

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

THE UNION LABOR LIFE INSURANCE COMPANY

AS OF

SEPTEMBER 30, 2000

DATE OF REPORT:

MARCH 16, 2001

EXAMINER:

BRIAN E. GLAAB

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

March 16, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21651, dated November 15, 2000 and annexed hereto, an examination has been made into the condition and affairs of The Union Labor Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 111 Massachusetts Avenue, NW, Washington, DC 20001.

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 Company has been deemed a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law. (See item 3D of this report)

The Company violated Section 1505(d) of the New York Insurance Law by failing to provide notification to the superintendent of its intention to enter into a number of transactions with members of the holding company system prior to entering into such transactions. (See item 3B of this report)

The Company violated Section 308(a) of the New York Insurance Law and failed to comply with Department Circular Letter No. 33 (1979) by not notifying the Department of the amended tax allocation agreement.

The Company violated Section 4228(d) of the New York Insurance Law by paying agents and general agents commissions in excess of the first year limitations. (See item 3D of this report)

The Company violated Section 4228(f)(1) of the New York Insurance Law by not filing its agent compensation plan with the Department. (See item 3D of this report)

The Company violated Section 91.5(b) of Department Regulation No. 33 by adopting a method of distributing net investment income to major annual statement lines of business, which deviates from the rules prescribed in Section 91.5(a) of Department Regulation No. 33, without obtaining the superintendent's prior approval. (See item 4 of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by delivering policy forms in New York State that were not filed with and approved by the superintendent, and using forms that contain language not approved by the superintendent. (See item 5 of this report)

The Company violated Section 2108(a)(3) of the New York Insurance Law by allowing third party administrators to act on behalf of the Company without being licensed as independent adjusters. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The examination covers the period from January 1, 1998 through September 30, 2000. As necessary, the examiner reviewed transactions occurring subsequent to September 30, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of holding company transactions, policy forms, agent compensation filings, independent adjuster licensing, and replacements. The examiner 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 aforementioned matters.

This report on examination is confined to comments on 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 Maryland on October 26, 1925 and commenced business on May 1, 1927. The Company was granted a license by the Department to conduct business in the state of New York on May 31, 1927.

On December 31, 1926, the Company was authorized to issue 40,000 shares of common stock. In 1987, the authorization was increased to 360,000 shares of common stock.

As of December 31, 1926, the Company's capital and surplus of \$635,950, consisting of common capital stock of \$317,975 and paid in and contributed surplus of \$317,975, were provided through the sale of 12,719 shares of common stock (with a par value of \$25 each) for \$50 per share. As of December 31, 1997, capital and paid in and contributed surplus were \$3,578,700 and \$84,000,000 respectively. In December 1999, the parent, ULLICO Inc., made a cash contribution to the Company in the amount of \$15,000,000. (See item 3B of this report) As of September 30, 2000, capital and paid in and contributed surplus were \$3,578,700 and \$99,000,000 respectively.

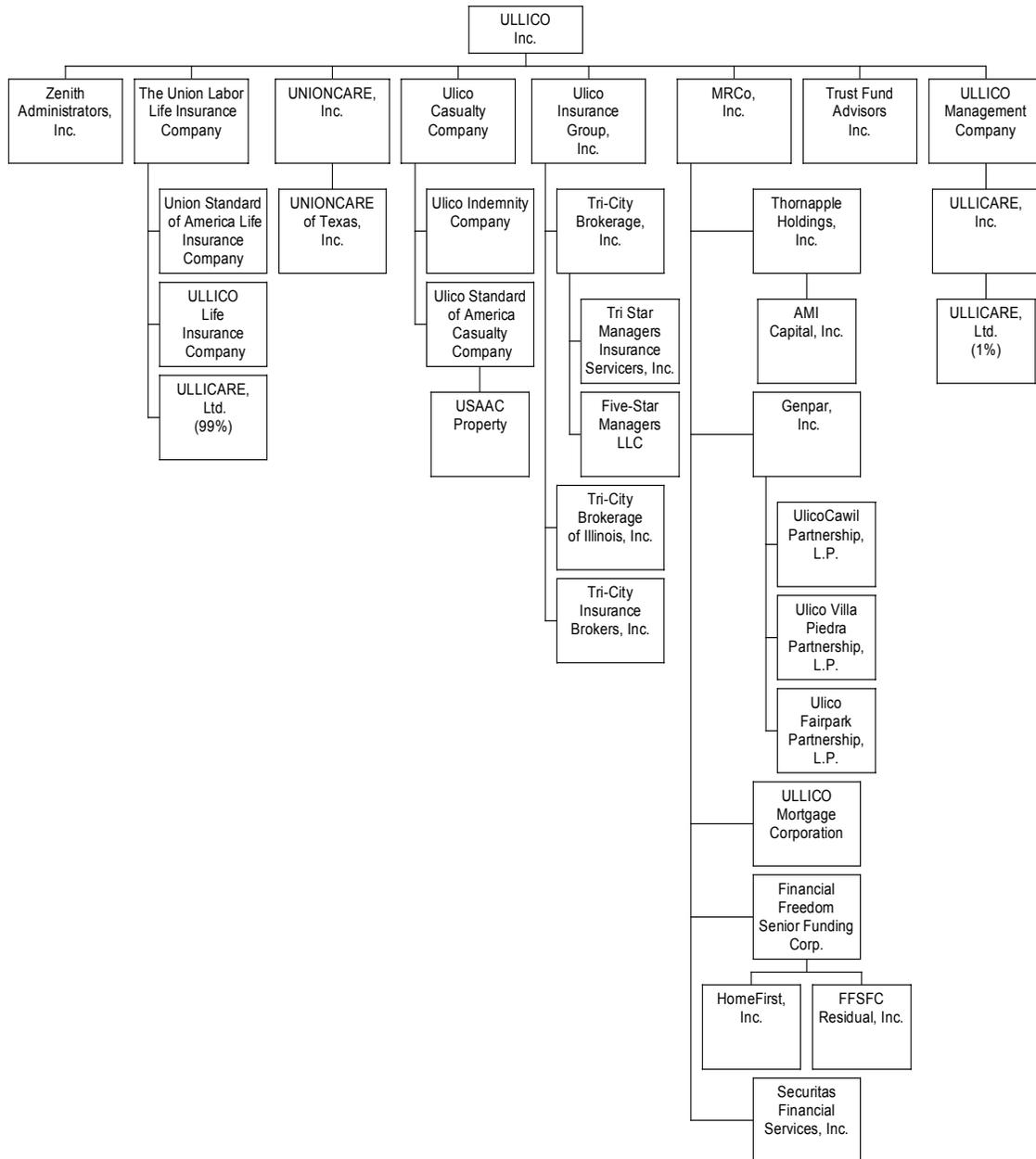
The Company was founded in 1925 by the American Federation of Labor to provide insurance protection at the lowest possible cost to union members. During 1987, ULLICO Inc., a holding company, was formed and all of the stockholders' shares in the Company were transferred to ULLICO Inc. in exchange for an equal number of shares of ULLICO Inc. This exchange resulted in the Company becoming a wholly owned subsidiary of ULLICO Inc.

Ownership of ULLICO Inc. shares is limited to labor organizations and their members. ULLICO Inc.'s by-laws prohibit stockholders from selling their shares of ULLICO Inc. stock without first offering them to ULLICO Inc. at \$25 per share. It is ULLICO Inc.'s practice to repurchase these shares and resell them to labor unions and their members.

B. Holding Company

The Company is a wholly owned subsidiary of ULLICO Inc., a Maryland privately owned holding company established in 1987.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 1999 follows:



The Company has three subsidiaries. Two are wholly owned life insurance companies: Union Standard of America Life Insurance Company, a Maryland company, and ULLICO Life Insurance Company, a Texas company. The other company, ULLICARE, Ltd. is a 99% owned preferred provider organization. The holding company system consists of three other insurance companies: Ulico Casualty Company, a Delaware company, Ulico Indemnity Company, an Arkansas company, and Ulico Standard of America Casualty Company, a California company.

The Company had nine service agreements with its' parent and affiliates in effect as of September 30, 2000. ULLICO Inc. has a consolidated services agreement incorporating all of its affiliated companies, including the Company. Under this agreement, services provided include, but are not limited to, accounting, tax and auditing, legal, actuarial, financial management, underwriting, claims management, risk management, employee benefit plans and personnel administration, sales, electronic data processing, communication, and investment services.

ULLICO Inc. has a consolidated income tax allocation agreement incorporating all of its affiliated companies.

The Company has two reinsurance treaties with an affiliate, Ulico Casualty Company. The first agreement, effective December 8, 1993, covers all excess and stop loss business written on or after December 1, 1992 and assumed by the Company. The second agreement, effective December 2, 1999 covers all accident and health business written by Ulico Casualty Company and assumed by the Company.

The Company has five investment advisory agreements in effect with Trust Fund Advisors ("TFA"), whereby TFA was appointed investment manager for five of the Company's separate accounts.

The Company has a sub-advisory agreement with TFA, whereby the Company is named sub-advisor pertaining to real estate assets with respect to certain employee benefit plans.

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:

- (1) sales, purchases, exchanges, loans or extension of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer’s admitted assets at last year-end;
- (2) reinsurance treaties or agreements;
- (3) rendering of services on a regular or systematic basis . . . ”

The following transactions were in violation of Section 1505(d)(1) of the New York Insurance Law:

1. In December 1999, the parent, ULLICO Inc., made a surplus contribution to the Company in the amount of \$15,000,000. The amount of this transaction was approximately 0.56% of the Company’s 1998 admitted assets. The Company failed to provide notice to the superintendent of this transaction.
2. In December 1999, the Company transferred its interest in certain limited partnerships, amounting to \$19,328,447, to MRCo, Inc., an affiliate, in exchange for a three-year promissory note dated December 30, 1999. This transaction amounted to approximately 0.72% of the Company’s 1998 admitted assets. The Company did not notify the superintendent prior to entering into this transaction.

The Company violated Section 1505(d)(1) of the New York Insurance Law by failing to provide the superintendent notice prior to entering into the aforementioned transactions with members of its holding company system which exceeded one-half of one percent of its prior year’s admitted assets.

The Company failed to notify the superintendent prior to entering into two reinsurance treaties with Ulico Casualty Company, an affiliate. The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the superintendent prior to entering into reinsurance treaties with an affiliate.

The examiner notified the Company that it was required to submit the above two transactions and the two reinsurance agreements to the superintendent pursuant to Section 1505(d) of the New York Insurance Law. The Company submitted the two transactions and the

reinsurance agreement for accident and health insurance to the superintendent on February 20, 2001.

The following transactions were in violation of Section 1505(d)(3) of the New York Insurance Law as follows:

1. The Company participates in a consolidated services agreement with other members of the holding company. The Company submitted a consolidated services agreement, dated May 1, 1994, to the superintendent with a cover letter dated September 21, 1998. This agreement was disapproved by the Department on October 20, 1998, however the Company continued to participate in the agreement after disapproval.
2. The Company entered into an investment management agreement with TFA to manage the Company's separate account "R". The agreement was entered into on October 1, 1996 and was not submitted to the superintendent.
3. The Company entered into a sub-advisory agreement, pertaining to the management of real estate, with TFA on October 1, 1994 and amended it as of January 1, 1995. The Company did not notify the superintendent of either the agreement or the amendment.

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the superintendent of a consolidated services agreement, an investment management agreement and a sub-advisory agreement, including an amendment, thirty days prior to entering into such agreements or amendment.

The Company submitted its consolidated services agreement and the sub-advisory management agreement to the superintendent on March 16, 2001.

The Company entered into four additional investment management agreements with TFA to manage four of the Company's separate accounts. Each agreement was entered into prior to the examination period. Amendments were made to Separate Accounts "A" and "T" effective January 1, 1992. The Company submitted the investment management agreements, and amendments, for these separate accounts to the superintendent on April 26, 1999.

The examiner recommends that, in the future, the Company file its inter-company agreements with the superintendent thirty days prior to entering into such agreement in compliance with Section 1505(d)(3) of the New York Insurance Law.

Section 308(a) of the New York Insurance Law states, in part:

“The superintendent may also address to any . . . authorized insurer or its officers any inquiry in relation to its transactions or condition or any matter connected therewith. Every corporation or person so addressed shall reply in writing to such inquiry promptly”

Department Circular Letter No. 33 (1979) provides guidelines to assure that tax allocation agreements are fair and equitable and give appropriate recognition to the separate operating identity of the domestic insurer consistent with various sections of the Insurance Law.

Department Circular Letter No. 33 (1979) advises that:

“Any domestic insurer . . . shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so. Furthermore, notification to this Department should be given within 30 days of any amendment”

The Company participates in a consolidated income tax allocation agreement, dated December 31, 1987, with other members of the holding company. The agreement was amended as of May 1, 2000. The Company failed to file the amended agreement with the superintendent.

The Company violated Section 308(a) of the New York Insurance Law and failed to comply with Department Circular Letter No. 33 (1979) by not notifying the Department of the amended agreement.

The Company submitted its tax allocation agreement to the superintendent on March 16, 2001.

C. Management

The Company’s by-laws provide that the board of directors shall be comprised of not less than 15 and not more than 32 directors. Directors are divided into three classes and are elected for a period of three years at the annual meeting of the stockholders held in April. As of September 30, 2000, the board of directors consisted of 29 members. Meetings of the board are held annually.

The 29 board members and their principal business affiliation, as of September 30, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Morton Bahr * Washington, DC	President Communications Workers of America	1996
John J. Barry * Chevy Chase, MD	President Emeritus International Brotherhood of Electrical Workers	1987
William G. Bernard * Potomac, MD	President International Association of Heat and Frost Insulators and Asbestos Workers	1996
Morris Biller * Arlington, VA	President American Postal Workers Union	1987
Marvin J. Boede * Potomac, MD	Retired President United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada	1983
Kenneth J. Brown * Charlottesville, VA	Retired President The Graphic Communications International Union	1973
Bill Casstevens * Oklahoma City, OK	Retired Secretary – Treasurer United Automobile, Aerospace and Agricultural Implement Workers of America International Union	1994
Arthur A. Coia * Barrington, RI	President Emeritus Laborers' International Union of North America	1993
John E. Cullerton * Chicago, IL	Consultant Hotel Employees & Restaurant Employees International Union	1995
John F. Gentleman Fort Meyers, FL	Retired President The Union Labor Life Insurance Company	1992
Robert A. Georgine Silver Spring, MD	Chairman, President and Chief Executive Officer The Union Labor Life Insurance Company	1981

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Frank Hanley * Kensington, MD	President International Unions of Operating Engineers	1990
Frank D. Hurt * Columbus, OH	International President Bakery, Confectionery and Tobacco Workers International Union	1995
John T. Joyce * Washington, DC	Retired President International Union of Bricklayers and Allied Craftworkers	1981
Earl J. Kruse * Palos Park, IL	President United Union of Roofers, Waterproofers and Allied Workers	1999
James La Sala * Silver Spring, MD	President Amalgamated Transit Union	1985
Martin J. Maddaloni * Philadelphia, PA	General President United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada	1998
Joseph F. Maloney * Rockville, MD	Retired Secretary – Treasurer Building and Construction Trades Department, AFL-CIO	1995
Douglas J. McCarron * Agoura Hills, CA	General President United Brotherhood of Carpenters and Joiners of America	1996
James F. McNulty Great Falls, VA	General Counsel The Union Labor Life Insurance Company	1968
Lenore Miller * Little Silver, NJ	Retired President Retail, Wholesale and Department Store Union	1987
Terence M. O’Sullivan * Clifton, VA	General President Laborers International Union of North America	2000
Vincent R. Sombrotto * Port Washington, NY	President National Association of Letter Carriers	1995

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John J. Sweeney * Bethesda, MD	President AFL-CIO	1985
Eugene Upshaw * Great Falls, VA	President Federation of Professional Athletes	1987
Jacob F. West * Washington, DC	General President Emeritus International Association of Bridge, Structural and Ornamental Iron Workers	1990
John W. Wilhelm * Santa Barbara, CA	General President Hotel Employees & Restaurant Employees International Union	2000
William H. Wynn * Bonita Springs, FL	President Emeritus United Food and Commercial Workers International Union	1987
Roy Wyse * Richmond, MO	Retired Secretary – Treasurer United Automobile, Aerospace and Agricultural Implement Workers of America International Union	1997

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

The following is a listing of the principal officers of the Company as of September 30, 2000:

<u>Name</u>	<u>Title</u>
Robert A. Georgine	Chairman, President and Chief Executive Officer
James W. Luce	Executive Vice President
John Kenneth Grelle	Senior Vice President and Chief Financial Officer
James F. McNulty	General Counsel
Grover L. McKean	Senior Vice President Investments
Joseph A. Carabillo*	Chief Legal Counsel

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

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all 50 states and the District of Columbia. In 1999, 25.36% of the Company's total premiums were received from New York. The Company is a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law. Policies are written on a participating basis.

The following tables show the percentage of direct premiums received by state and by major lines of business for the year 1999:

<u>Life Insurance Premiums</u>		<u>Accident and Health Insurance Premiums</u>	
New York	20.4%	New York	27.2%
California	<u>11.2</u>	California	<u>18.6</u>
Subtotal	31.6%	Subtotal	45.8%
All others	<u>68.4</u>	All others	<u>54.2</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

The Company's principal lines of business are group life and group accident and health, which are primarily marketed to union workers. The Company's accident and health product line consists mainly of indemnity medical, insured Participating Provider Organization, stop-loss, and accidental death and dismemberment coverages. The Company has changed its focus from indemnity medical plans to insured and self-funded managed care plans. The Company is focusing on increasing its presence in the Taft/Hartley market. The passage of the Act allowed unions to provide certain benefits to members. The majority of the group life and accident and health business is solicited by full time salaried sales staff working with brokers, while a lesser amount is solicited through mass marketing.

The Company's individual life and accident and health businesses are solicited on a general agency basis and through direct marketing.

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. . . .”

The Company’s commission schedule for agents at the levels of Agent and Agent I indicate that the commission rate for the Company’s MA Senior Life product is in excess of the first year premium limitation. Also, the commission rates for five levels of general agents for the Company’s MA Senior Life product are in excess of the first year premium limitation. The Company acknowledged that commissions paid for the sale of 152 MA Senior Life policies during the examination period exceeded the first year commission limitation.

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

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

“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”

The Company did not file its compensation plan with the Department and therefore violated Section 4228(f)(1) of the New York Insurance Law.

4. ALLOCATION OF NET INVESTMENT INCOME

The Company uses the investment year method to allocate net investment income to the major annual statement lines of business, excluding GIC's and individual annuities that have segmented asset portfolios. The Department treats this method as a variant of the net investment year method and requires approval prior to being adopted.

Section 91.5(b) of Department Regulation No. 33 states, in part:

“ . . . If the company's method includes deviations from the foregoing rules, or contemplates the use of a method other than the investment year method for assets not listed in paragraph (a)(1), such deviations or use require the approval of the superintendent as being equitable and as being necessary for reasons of feasibility before the method can be adopted.”

The Company filed its method of allocating net investment income on January 31, 1968, and there have been no amendments filed since that time. The Company's method of allocating net investment income during the examination period deviates from the method previously submitted to the Department by including “Other” in its current method of allocating net investment income. The Company failed to submit the amended method to the superintendent for approval prior to adopting this method.

The Company violated Section 91.5(b) of Department Regulation No. 33 by adopting a method of distributing net investment income to major annual statement lines of business which deviates from the rules prescribed in Section 91.5(a) of Department Regulation No. 33, without obtaining the superintendent's prior approval.

5. 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. . . .”

The Company delivered medicare supplement forms 8331, 615400C and 8338 in New York State that were not filed with and approved by the superintendent. The Company indicated that a total of 269 such medicare supplement forms were issued in New York.

The Company uses policy form Ind. A.H. 1408.18.NY to convert group health policies to individual policies. The conversion form that the Company uses deviates from the form filed and approved by the superintendent. The examiner determined that 41 health policies were converted using policy form Ind. A.H. 1408.18.NY during the examination period.

The Company issued 13 group life contracts using policy form GP-9100.NY, which contained language that varied from what was approved by the superintendent. The Company also issued one group accidental death and dismemberment contract using policy form GP-9200.NY, which contained language that varied from the form approved by the superintendent. In addition, the Company issued four group excess loss policies using policy form 300NY, which contained language that varied from the form approved by the superintendent.

The Company violated Section 3201(b)(1) of the New York Insurance Law by delivering policy forms in New York State that were not filed with and approved by the superintendent and also using forms that contained language not approved by the superintendent.

6. THIRD PARTY ADMINISTRATORS

The Company has agreements with three third party administrators whereby the third party administrators provide claim payment services for the Company.

Section 2101(g)(1) of the New York Insurance Law states, in part:

“The term “independent adjuster” means any person, firm, association or corporation who, or which, for money, commission or any other thing of value, acts in this state on behalf of an insurer in the work of investigating and adjusting claims arising under insurance contracts issued by such insurer and who performs such duties required by such insurer as are incidental to such claims . . .”

Section 2108(a)(3) of the New York Insurance Law states, in part:

“No adjuster shall act on behalf of an insurer unless licensed as an independent adjuster . . .”

During the examination period each of the third party administrators acted as an independent adjuster on behalf of the Company by investigating and adjusting health claims arising under insurance contracts issued by the Company, without being licensed as an independent adjuster.

The Company violated Section 2108(a)(3) of the New York Insurance Law by allowing third party administrators to act on behalf of the Company without being licensed as independent adjusters.

The Company’s agreement with one of the administrators terminated as of January 1, 2001.

7. SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(1) of the New York Insurance Law by failing to provide the superintendent notice thirty days prior to entering into transactions with members of its holding company system which exceeded one-half of one percent of its prior year's admitted assets.	7
B	The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the superintendent thirty days prior to entering into two reinsurance treaties with an affiliate.	7
C	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the superintendent thirty days prior to entering into; a consolidated services agreement, an investment management agreement and a sub-advisory agreement (including an amendment).	8
D	The examiner recommends that, in the future, the Company file its inter-company agreements with the superintendent thirty days prior to entering into such agreements in compliance with Section 1505(d)(3) of the New York Insurance Law.	8
E	The Company violated Section 308(a) of the New York Insurance Law and failed to comply with Department Circular Letter No. 33 (1979) by not notifying the Department of the amended tax allocation agreement.	9
F	The Company violated Section 4228(d) of the New York Insurance Law by paying agents and general agents commissions in excess of the first year limitations.	14
G	The Company violated Section 4228(f)(1) of the New York Insurance Law by not filing its agent compensation plan with the Department.	14
H	The Company violated Section 91.5(b) of Department Regulation No. 33 by adopting a method of distributing net investment income to major annual statement lines of business, which deviates from the rules prescribed in Section 91.5(a) of Department Regulation No. 33, without obtaining the superintendent's prior approval.	15

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J	The Company violated Section 2108(a)(3) of the New York Insurance Law by allowing third party administrators to act on behalf of the Company without being licensed as independent adjusters.	17

Respectfully submitted,

Brian E. Glaab
Senior Insurance Examiner

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

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

Brian E. Glaab

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

APPOINTMENT NO. 21651

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:

BRIAN GLAAB

as a proper person to examine into the affairs of the

THE UNION LABOR LIFE INSURANCE COMPANY

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

COMPANY

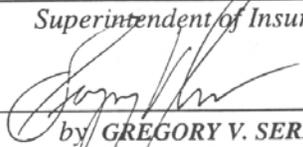
with such other information as he shall deem requisite.

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

this 15th day of November, 2000



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent