1,324,124
Receivable from parent, subsidiaries and affiliates	10,333,629
Amounts receivable relating to uninsured accident and health plans	5,314,414
Taxes, licenses and fees recoverable	183,637
Other assets	8,982
From Separate Accounts statement	<u>47,499,885</u>
 Total admitted assets	 <u>\$233,362,806</u>

Section 1301(a) of the New York Insurance Law states, in part:

“In determining the financial condition of a domestic or foreign insurer . . . there may be allowed as admitted assets of such insurer, unless otherwise specifically provided in this chapter, only the following assets owned by such insurer . . .

(21) Other assets, not inconsistent with the foregoing provisions, deemed by the superintendent available for the payment of losses and claims, at values determined by him.”

The examiner attempted to verify the asset ‘Amounts recoverable from reinsurers’ reported in the amount of \$942,699 on the 2000 annual statement. The Company was unable to provide supporting documentation for the asset but stated that the receivable was related to the December 1999 assumption from AH&L-NY, and that the amounts had amassed over the years. As of the examination date, the Company had not received payment for the aforementioned recoverables. Since the Company could not provide documentation to support the recoverables and the recoverables were not settled in a timely manner, the asset is not deemed to be available for the payment of losses and claims and is therefore not admitted. As a result, the Company’s surplus is overstated by \$942,699 as of December 31, 2000.

The examiner recommends that the Company maintain documentation to support amounts reported in its filed annual statements.

The Company is currently in arbitration regarding this receivable.

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$135,554,606
Aggregate reserve for accident and health policies	1,746,901
Policy and contract claims:	
Life	1,138,925
Accident and health	2,979,794
Premiums and annuity considerations received in advance	247,913
Policy and contract liabilities:	
Provision for experience rating refunds	2,500,206
Interest maintenance reserve	71,415
Commissions to agents due or accrued	19,792
General expenses due or accrued	10,000
Amounts withheld or retained by company as agent or trustee	570
Amounts held for agents' account	5,643
Remittances and items not allocated	14,167,125
Miscellaneous liabilities:	
Asset valuation reserve	280,371
Payable to parent, subsidiaries and affiliates	126,449
Liability for amounts held under uninsured accident and health plans	4,022
Interest payable	10,453
From Separate Accounts Statement	<u>47,499,885</u>
 Total liabilities	 <u>\$206,364,070</u>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	28,600,000
Unassigned funds (surplus)	<u>(4,101,264)</u>
 Total capital, surplus and other funds	 <u>\$ 26,998,736</u>
 Total liabilities, capital, surplus and other funds	 <u>\$233,362,806</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$9,204,124	\$75,239,131	\$30,628,746	\$65,346,693
Investment income	242,250	3,365,163	6,279,385	10,334,134
Miscellaneous income	22,049	141,095	260,650	363,532
Initial consideration on reinsurance	<u>0</u>	<u>0</u>	<u>7,904,410</u>	<u>0</u>
 Total income	 <u>\$9,468,423</u>	 <u>\$78,745,389</u>	 <u>\$45,073,191</u>	 <u>\$76,044,359</u>
 Benefit payments	 \$ 172,899	 \$ 743,971	 \$ 5,790,793	 \$18,130,216
Increase in reserves	0	64,681,973	28,195,495	44,073,639
Commissions	9,090	703,098	1,206,840	2,512,834
General expenses and taxes	203,424	1,290,566	366,466	(2,443,886)
Increase in loading and cost of collection	0	0	0	29,053
Net transfers to Separate Accounts	<u>9,031,791</u>	<u>12,109,895</u>	<u>8,191,151</u>	<u>11,981,695</u>
 Total deductions	 <u>\$9,417,204</u>	 <u>\$79,529,503</u>	 <u>\$43,750,745</u>	 <u>\$74,283,551</u>
 Net gain (loss)	 \$ 51,219	 \$ (784,114)	 \$ 1,322,446	 \$ 1,760,808
Federal income taxes	<u>70,521</u>	<u>1,397,629</u>	<u>120,399</u>	<u>1,733,400</u>
 Net income	 <u>\$ (19,302)</u>	 <u>\$(2,181,743)</u>	 <u>\$ 1,202,047</u>	 <u>\$ 27,408</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>0</u>	\$ <u>6,468,920</u>	\$ <u>12,808,047</u>	\$ <u>29,289,033</u>
Net income	\$ (19,302)	\$(2,181,743)	\$ 1,202,047	\$ 27,408
Change in net unrealized capital gains (losses)	0	0	(25)	34
Change in nonadmitted assets and related items	(11,508)	1,660	(619,392)	(2,220,072)
Change in asset valuation reserve	(270)	(80,790)	(101,644)	(97,667)
Capital changes				
Paid in	2,500,000	0	0	0
Surplus adjustments				
Paid in	<u>4,000,000</u>	<u>8,600,000</u>	<u>16,000,000</u>	<u>0</u>
Net change in capital and surplus	<u>\$6,468,920</u>	<u>\$ 6,339,127</u>	<u>\$16,480,986</u>	<u>\$(2,290,297)</u>
Capital and surplus, December 31, current year	<u>\$6,468,920</u>	<u>\$12,808,047</u>	<u>\$29,289,033</u>	<u>\$26,998,736</u>

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 2122(a)(2) of the New York Insurance Law states:

"No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to any unauthorized insurer or insurers."

Section 219.4(p) of Department Regulation No. 34-A states, in part:

"In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States . . . If a specific policy or policy series is being advertised, the form or series number or other appropriate description shall be shown. An advertisement shall not use a trade name, an insurance group designation, name of the parent company or affiliate of the insurer . . . service mark, slogan, symbol or other device or reference if such use would have the tendency to mislead or deceive as to the true identity of the insurer, or create the impression that someone other than the insurer would have any responsibility for the financial obligation under a policy."

1) The Company's 'large case 401(k)' advertisement states, in part:

"ii) **1. Does your company provide a Web site?**

Yes. First Great-West offers one of the most extensive, user-friendly Web sites in the financial industry. Our site is: www.gwla.com/benefits.

iii) **Summary**

Our website has received rave reviews and last year, **E*Offering** rated us 8th in the nation for innovative and progressive Web sites!"

The website is actually the parent's website. The examiner reviewed the website and was unable to find any reference to the Company. The examiner asked the Company for guidance in finding material or information regarding the Company on the parent's website; the Company was unable to provide such guidance. The examiner requested proof of the reviews received from E*Offering. The Company was unable to provide such proof. This advertisement directs potential applicants to the parent's website. The parent, GWL&A, is an unauthorized insurer.

- 2) The Company distributed certain advertisements during the examination period including: 'Small case proposal 401(k)'; large case 401(k); and 'Key Points' (form # MC130FG). The advertisements mentioned the financial strength of the Great-West family of companies, and stated that the Company is part of the more than \$75 billion-strong Great-West family of companies. These advertisements are misleading in that they could give the impression that someone other than the insurer would be responsible for the financial obligation under the policy.
- 3) The Company did not identify the name of the city in which it has its home office in the following advertising materials: form numbers SS509; DMF 1940; 2568-3 (pg 11) and 3147.
- 4) The 'IM Free Look Article' that advertised The Schwab Select Annuity, and advertisements (form numbers 0900-7550, 0900-7547, 0900-7548, SS509 and DMF 1940) that advertised The Schwab Select Annuity and The Schwab Variable Annuity did not include the policy form numbers.
- 5) Several advertisements (form numbers 0000-6824, 0900-7546, 1199-3820 and 0800-7529) that advertised The Schwab Select Annuity stated "variable annuity contracts, J434, are issued by Great-West Life & Annuity Company (in New York State by First Great-West Life & Annuity Insurance Company)" and omitted the Company's policy form number. These advertisements did not contain the Company's form number and called attention to an unauthorized insurer.

- 6) Certain advertisements [form numbers 2000-5321, 2000-7510, 99-8940, 0000-9918, 99-7087, 3576-4 (7/99), and MKT3576-3 (5/99)] showed the parents name more prominently than the Company's, stating that "Annuity contracts are issued by Great-West Life & Annuity Insurance Company." These advertisements also included the parent's logo, but not the Company's. These advertisements called attention to the parent, an unauthorized insurer, and used the parent's logo which is misleading as to the true identity of the insurer.

- 7) The advertisement 'Transfer to Schwab (form number TF4793)' states in large type "The Schwab Variable Annuity is issued by Great-West Life & Annuity Insurance Company – whose combination of ratings places it in the top 1% of all rated life insurance companies in North America" and in a smaller type it references the Company. This advertisement calls attention to the parent, an unauthorized insurer, and is misleading in that it gives the impression that someone other than the insurer would be responsible for the financial obligation under the policy.

The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A when it used advertisements which: called attention to an unauthorized insurer; were misleading by creating the impression that someone other than the insurer would be responsible for the financial obligations under the policy; did not include the city of the Company's home office; did not include the policy form number; and were misleading as to the true identity of the insurer.

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 as conforming to the requirements of this chapter and not inconsistent with law. . . .”

A review of a sample of 29 individual annuity underwriting files revealed that in 14 cases the Company used an unapproved application form (J434app NY2) to issue flexible premium fixed and variable deferred annuity contracts.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used a policy form that was not filed with and approved by the Superintendent.

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

“Each insurer shall . . .

(2) Require with or as part of each application, a completed ‘Definition of Replacement’ signed by the applicant and agent . . .

(4) Require with or as part of each application a statement signed by the agent as to whether, to the best of his or her knowledge, replacement of a life insurance policy or annuity contract is involved in the transaction.”

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 . . .

(2) Require with or as part of each application...the completed ‘Disclosure Statement’ . . .

(6) . . . maintain copies of . . . proof of receipt by the applicant of the ‘IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts’ . . .”

A review of a sample of 20 replacement files revealed that:

- in 5 cases the agents did not indicate on the “Definition of Replacement” form whether a replacement was involved;

- in 2 cases the agents did not sign the “Definition of Replacement” form or indicate whether a replacement was involved;
- in 3 cases no “Definition of Replacement” forms were included in the files;
- applications were not completed or signed by agents, indicating whether or not a replacement was involved in the transaction, for the entire sample of 20 replacement files reviewed;
- in 1 case there was no copy of the Disclosure Statement;
- in 2 cases there were incomplete Disclosure Statements; and
- in 3 cases there were no copies of the proof of receipt by the applicant of the “IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.”

In addition, a further review of 18 individual annuity underwriting files, issued in 1999 and 2000, revealed that the applications were not signed or completed by agents indicating whether or not they were replacements, of which ten were in fact replacements.

The Company violated Sections 51.6(a) and (b) of Department Regulation No. 60 by not having as part of each application: a completed Definition of Replacement form; a statement signed by the agent as to whether replacement was involved in the transaction; a completed Disclosure Statement; and copies of the proof of receipt by the applicant of the “IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.”

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

“All applications for . . . individual, group or . . . accident and health insurance and all claim forms . . . shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for such violation.’ ”

The fraud language on the Company’s accident and health claim form omits a statement that violators who commit a crime of fraud are subject to a civil penalty not to exceed five thousand dollars and the value of the claim for such violation.

The examiner recommends that the Company revise its claim form to include the complete fraud warning required by Law.

Department Circular Letter No. 11 (1978) advises that:

“ . . . As part of its complaint handling function, the company’s consumer services department will maintain an ongoing central log to register and monitor all complaint activity. The log should be kept in a columnar form and list the following:

The date the complaint was received in-house . . .

the policy or claim file number . . .

the date of such referral . . .

the subject matter of the complaint . . .

Remarks about internal remedial action taken as a result of the investigation. . . .”

During the examiner’s review of complaints, it was noted that the Company’s complaint log did not include: the date the complaint was received; the policy or claim file number; the date of referral; the subject matter of the complaint; and the internal remedial action taken as a result of the investigation.

The examiner recommends that the Company maintain its complaint log in accordance with Department Circular Letter No. 11 (1978).

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. . . . ”

A review of a sample of 31 annuity withdrawal surrender files revealed that in four cases, the Company did not maintain copies of surrender requests.

The Company violated Section 216.11 of Department Regulation No. 64 by not maintaining surrender requests in its annuity withdrawal surrender files.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Department Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, 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 reported that the AH&L-NY group business assumed was serviced through Anthem Health & Life Insurance Company (now renamed Alta Health & Life Insurance Company). The group life business is not underwritten. The Company’s individual life business is also not underwritten. In summary, the Company stated it has not engaged in any race-based (including color, creed or national origin) underwriting practices.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

7. LOCATION OF COMPANY 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 . . .”

Section 215.17(a) of Department Regulation No. 34 states, in part:

“Advertising file. Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its . . . group policies hereafter disseminated in this or any other State . . .”

Section 219.5(a) of Department Regulation No. 34-A states, in part:

“Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state . . .”

The examiner requested from the Company in the first day letter dated March 14, 2001, the trial balance, general ledger, and transaction registers (i.e., the books of account) and the advertising files as required by Department Regulation No. 34 and No. 34-A. Upon arriving at the principal office to conduct the examination, it was determined that the Company did not maintain the aforementioned records at the principal office in New York.

The Company violated Section 325(a) of the New York Insurance Law by not keeping and maintaining its books of account at its principal office in New York.

The Company also violated Sections 215.17(a) and 219.5(a) of Department Regulation Nos. 34 and No. 34-A respectively, by not maintaining a complete advertising file at its home office.

8. FACILITATION OF EXAMINATION

Section 310(a)(3) of the New York Insurance Law states:

“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.”

At the start of the examination (April 2001), the examiner and the Company’s contact person agreed that requests for information would be submitted in writing to the Company and that responses would be given within five business days. A log of requests was established by both the examiner and the Company. The Company requested, and the examiner agreed, that each request would be provided to Mr. Howard Knudsen, who is the only employee paid directly by the Company and the annual statement contact person. As the examination progressed, the examiner noted that responses for information were not being addressed by the Company as promptly as had been anticipated. Second requests were sent and meetings were arranged to discuss the status of each outstanding memo along with the necessity of a timely response.

As of July 6, 2001, one week before the examination completion date, the examiner’s request log contained 82 requests that were submitted to the Company. Approximately 39% of the requests took 10 or more business days to respond to. Four took over 20 business days. As of the last day of the examination, there were seven memos outstanding between seven and 44 business days. A number of the delays were due to the fact that the Company did not maintain its records in New York and its inability to receive timely and correct data from its parent.

The Company violated Section 310(a)(3) of the New York Insurance Law when its officer and the officers of its parent and affiliates failed to facilitate the examination.

9. SCHEDULE G

Section 4233(b) of the New York Insurance Law states, in part:

“The annual statement . . . shall include an accurate, concise and complete statement of the following matters . . .

(3) The salary, compensation and emoluments received by the three senior officers . . . and the salary, compensation or emoluments received by any officer or other person, firm or corporation, which amounts to more than sixty thousand dollars in such year”

The Company did not report, the salary, compensation or emoluments received by the three senior officers on Schedule G of the New York State Annual Statement Supplement for the years 1997 through 2000. The Company also failed to report the salary of its only directly paid employee and officer who received more than \$60,000 during each of the examination years.

The Company violated Section 4233(b)(3) of the New York Insurance Law by not reporting the salary, compensation and emoluments received by the three senior officers of the Company and the employee who was paid more than \$60,000.

10. DEPARTMENT REGULATION NO. 33

Section 91.4(a)(2) of Department Regulation No. 33 states, in part:

“Each life insurer shall maintain records with sufficient detail to show fully:

- (i) the system actually used for allocation of income and expenses;
- (ii) the actual bases of allocation;
- (iii) the actual monetary distribution of the respective items of income, salaries, wages, expenses, and taxes”

A. Allocation of Net Investment Income and General Expenses

The Company used various methods for the allocation of net investment income in its annual statements. However, the Company did not provide any documentation to support the methods of allocation used.

The Company violated Section 91.4(a)(2) of Department Regulation No. 33 when it failed to maintain records documenting the actual method used for the allocation of net investment income.

In addition, the Company did not provide the examiners with records in sufficient detail to support the allocation of general expenses to its lines of business.

The Company violated Section 91.4(a)(2) of Department Regulation No. 33 when it failed to maintain records with sufficient detail to show how the Company allocated its general expenses.

B. Allocation of Inter-company Expenses

The Company has an approved inter-company service agreement with GWL&A.

1) Section 91.4(a)(5) of Department Regulation No. 33 states:

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

a) Costs related to the Company’s group business were allocated under the service agreement based on a flat charge per certificateholder per month. The Company did not maintain any workpapers to support how the flat charges were determined.

b) Costs related to the Company’s individual business were also allocated under the service agreement based on a flat charge per policyholder or contractholder. The Company was charged \$85 per contract per year for its 469 individual annuity contracts and \$50 per policy per year for its 382 individual life policies for a total of \$58,965. The Company did not maintain any workpapers to support how the flat charges were determined.

The Company violated Section 91.4(a)(5) of Department Regulation No. 33 when it failed to maintain records with sufficient detail to show how the Company allocated its inter-company expenses.

2) Section 90.7(x) of Department Regulation No 33 states, in part:

“sundry general expenses . . . If the amount for any one type of expense included in this line represents more than 25 percent of the total for this line, the nature of the expense and the amount should be inserted as a sub-heading.”

The Company included inter-company expenses in the amount of \$746,548 as part of sundry general expenses reported in Exhibit 5 of the annual statement. This amount represented 87% of the total amount reported for sundry general expenses.

The Company violated Section 90.7(x) of Department Regulation No. 33 by including inter-company expenses as part of sundry general expenses in Exhibit 5 of the annual statement when such inter-company expenses exceeded 25% of total sundry expenses.

The examiner recommends that, in the future, the Company distribute inter-company expenses to the appropriate line items of Exhibit 5 instead of reporting the total inter-company expense in one line item.

11. SEPARATE ACCOUNTS

Section 4240(e) of the New York Insurance Law states, in part:

“No authorized insurer shall make any such agreement in this state providing for the allocation of amounts to a separate account until such insurer has filed with the superintendent a statement as to its methods of operation of such separate account and the superintendent has approved such statement . . . An amendment of any such statement that changes the investment policy of a separate account shall be treated as an original filing.”

The Company’s Plan of Operations for its Variable Annuity-1 Series Separate Account was approved by the Department on June 20, 1997. The Company reported in its 1997 and 1998 Separate Accounts annual statements, investments in four portfolios which were not included in the approved Plan Of Operations. The Company subsequently received approval for these funds in its amended Variable Annuity-1 Series Separate Account Plan of Operations on December 2, 1999.

The Company reported in its 1999 and 2000 Separate Accounts annual statements, investments in 11 and 19 portfolios, respectively, which were not part of the approved and amended Plan of Operations. The combined portfolio investments were approximately \$2.3 million in 1999 and \$6.4 million in 2000 respectively.

The Company violated Section 4240(e) of the New York Insurance Law when it invested in portfolios that were not filed with and approved by the Superintendent.

12. DEPARTMENT REGULATION NO. 152

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

“(a) . . . every insurer shall maintain its . . . financial and producer licensing records, and such other records subject to examination by the superintendent in accordance with the provisions of this Part.

(b) . . . an insurer shall maintain . . .

(5) A licensing record for six calendar years after the relationship is terminated for each Insurance Law licensee with which the insurer establishes a relationship . . .

(7) A financial record necessary to verify the financial condition of an insurer, including ledgers, journals, trial balances, annual and quarterly statement workpapers, evidence of asset, ownership and source documents, for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination . . . in which the record was subject to review. . .

.”

During the examination, the Company could not provide a number of records in response to examination requests.

- a) The Company did not maintain supporting documentation for the allocation of: net investment income; general expenses; and inter-company expenses.
- b) In February 2000, the Company resubmitted its tax allocation agreement to file consolidated tax returns with GWL&A. On March 3, 2000 the Department stated that it had no objection to its implementation. The Company did not provide the examiners with a copy of its tax allocation agreement as requested.
- c) The Company could not provide two of its reinsurance contracts.
- d) The Company could not provide licensing records for 23 of its agents.

The Company violated Section 243.2 of Department Regulation No. 152 when it failed to maintain: supporting documentation for the allocation of net investment income, general expenses and inter-company expenses; a copy of its tax allocation agreement; agent’s licensing records; and reinsurance contracts.

The examiner recommends that the Company obtain copies of any missing reinsurance agreements.

13. SEPARATE OPERATING IDENTITY

Section 1507(a) of the New York Insurance Law states, in part:

“Notwithstanding the control of an authorized insurer by any person . . . the insurer shall be managed so as to assure its separate operating identity . . .”

The Company failed to maintain its separate operating identity in a number of instances.

- a) The Company reported Separate Accounts common stock of \$47,332,849 as of December 31, 2000. The amount represents investments in various mutual funds. The examiner was unable to confirm the shares or balances of six funds. The six funds have a total market value of \$669,621. The documentation provided by the Company included both the parent and the Company’s investments. The examiner was unable to segregate or identify the Company’s share of the total investment.

- b) A review of a sample of the Company’s group life death claim files revealed the following:
 - 1) the Company uses one of its parent’s claim forms as its own group life claim form;
 - 2) the Company used an affiliate’s letterhead to correspond with beneficiaries during 2000; and
 - 3) an affiliate of the Company issued a death claim check (# 8695 dated 8/29/00) for one of the Company’s claims (claim # 142942).

In addition, one of the Company’s claims (# 139209) was paid by Anthem Health and Life Insurance Company’s check (# 7743 dated 6/14/00) and the Company used AH&L-NY’s claim forms to process death claims during 2000.

- c) In seven instances where the Company was replacing another insurer’s contract (e.g., 1035 or other type of exchange), the other insurer was advised to make the surrender check payable to GWL&A.

- d) Certain advertisements in the Company’s advertising file direct potential applicants to the parent’s web site, GWL&A. The Company does not maintain its own web site and is not mentioned on the parent’s web site.

- e) The Company provided the following items as part of its advertising material for review:
- 1) The Schwab Variable Annuity verification of account form (# 8042711), which is an account statement for one of the parent's clients; and
 - 2) Business Reply Mail postage paid envelope (form #1611 (6/97)) which requests that checks be made payable to Great-West Life & Annuity Insurance Company.

The Company violated Section 1507(a) of the New York Insurance Law by: commingling its assets with those of its parent; failing to maintain separate claim forms and separate correspondence forms; having benefit checks paid by affiliates; having its premiums paid to its parent; directing potential applicants to its parent's web-site; and including its parent's advertisements in its advertising file.

The examiner recommends that the Company manage itself so as to assure its separate operating identity.

14. 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 by not complying with its approved service agreements.	5
B	The Company violated Section 1505(d)(3) of the New York Insurance Law when it provided a service to its parent on a regular basis without first notifying the Superintendent of its intention to enter into such transaction.	5 – 6
C	The examiner recommends that the Company amend the reinsurance treaties transferred from AH&L-NY to reflect the Company as the ceding insurer.	9
D	The examiner recommends that the Company properly complete the Exhibit of Annuities and include all individual ordinary annuities and group variable annuities in all future annual statements filed with the Department.	11
E	The Company's surplus is overstated by \$942,669 as of December 31, 2000.	15
F	The examiner recommends that the Company maintain documentation to support amounts reported in its filed annual statements.	15
G	The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A when it used advertisements which: called attention to an unauthorized insurer; were misleading by creating the impression that someone other than the insurer would be responsible for the financial obligations under the policy; did not include the city of the Company's home office; did not include the policy form number; and were misleading as to the true identity of the insurer.	19 – 21
H	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used a policy form that was not filed with and approved by the Superintendent.	22

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The Company violated Sections 51.6(a) and (b) of Department Regulation No. 60 by not having as part of each application: a completed Definition of Replacement form; a statement signed by the agent as to whether replacement was involved in the transaction; a completed Disclosure Statement; and copies of the proof of receipt by the applicant of the “ <u>IMPORTANT</u> Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts.”	22 – 23
J	The examiner recommends that the Company revise its claim form to include the complete fraud warning required by Law.	24
K	The examiner recommends that the Company maintain its complaint log in accordance with Circular Letter No. 11(1978).	24
L	The Company violated Section 216.11 of Department Regulation No. 64 by not maintaining surrender requests in its annuity withdrawal surrender files.	25
M	The Company violated Section 325(a) of the New York Insurance Law by not keeping and maintaining its books of account at its principal office in New York.	26
N	The Company violated Section 215.17(a) of Department Regulation No. 34 and Section 219.5(a) of Department Regulation No. 34-A by not maintaining a complete advertising file at its home office.	26
O	The Company violated Section 310(a)(3) of the New York Insurance Law when its officer and the officers of its parent and affiliates failed to facilitate the examination.	27
P	The Company violated Section 4233(b)(3) of the New York Insurance Law by not reporting the salary, compensation and emoluments received by the three senior officers and the employee of the Company who was paid more than \$60,000.	28
Q	The Company violated Section 91.4(a)(2) of Department Regulation No. 33 when it failed to maintain records documenting the actual method used for the allocation of net investment income.	28

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
R	The Company violated Section 91.4(a)(2) of Department Regulation No. 33 when it failed to maintain records with sufficient detail to show how the Company allocated its general expenses.	28 – 29
S	The Company violated Section 91.4(a)(5) of Department Regulation No. 33 when it failed to maintain records with sufficient detail to show how the Company allocated its inter-company expenses.	29
T	The Company violated Section 90.7(x) of Department Regulation No. 33 by including inter-company expenses as a part of sundry general expenses in Exhibit 5 of the annual statement when such inter-company expenses exceeded 25% of total sundry expenses.	30
U	The examiner recommends that, in the future, the Company distribute inter-company expenses to the appropriate line items of Exhibit 5, instead of reporting the total inter-company expense in one line item.	30
V	The Company violated Section 4240(e) of the New York Insurance Law when it invested in portfolios that were not filed with and approved by the Superintendent.	31
W	The Company violated Section 243.2 of Department Regulation No. 152 when it failed to maintain: supporting documentation for the allocation of net investment income, general expenses and inter-company expenses; a copy of its tax allocation agreement; agent's licensing records; and reinsurance contracts.	32
X	The examiner recommends that the Company obtain copies of any missing reinsurance agreements.	32
Y	The Company violated Section 1507(a) of the New York Insurance Law by: commingling its assets with those of its parent; failing to maintain separate claim forms and separate correspondence forms; having benefit checks paid by affiliates; having its premiums paid to its parent; directing potential applicants to its parent's web site; and including its parent's advertisements in its advertising file.	33 – 34
Z	The examiner recommends that the Company manage itself so as to assure its separate operating identity.	34

APPOINTMENT NO. 21671

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:

SHIRLEY NICHOLAS

as a proper person to examine into the affairs of the

FIRST GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

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

COMPANY

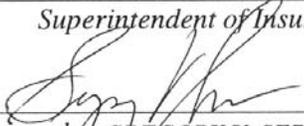
with such other information as she shall deem requisite.

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

this 10th day of January, 2001



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent