

STATE OF NEW YORK INSURANCE DEPARTMENT  
REPORT ON EXAMINATION  
OF THE  
COMBINED LIFE INSURANCE COMPANY OF NEW YORK  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT:

SEPTEMBER 28, 2001

EXAMINER:

EUGENE THUMMEL

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

September 28, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21668, dated January 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of Combined Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 11 British American Boulevard, Latham, New York 12110.

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 April 20, 2001, the board of directors of Aon Corporation, the Company's ultimate parent, approved a plan to spin off its underwriting business to its common stockholders, creating two independent publicly traded companies, Aon Corporation and a new holding company, to be named Combined Specialty Corporation. Combined Specialty Corporation's subsidiaries will include the Company, Combined Insurance Company of America ("CICA"), Virginia Surety Company, Inc., London General Insurance Company Limited, and Aon Warranty Group, Inc. (See item 3 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 violated Section 1202(b)(2) of the New York Insurance Law by not having an independent committee of its board of directors recommend the compensation of its principal officers to the board of directors. (See item 3C of this report)

The Company violated Section 53-2.3 of Department Regulation No. 74 by not providing required disclosure notices. (See item 6B of this report)

The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by not filing agent compensation plans in use prior to January 1998 and changes in the override schedules with the Department. (See item 7 of this report)

The Company violated Section 4228(d) of the New York Insurance Law by paying general agents commissions in excess of 63% of qualifying first year premium. (See item 7 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 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

The examiner reviewed the corrective actions taken by the Company with respect to violations and the comment contained in the prior report on examination. The results of the examiner's review are contained in item 9 of this report.

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

### 3. DESCRIPTION OF COMPANY

#### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on November 3, 1964 under the name of James Monroe Life Insurance Company, with an authorized capital of \$800,000 consisting of 400,000 shares of stock with a par value of \$2 per share. On February 17, 1965, the Company issued an additional 100,000 shares, with a par value of \$2 per share, which increased the authorized capital to \$1,000,000.

On May 12, 1971, all shares of authorized capital stock were purchased by CICA for \$6.10 per share, for a total consideration of \$3,050,000. Of this amount, \$1,000,000 represented capital and \$2,050,000 represented paid-in and contributed surplus. The present name was adopted when the Company was purchased by CICA.

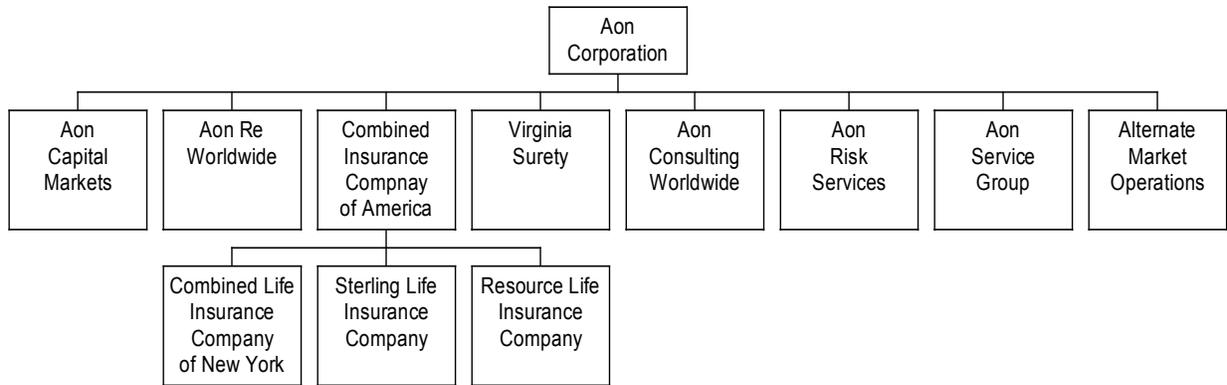
On December 9, 1982, the Company amended its charter to increase the par value of all outstanding shares to \$4, thereby increasing the capital to \$2,000,000. At the same time, the parent increased the Company's paid-in and contributed surplus to \$4,050,000.

On April 20, 2001, Aon Corporation's board of directors approved a plan to spin off its underwriting business to its common stockholders, creating two independent publicly traded companies, Aon Corporation and a new holding company, to be named Combined Specialty Corporation. Combined Specialty Corporation's subsidiaries will include the Company, CICA, Virginia Surety Company, Inc., London General Insurance Company Limited, and Aon Warranty Group, Inc. These subsidiaries will carry virtually all of Aon Corporation's fixed maturity and equity security investments and will be allocated a portion of Aon Corporation's interest expense and corporate general expenses. Combined Specialty Corporation's total assets are expected to exceed \$7 billion.

#### B. Holding Company

The Company is a wholly owned subsidiary of CICA, a specialty accident and health underwriter located in Chicago, Illinois. Effective May 30, 1980, CICA became a wholly owned subsidiary of Aon Corporation, formerly Combined International Corporation, a Chicago-based holding company that comprises a family of insurance brokerage, consulting and underwriting subsidiaries.

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, as follows:

1) The Company entered into an agreement on January 1, 1987 with its parent, CICA, and affiliated companies, which provides for the Company to utilize the services and personnel of its parent, CICA, and affiliated companies. These services include, among other things: investing of securities; actuarial; accounting; review of agent and miscellaneous contracts; and claim litigation advice and management. A review of the service agreement indicates that a majority of the affiliated companies included in the service agreement are no longer within the Aon holding company system. The unaffiliated companies in question are as follows:

- a) Union Fidelity Life Insurance Company
- b) American Patriot Health Insurance Company
- c) The Life Insurance Company of Virginia
- d) American Agency Life Insurance Company
- e) Virginia Life Insurance Company of New York
- f) Globe Life Insurance Company

Services formerly performed by the aforementioned entities are now being provided by CICA.

In addition, the Company's parent has begun the direct billing and processing of life insurance premiums. The processing of accident and health premiums collected by field agents is also being performed in Chicago by the Company's parent. These functions are not covered by the service agreement.

Finally, the holding company system is being split into two publicly traded entities, radically altering its structure and potentially affecting the entities that will be providing services to the Company in the future.

The examiner recommends that the Company file a revised and updated service agreement with the Department.

2) The Company entered into an Investment Management Agreement with an affiliate, Aon Advisors, effective June 9, 1992. The Investment Management Agreement calls for Aon Advisors to provide investment management services for the Company based on its investment objectives, policies and restrictions.

The Company files its federal income tax on a consolidated basis with other members of its holding company system. In connection therewith, the Company participates in a written federal tax allocation agreement (“tax agreement”) effective August 20, 1985, with its ultimate parent, Aon Corporation. A review of the Company’s tax agreement indicated that several affiliated companies listed in the tax agreement were no longer members of the holding company system.

The examiner recommends that the Company revise its tax agreement to reflect the changes which have occurred in the structure of the holding company system since the effective date of the current tax agreement, and that the Department be notified within 30 days of such revision.

### C. Management

The Company’s by-laws provide that the board of directors shall be comprised of not less than nine directors. The number of directors will be increased to not less than 13 within one year following the end of the calendar year in which the corporation exceeds one and one-half billion dollars in assets. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2000, the board of directors consisted of ten members. Meetings of the board are held quarterly.

The ten 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>
Leonard A. Dopkins* Williamsville, NY	Certified Public Accountant Dopkins & Company	1993
Harry L. Du Brin* Altamont, NY	Attorney Williams and Du Brin	1971
Henry M. Gridley* Slingerlands, NY	Retired	1985
John J. Hogan Wheaton, IL	Controller Combined Life Insurance Company of New York	1999
Michael F. Hurd Clifton Park, NY	Vice President, Treasurer and Chief Administrative Officer Combined Life Insurance Company of New York	1999
Steven E. Lippai Highland Park, IL	Actuary Combined Life Insurance Company of New York	1993
Ronald D. Markovits Northbrook, IL	Vice President, Law and Corporate Secretary Combined Life Insurance Company of New York	1992
Lawrence R. Miller* Highland Park, IL	Retired	1994
Richard F. Purcell* Lebanon, NJ	Retired	1971
Richard M. Ravin Northbrook, IL	Chairman, President, and Chief Executive Officer Combined Life Insurance Company of New York	1985

\* 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>
Richard M. Ravin	President and Chief Executive Officer
Michael F. Hurd*	Vice President, Treasurer and Chief Administrative Officer
Jerome I. Baer	Vice President – Taxes
Michael A. Conway	Vice President – Investments
Steven E. Lippai	Actuary
Peter Leighton	Vice President – Divisional Sales Manager
Harvey N. Medvin	Vice President
Ronald D. Markovits	Vice President, Law and Corporate Secretary
John J. Hogan	Controller

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

Section 1202(b)(2) of the New York Insurance Law states, in part:

“The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee . . . shall have responsibility for . . . recommending to the board of directors the selection and compensation of . . . principal officers . . .”

The Corporate Governance Committee (“the Committee”) is the committee of the Company’s board of directors created to comply with the provisions of Section 1202(b) of the New York Insurance Law. A review of the minutes of the Committee for the years under examination indicated that the Committee did not recommend the amount of compensation for the principal officers of the Company to the board of directors.

The Company violated Section 1202(b)(2) of the New York Insurance Law by not having an independent committee of its board of directors recommend the compensation of its principal officers to the board of directors.

Section 4230(a) of the New York Insurance Law states, in part:

“No domestic life insurance company shall pay any salary, compensation or emolument in any amount . . . to any salaried employee of the company if the level of compensation to be paid to such employee is equal to, or greater than, the compensation received by any of its principal officers . . . unless such payment be first authorized by a vote of the board of directors of such company.”

A review of the Company’s New York supplement to the annual statement for the years under examination revealed that several of the Company’s employees received compensation in excess of that received by certain principal officers of the Company. The payments were not authorized by the board of directors.

The Company violated Section 4230(a) of the New York Insurance Law by not having the compensation of employees whose compensation exceeded that of certain principal officers of the Company, authorized by a vote of the Company’s board of directors.

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

“The annual statement required by subsection (a) hereof 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 directors of such company 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 listed only the salary and compensation of the senior officer whose duties were committed to the Company on a full time basis on the annual statement.

The Company violated Section 4233(b) of the New York Insurance Law by not providing the salary, compensation, or emoluments, or allocated portion thereof, of all three of its senior officers in its filed annual statement.

The examiner’s review of the Company conflict of interest disclosure questionnaires for each year under examination indicated that four unaffiliated directors did not sign disclosure questionnaires for the year 1998. One officer and one director did not sign disclosure questionnaires for 1999, and four directors, including one officer, did not sign disclosure questionnaires for the year 2000.

The examiner recommends that the Company take the necessary steps to ensure that all directors, officers, and responsible employees complete forms providing disclosure to its board of directors of any material interest or affiliation likely to conflict with their official duties, on an annual basis.

#### 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 has never engaged in writing annuity business.

The Company is licensed to transact business in three states, namely Florida, Illinois and New York. In 2000, 97.77% of life premiums and 98.39% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

The principal lines of business sold during the examination period were individual life and individual accident and health. The following life products were sold during the examination period:

Life Plus - Issue ages 0-54. Whole life policy has accelerated death benefit, guaranteed issue without evidence of insurability and premiums payable for 25 years.

Juvenile Term Life – Issue ages 14 days to 19 years. Single premium continues policy until the insured reaches age 24.

Golden Advantage – Issue ages 55-70. Limited life insurance benefit is paid if death occurs within two years. Face amount is \$3,000 or \$5,000.

Golden Life Plus -Issue ages 55-75. Whole life insurance has accelerated death benefit and options to increase the amount of insurance. Face amounts of \$3,000, \$5,000 or \$10,000 are available .

The following accident and health products were sold during the examination period:

Hospital Emergency Recovery and Outpatient – Issue ages 0-69. Pays benefits for hospitalization, intensive care, emergency room and physician’s treatment for accident related injuries.

Sickness Income Policy (“SIP”) – Issue ages 16-64. Pays a flat amount per day for disability income protection due to sickness. Policy is guaranteed renewable.

Sickness Hospital Indemnity Plan (“SHIP”) - Issue ages 0-64. Pays a flat amount for each day the insured is confined to a hospital due to sickness. Policy is guaranteed renewable.

Long term disability – Issue ages 18-59. Benefits are for accident or sickness. Pays a basic and secondary amount. There is an elimination period and a maximum benefit period. Policy is guaranteed renewable.

Cancer Assistance – Issue ages 18-64. Pays benefits for hospitalization, surgery, anesthesia, radiation and chemotherapy treatment for cancer related illnesses and includes a preventative care benefit.

Accidental Death and Dismemberment (“AD&D”) – Issue ages 0-69. Pays a benefit for certain common carrier accidents and any accident referred to in the policy. The policy is guaranteed renewable.

Long Term Care – Issue ages 18-64. Covers some of the costs of a variety of long-term care options such as nursing home, assisted living facilities, medical home care, non-medical home care and adult day care. It also includes a bed reservation benefit, respite and hospice care, emergency response system, caregiver training, and a cost-of-living option.

The Company’s agency operations are conducted on a general agency basis.

#### E. Reinsurance

As of December 31, 2000, the Company had two reinsurance treaties in effect with one unauthorized insurer. Reinsurance of the Company’s individual life policies and group life policies is ceded on a coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is \$100,000. The total face amount of life insurance ceded, as of December 31, 2000, was \$24,643,311, which represents 3.2% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$13,099, was supported by miscellaneous balances due to the Company.

#### 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>1997</u>	<u>December 31,</u> <u>2000</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$276,689,901</u>	<u>\$289,984,873</u>	<u>\$13,294,972</u>
Liabilities	<u>\$199,961,912</u>	<u>\$239,622,646</u>	<u>\$ 39,660,734</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,060,296	4,060,296	0
Unassigned funds (surplus)	<u>70,667,693</u>	<u>44,301,931</u>	<u>(26,365,762)</u>
Total capital and surplus	<u>\$ 76,727,989</u>	<u>\$ 50,362,227</u>	<u>\$(26,365,762)</u>
Total liabilities, capital and surplus	<u>\$276,689,901</u>	<u>\$289,984,873</u>	<u>\$ 13,294,972</u>

The decrease in surplus is attributable to the payment of dividends to the parent, CICA, in the amounts of \$15,850,000, \$26,300,000, and \$26,600,000 in the years 1998, 1999 and 2000 respectively.

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (72.6%) and stocks (22.8%). The Company's entire bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The ordinary lapse ratio for life insurance policies for each of the examination years was 17.6% in 1998, 17.0% in 1999 and 17.6% in 2000. The relatively high lapse ratio is due to the low face amounts of the Company's policies and their decision not to be competitive in this line.

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>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary life	\$ <u>6,725,436</u>	\$ <u>5,332,254</u>	\$ <u>5,812,780</u>
Credit life	\$ <u>221,944</u>	\$ <u>87,064</u>	\$ <u>40,725</u>
Accident and health:			
Group	\$ 13,745	\$ (621)	\$ (36,588)
Credit	25,728	(14,615)	19,664
Individual	<u>8,141,158</u>	<u>6,421,627</u>	<u>11,524,195</u>
Total accident and health	\$ <u>8,180,631</u>	\$ <u>6,406,391</u>	\$ <u>11,507,271</u>
Total	\$ <u>15,128,011</u>	\$ <u>11,825,709</u>	\$ <u>17,360,776</u>

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>1998</u>	<u>1999</u>	<u>2000</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	55.4%	49.6%	52.5%
Commissions	15.3	13.0	12.2
Expenses	<u>29.2</u>	<u>29.3</u>	<u>26.9</u>
	<u>99.9%</u>	<u>91.9%</u>	<u>91.6%</u>
Underwriting results	<u>0.1%</u>	<u>8.1%</u>	<u>8.4%</u>

Section 52.45(a) of Department Regulation No. 62 specifies the minimum loss ratios for the various types of individual accident and health insurance. Section 52.45(a) indicates that the minimum loss ratio for individual hospital indemnity insurance (non-cancelable) and loss of income and accident insurance (non-cancelable and guaranteed renewable) shall be 50%, except that if the policy form average annual premium is less than \$180, the minimum loss ratio shall be 5% less than otherwise applicable.

Following are selected policy forms that appear in the Company's Accident and Health Policy Exhibit showing the applicable loss ratios for each of the years under review:

	<u>Year of Issue</u>	<u>Type of Policy</u>	<u>Loss Ratios (%)</u>		
			<u>1998</u>	<u>1999</u>	<u>2000</u>
<u>Loss of Time Policies</u>					
Forms 41995, 41996 - non-cancelable	1977	Accident disability	54.3	40.1	31.6
Form 41869 - non-cancelable	1999	Accident other	N.A.	55	42.8
Form 41789 - non-cancelable	1998	Accident other	50.4	41.5	28
Form A41489 - guaranteed renewable	1991	Accident disability	40.1	36	37.7
Forms not currently issued – non-cancelable	various	Not specified	45.4	48	29.9
Forms not currently issued – guaranteed renewable	various	Not specified	44.7	44.7	40.9
<u>Hospital, Medical &amp; Surgical Policies- Indemnity Plans</u>					
Forms 41008, 41009, 41804 - non-cancelable	1967	Hospital Indemnity	20.7	30.3	30.6

The loss ratios for the year 2000 are below the minimum loss ratios required by Department Regulation No. 62 for all of the policy forms shown above. The loss ratios for the years 1999 and 1998 are also below the minimum loss ratios required for some of the policy forms shown above. The Company has been in contact with the Department regarding the loss ratios.

The examiner recommends that the Company continue to monitor its experience data and review its expected loss ratios for the policy forms shown in the above table.

## 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	\$202,517,114
Stocks:	
Preferred stocks	62,837,422
Common stocks	820,283
Policy loans	12,467,836
Cash and short term investments	227,938
Premiums in course of collection	2,044
Electronic data processing equipment	(1,822)
Life insurance premiums and annuity considerations deferred and Uncollected on in force business	3,927,971
Accident and health premiums due and unpaid	2,900,164
Investment income due and accrued	4,149,065
Funds due under reinsurance treaty	<u>136,858</u>
 Total admitted assets	 <u>\$289,984,873</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 94,035,119
Aggregate reserve for accident and health policies	91,068,282
Policy and contract claims:	
Life	1,282,974
Accident and health	19,987,163
Premiums and annuity considerations received in advance	797,392
Interest maintenance reserve	5,163,159
General expenses due or accrued	3,606,897
Taxes, licenses and fees due or accrued	2,615,590
Federal income taxes due or accrued	(5,877,679)
Unearned investment income	35,805
Amounts withheld or retained by company as agent or trustee	445,119
Amounts held for agents' account	687,103
Remittances and items not allocated	2,267,328
Miscellaneous liabilities:	
Asset valuation reserve	1,646,311
Payable to parent, subsidiaries and affiliates	3,288,701
Other policyholder liabilities	17,700,000
Escheats	141,465
Investments in transit	<u>731,917</u>
 Total liabilities	 <u>\$239,622,646</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	4,060,296
Unassigned funds (surplus)	<u>44,301,931</u>
 Total capital, surplus and other funds	 <u>\$ 50,362,227</u>
 Total liabilities, capital, surplus and other funds	 <u>\$289,984,873</u>

The Company reported its year-end general ledger balance for policy loans, \$12,419,587, as the 2000 annual statement figure. The examiner's review of the supporting data files and inventory listings for policy loans indicated a policy loan balance of \$10,651,689 as of December 31, 2000, a difference of \$1,767,898 from the annual statement figure. The Company was unable to provide a reconciliation between the two figures. The Company believes that the policy loan inventory figure was correct. It believes the problem arose due to a change in software programs.

The examiner recommends that the Company write off the difference of \$1,767,898 from the reported policy loan asset.

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$ 94,711,645	\$100,010,941	\$104,281,079
Investment income	21,824,446	21,435,533	20,105,875
Commissions and reserve adjustments			
On reinsurance ceded	39,984	42,854	51,376
Miscellaneous income	<u>0</u>	<u>63,650</u>	<u>0</u>
Total income	<u>\$116,576,075</u>	<u>\$121,552,978</u>	<u>\$124,438,330</u>
Benefit payments	\$ 41,028,602	\$ 43,251,510	\$ 42,628,641
Increase in reserves	11,368,234	8,982,361	14,041,338
Commissions	13,671,980	12,435,948	11,925,595
General expenses and taxes	27,493,614	28,532,340	28,993,740
Increase in loading and cost of collection	201,823	400,191	360,315
Miscellaneous deductions	<u>500,000</u>	<u>6,500,000</u>	<u>1,500,000</u>
Total deductions	<u>\$ 94,264,253</u>	<u>\$100,102,350</u>	<u>\$ 99,449,629</u>
Net gain	\$ 22,311,822	\$ 21,450,628	\$ 24,988,701
Dividends	21	27	0
Federal income taxes	<u>7,183,787</u>	<u>9,624,891</u>	<u>7,627,928</u>
Net gain (loss) from operations			
Before net realized capital gains	\$ 15,128,014	\$ 11,825,710	\$ 17,360,773
Net realized capital gains (losses)	<u>(431,540)</u>	<u>(52,934)</u>	<u>(121,496)</u>
Net income	<u>\$ 14,696,474</u>	<u>\$ 11,772,776</u>	<u>\$ 17,239,277</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>76,727,989</u>	\$ <u>75,337,811</u>	\$ <u>60,648,974</u>
Net income	\$ 14,696,474	\$ 11,772,776	\$ 17,239,277
Change in net unrealized capital			
Gains (losses)	0	42,145	(2,057,272)
Change in non-admitted assets And related items	(564,549)	(290,323)	382,374
Change in asset valuation reserve	327,897	86,565	748,874
Dividends to stockholders	<u>(15,850,000)</u>	<u>(26,300,000)</u>	<u>(26,600,000)</u>
Net change in capital and surplus	\$ <u>(1,390,178)</u>	\$ <u>(14,688,837)</u>	\$ <u>(10,286,747)</u>
Capital and surplus, December 31, current year	\$ <u>75,337,811</u>	\$ <u>60,648,974</u>	\$ <u>50,362,227</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.

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

### B. Underwriting and Policy Forms

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

Section 53-2.3 of Department Regulation No. 74 states:

“(a) Preliminary Information.

(1) The prospective purchaser shall be provided with a prominent notice either on the application or with the application in the following form or in a form containing substantially similar information approved by the Superintendent:

‘Since this policy is issued with minimal or no medical underwriting, the premium rate charged includes an extra mortality risk charge. If you are healthy enough to qualify as a “standard” risk, premiums would likely have been lower if you had applied for a fully underwritten policy.’

(2) Such prominent notice may be included as part of a sales illustration summary, if such summary is adopted by the insurer as the preliminary information.

(b) Policy Summary.

(1) The policy summary shall include a comparison of the total aggregate of premiums payable and death benefits payable for the first seven policy years, tenth and twentieth policy year.

(2) The policy summary form shall include a prominent notice in the following form or in a substantially similar form approved by the Superintendent:

‘This is a policy issued on the basis of minimal or no underwriting. The premium charged includes an extra mortality charge. If you are healthy enough to qualify for a “standard” life insurance policy, your premiums would likely have been lower if you had applied for a fully underwritten policy. You should carefully review this document to make sure the policy is suitable for you. If you are not entirely satisfied, please review the cancellation provision in the policy for directions on obtaining a refund of any premiums paid.’ ”

Among the Company’s products is a limited benefit whole life insurance policy with a graded death benefit in the first two years and no underwriting. The application form for the Company’s graded death benefit life insurance policy does not contain the language required by Section 53-2.3 of Department Regulation No. 74, nor was the Company able to provide the examiner with any other form containing the requisite language.

The Company violated Section 53-2.3 of Department Regulation No. 74 by not providing prospective policyholders, either on the application or with the application, the required disclosure notice.

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

Supplement No. 1 to 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 it has reviewed all rate charts, mortality tables, underwriting and agent manuals, applications and policy form filings. As a result of its review, the Company concluded that it has never engaged in any business or acquired any business where underwriting practices included race-based pricing of premiums. The Company has only been in business since 1971.

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. AGENT COMPENSATION

Section 4228(f)(1) of the New York Insurance Law states:

“Filing requirements for agent compensation plans are as follows:

(A) 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 for which the commission percentages are, in all policy or contract years, no greater than the commission percentages set forth in paragraphs one, two, three and four of subsection (d) of this section, expense allowance plans other than those meeting the definition of a compensation arrangement, plans subject to the provisions of paragraph one of subsection (e) of this section under which compensation is not in excess of two percent of the fund annually in any of the first four policy or contract years, or plans subject to the provisions of paragraph four of subsection (e) of this section. 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. . . .”

The Company did not submit filings for agent compensation plans in use prior to the revision of Section 4228 of the New York Insurance Law, which became effective January 1, 1998. The Company changed certain override schedules effective May 1, 1999. The changes in the override schedules were not filed with the Department.

The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by not filing agent compensation plans in use prior to January 1998 and its revised override schedules with the Department.

Section 4228(d) of the New York Insurance Law states, in part:

“A company may pay its agents as it sees fit for the sale and service of policies and contracts. However:

(1) No company shall pay or permit to be paid to an agent a commission in excess of the sum of (A) fifty-five percent of any qualifying first year premium and (B) seven percent of any excess premium; or to a general agent with respect to business not personally produced by such general agent, a commission in excess of the sum of (C) sixty-three percent of any qualifying first year premium and (D) eight percent of any excess premium. . . .”

A review of compensation paid to agents under the Company’s recently revised compensation schedules indicated that, in instances where general agents (“managers”) are in their first two years of tenure with the Company, they are paid first year commissions according to the following schedule:

Writing agent	40%
Sales manager	15
Branch manager	10
Regional manger	<u>1</u>
Total commission	<u>66%</u>

The Company violated Section 4228(d) of the New York Insurance Law by paying general agents commissions in excess of 63% of qualifying first year premium.

## 8. ACCESS TO ELECTRONIC RECORDS

The examiner utilized an audit software package during the examination to access the Company's data files and perform various analyses. The examiner's analysis was hampered by the Company's poor organization with respect to supplying accurate data files. The Company did not maintain a central collection point whereby the examiner's data file requests could be coordinated and responded to in a reasonable time frame. The examiner was continually referred to different individuals within the holding company system to make repeated requests for data files. The examiner was also required to constantly make unnecessary clarifications of aspects of the requests to Company personnel throughout the examination period. Moreover, when data files were made available, they were frequently found to be inaccurate, and new data files had to be provided. Data dictionaries and file layouts that were provided were outdated, and in some instances, information provided by the Company's customer service area was contrary to information contained in the data dictionary or file layout.

The examiner recommends that for future examinations, the Company take the necessary steps to maintain updated data dictionaries and file layouts, coordinate and centralize examiner data file requests, provide accurate data and respond to such in a timely manner.

## 9. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company did not comply with its own by-laws when it failed to maintain the minimum number of directors required.</p> <p>On August 31, 1998, the Department approved a Certificate of Amendment of Charter and Amended By-laws allowing the Company to reduce its minimum number of directors to nine.</p>
B	<p>The Company violated Section 4228(l) of the New York Insurance Law by failing to obtain a suspension of the first year field expense limit from the superintendent for 1995.</p> <p>The Company advised that its failure to obtain a suspension of the first year field expense limit in 1995 was an oversight, and that it has reviewed the oversight with the parties involved and reemphasized the importance of following existing procedures. Incidences of the violation were not found during the current examination.</p>
C	<p>The Company violated Section 219.4(a)(1) of Department Regulation No. 34-A, by using an advertisement which was deceptive and misleading.</p> <p>The Company changed the advertising leaflet in question by replacing the wording "Individual Whole-Life Insurance" with "Individual Life Insurance."</p>
D	<p>The Company violated Section 215.9(c) of Department Regulation No. 34 by not identifying the source of statistics used in its advertisements.</p> <p>The Company introduced the form in December 1997 to assist in the sale of its nursing home product. It discontinued the sale of the product and the use of the form in December 1998.</p>
E	<p>The Company violated Section 215.5(a) of Department Regulation No. 34 by using an advertisement which was deceptive and misleading.</p> <p>The Company discontinued the sale of the product and the use of the form in December 1998.</p>

## 10. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Company file a revised and updated service agreement with the Department, incorporating all changes and revisions since the current agreement came into effect.	5 – 6
B	The examiner recommends that the Company revise its tax agreement to reflect the changes which have occurred in the structure of the holding company system since the effective date of the current tax agreement, and that the Department be notified within 30 days of such revision.	6
C	The Company violated Section 1202(b)(2) of the New York Insurance Law by not having an independent committee of its board of directors recommend the compensation of its principal officers to the board of directors.	8
D	The Company violated Section 4230(a) of the New York Insurance Law by not having the salaries of employees whose compensation exceeded that of certain principal officers of the Company, authorized by a vote of the Company's board of directors.	9
E	The Company violated Section 4233(b) of the New York Insurance Law by not providing the salary, compensation, or emoluments of all three of its senior officers in its filed annual statement.	9
F	The examiner recommends that the Company take the necessary steps to ensure that all directors, officers, and responsible employees complete forms, providing for the disclosure to its board of directors of any material interest or affiliation likely to conflict with their official duties, on an annual basis.	9 – 10
G	The examiner recommends that the Company continue to monitor its experience data and review its expected loss ratios.	14
H	The examiner recommends that the Company write off the difference of \$1,767,898 of the reported policy loan asset.	16

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The Company violated Section 53-2.3 of Department Regulation No. 74 by not providing prospective policyholders, either on the application or with the application, the required disclosure notice.	19 – 20
J	The Company violated Section 4228(f)(1)(A) of the New York Insurance Law by not filing agent compensation plans in use prior to January 1998 and its revised override schedules with the Department.	21 – 22
K	The Company violated Section 4228(d) of the New York Insurance Law by paying general agents commissions in excess of 63% of any qualifying first year premium.	22
L	The examiner recommends that for future examinations, the Company take the necessary steps to maintain updated data dictionaries and file layouts, coordinate and centralize examiner data file requests, provide accurate data and respond in a timely manner.	23



APPOINTMENT NO. 21668

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:

**EUGENE THUMMEL**

as a proper person to examine into the affairs of the

**COMBINED LIFE INSURANCE COMPANY OF NEW YORK**

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

**COMPANY**

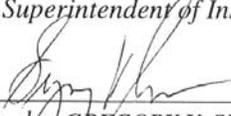
with such other information as he shall deem requisite.

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

this 10th day of January, 2001



NEIL D. LEVIN  
Superintendent of Insurance

  
by GREGORY V. SERIO  
First Deputy Superintendent