STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

MONITOR LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2003

DATE OF REPORT:	OCTOBER 8, 2004
EXAMINER:	VINCENT TARGIA

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

George E. Pataki, Governor

Gregory V. Serio, Superintendent

October 8, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 22233, dated June 10, 2004 and annexed hereto, an examination has been made into the condition and affairs of Monitor Life Insurance Company of New York, hereinafter referred to as “the Company,” at its home office located at 70 Genesee Street, Utica, New York 13502.

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

As of October 31, 2003, the Company entered into a 100% coinsurance agreement with Standard Security Life Insurance Company of New York ("SSLONY") that calls for SSLONY to reinsure the Company's inactive individual life and annuity business. The administration of the reinsured business has also been turned over to SSLONY. An assumption of the business is expected to take place in the future. As of November 2003, the Company's only active market was employee group life insurance made available through a joint marketing program with its parent.

The examiner's review of a sample of transactions did not reveal any differences that materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2003 filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Company's 2003 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violation contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 October 15, 1971 under the name Monitor Insurance Company of New York. The Company was licensed to write accident and health business as specified by paragraph 3 of Section 1113(a) of the New York Insurance Law and commenced business on June 1, 1972. The Company's initial paid-in capital was $500,000 and contributed surplus was $600,000. Changes in the capital and surplus of the Company since incorporation resulted in capital and paid in and contributed surplus of $1,000,000 and $2,000,000, respectively, as of December 31, 2003.

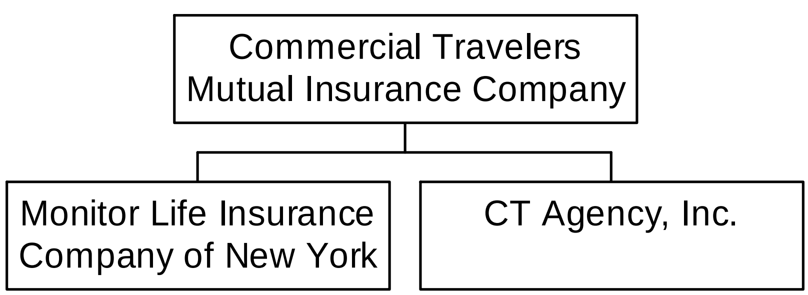
On August 15, 1978, the Company amended its charter to include the writing of life insurance and annuities as specified in paragraphs 1 and 2 of Section 1113(a) of the New York Insurance Law.

On April 25, 1979, the Company's name was changed to Monitor Life Insurance Company of New York.

B. Holding Company

The Company is a wholly owned subsidiary of Commercial Travelers Mutual Insurance Company ("CTMIC"), a New York accident and health insurance company. As a subsidiary of a domestic mutual company, the Company is not subject to Article 15 of the New York Insurance Law.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2003 follows:



The Company had one service agreement in effect as of December 31, 2003, which calls for the parent to provide the Company with all services such as underwriting, claims administration, investment advice, policyholder service, accounting, actuarial, marketing and data processing. This agreement became effective May 1, 1979.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Expense For Each Year of the Examination
Service	5/1/1979	CTMIC	The Company	Administration	2001 – ($1,541,514) 2002 – ($1,493,507) 2003 – ($1,209,596)

As of February 23, 2000, the Company entered into a Tax Allocation and Election Agreement with its parent CTMIC. The Agreement provides that CTMIC file consolidated federal tax returns and that the Company either pay the appropriate tax charge or receive the appropriate tax refund from CTMIC.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of 13 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2003, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2003, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Stephen A. Gilles* Utica, NY	Retired	1976
Richard R. Griffith* Utica, NY	President Sturges Manufacturing Company	1999

Name and Residence	Principal Business Affiliation	Year First Elected
Frederick H. Hager* Clinton, NY	Chairman and Chief Executive Officer H. M. Quackenbush, Inc.	2000
Donald E. Joslin Holland Patent, NY	Consultant Monitor Life Insurance Company of New York	1980
Kevin M. Kelly* New Hartford, NY	President Jay-K Lumber Corporation	1986
Jeremiah O. McCarthy* Barneveld, NY	President and Chairman of the Board Oneida County Rural Telephone Company	1986
Earle C. Reed* Utica, NY	Retired	1999
Robert N. Sheldon* Utica, NY	Owner Reid-Sheldon & Company	1987
John B. Stetson* Barneveld, NY	Retired	1971
Herbert E. Trevvett Poland, NY	Chairman of the Board Monitor Life Insurance Company of New York President and Chief Executive Officer Commercial Travelers Mutual Insurance Company	1977
James D. Trevvett Cold Brook, NY	Treasurer Monitor Life Insurance Company of New York and Commercial Travelers Mutual Insurance Company	1991
Paul H. Trevvett Cold Brook, NY	President and Chief Executive Officer Monitor Life Insurance Company of New York Vice President Commercial Travelers Mutual Insurance Company	1998
Dwight E. Vicks, Jr.* Utica, NY	President Vicks Lithograph & Printing Company	1986

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

In April 2004, Steve A. Gilles and Donald E. Joslin resigned (retired) from the board and were replaced by Joan W. Compson and Harrison J. Hummell, III, respectively.

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, 2003:

Name	Title
Paul H. Trevvett	President and Chief Executive Officer
James D. Trevvett	Treasurer
David R. Milner*	Secretary and General Counsel
Donald D. Falkenstern	Controller

* 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 25 states and the District of Columbia. In 2003, 77.3% of life premiums and 74.2% of annuity considerations were received from New York, and 57.4% and 24.5% of accident and health premiums were received from Texas and Connecticut, respectively. Policies are written on a non-participating basis.

During the examination period the Company was primarily in 3 markets: 1) employer group life insurance written in conjunction with disability products offered by CTMIC, 2) a closed block of individual life and annuities acquired mainly through acquisitions from other companies, and 3) a senior life policy marketed in conjunction with Guarantee Reserve Life Insurance Company ("GRLIC"). During 2003, GRLIC was purchased by a new owner, which effectively ended the Company's relationship with GRLIC and the Company's senior product marketing. The existing business written with GRLIC is currently in run-off.

As of October 31, 2003, the Company entered into a 100% coinsurance agreement with SSLONY that calls for SSLONY to reinsure the Company's inactive individual life and annuity business. The administration of the reinsured business has also been turned over to SSLONY. An assumption of the business is expected to take place in the future.

As of November 2003, the Company's only active market was employee group life insurance made available through a joint marketing program with its parent. The marketing program is entitled CT Group. CT Group offers group disability products that are underwritten by the parent and group term life products that are underwritten by the Company.

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

E. Reinsurance

As of December 31, 2003, the Company had reinsurance treaties in effect with eight companies, seven of which were authorized. The Company's ordinary life policies are ceded on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limits are $25,000 and $50,000 for individual life contracts and group life contracts, respectively. The total face amount of group and ordinary life insurance ceded, as of December 31, 2003, was $165,680,333, which represents 25.7% of the total face amount of life insurance in force.

The total face amount of life insurance assumed, as of December 31, 2003, was $158,599,447. The majority (99.3%) of the business was assumed from Fidelity Security Life Insurance Company ("FSLIC"), a Missouri insurer, under a 100% pro-rata coinsurance agreement covering employee group life insurance.

As of October 31, 2003, the Company entered into an agreement with SSLONY to coinsure 100% of its individual life insurance business. The business included a closed block of individual life insurance and annuities acquired through acquisitions and a senior life policy that was formerly marketed in conjunction with GRLIC. Assumption of the business is expected in the future.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 2000	December 31, 2003	Increase (Decrease)
Admitted assets	$28,035,342	$10,401,545	$(17,633,797)
Liabilities	$22,921,223	$ 4,010,025	$(18,911,198)
Common capital stock	$ 1,000,000	$ 1,000,000	$ 0
Gross paid in and contributed surplus	2,000,000	2,000,000	0
Group life contingency fund	65,835	0	(65,835)
Unassigned funds (surplus)	2,048,283	3,391,520	1,343,237
Total capital and surplus	$ 5,114,118	$ 6,391,520	$ 1,277,402
Total liabilities, capital and surplus	$28,035,341	$10,401,545	$(17,633,796)

The significant decrease in admitted assets and liabilities, and the increase in unassigned funds was a result of the Company entering into an agreement with SSLONY to coinsure 100% of its individual life and annuity business.

The Company's invested assets as of December 31, 2003, were mainly comprised of cash and short-term investments (65%) and bonds (34.5%). The majority of the cash and short-term investments consisted of U.S. Government Obligations (87.3%).

The Company's 2003 percentage distribution of assets represented a substantial change from 2002 and prior years in which the Company's invested assets were mainly comprised of bonds (90.4%). The distribution of assets was heavily impacted by the pending sale of a substantial portion of the Company's liabilities to SSLONY. The change was designed to protect asset value without disrupting asset-liability matches.

The Company's entire bond portfolio, as of December 31, 2003, 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):

	Individual Whole Life		Individual Term		Group Life	
Year	Issued	In Force	Issued	In Force	Issued & Increases	In Force
2001	$13,782	$70,262	$5,185	$42,598	$190,298	$739,348
2002	$11,283	$72,484	$2,702	$40,598	$ 59,597	$595,853
2003	$ 676	$67,014	$ 310	$36,993	$ 30,035	$539,335

The decrease in individual whole life and individual term insurance issued from 2002 to 2003 was a result of the termination of the relationship with GRLIC in 2003.

The significant decrease in the Company’s group life insurance business issued during 2002 as compared to 2001 was the result of the Company’s decision to adjust its new business rates resulting in less marketing of the product for that time period.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities		
	2001	2002	2003
Outstanding, end of previous year	375	362	350
Issued during the year	0	0	0
Other net changes during the year	(13)	(12)	(323)
Outstanding, end of current year	362	350	27

The decrease in ordinary annuities outstanding at the end of 2003 as compared to 2002 was a result of the Company's 100% coinsurance agreement with SSLONY that calls for SSLONY to reinsure the Company's individual life and annuity business.

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:

	2001	2002	2003
Ordinary:			
Life insurance	$(113,049)	$(130,954)	$(60,881)
Individual annuities	92,591	56,874	81,935
Supplementary contracts	(11,803)	14,946	11,615
Total ordinary	$ (32,261)	$ (59,134)	$ 32,669
Group:			
Life	$(808,826)	$(195,474)	$ 21,882
Total group	$(808,826)	$(195,474)	$ 21,882
Accident and health:			
Other	$ (6,618)	$ (2,531)	$ (447)
Total accident and health	$ (6,618)	$ (2,531)	$ (447)
Total	$(847,805)	$(257,139)	$ 54,104

The losses realized by the ordinary life insurance line of business during 2001 and 2002 were a result of the Company's rapid growth in the line, and the high first and second year marketing allowances paid to GRLIC. The losses realized in 2003 were due to the Company terminating its ordinary life marketing and moving the administration of the business from GRLIC to the Company.

The significant loss realized in the group life business during 2001 was a result of a relatively new product line with expected start-up costs. Growth was needed to develop a large enough base to spread overhead expenses. However, growth slowed in 2002 and virtually stopped in 2003. The Company began to undertake steps in 2002 to get the group life book of business profitable by adjusting its new and renewal business rates. As a result, the Company realized less of a loss in 2002 and realized a profit in 2003.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2003, as contained in the Company's 2003 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 that materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2003 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	$ 3,395,728
Cash and short term investments	6,403,549
Contract loans	48,417
Investment income due and accrued	63,289
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	(13,106)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	359,678
Reinsurance ceded:	
Amounts recoverable from reinsurers	50,151
Other amounts receivable under reinsurance contracts	87,456
Guaranty funds receivable or on deposit	6,183
Excess income tax withheld deposit	200
Total admitted assets	$10,401,545

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$ 2,843,733
Aggregate reserve for accident and health policies	19,927
Policy and contract claims:	
Life	205,134
Accident and health	643
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	16,413
Commissions to agents due or accrued	68
Commissions and expense allowances payable on reinsurance assumed	51
General expenses due or accrued	14,596
Taxes, licenses and fees due or accrued	59,873
Federal and foreign income taxes	530,475
Net deferred tax liability	1,244
Remittances and items not allocated	312
Liability for benefits for employees and agents	116,687
Miscellaneous liabilities:	
Asset valuation reserve	1,697
Funds held under reinsurance treaties with unauthorized reinsurers	104,524
Payable to parent, subsidiaries and affiliates	94,091
Checks pending escheatment to states	555
Total liabilities	$ 4,010,423
Common capital stock	$ 1,000,000
Gross paid in and contributed surplus	2,000,000
Unassigned funds (surplus)	3,391,520
Total capital, surplus and other funds	$ 6,391,520
Total liabilities, capital, surplus and other funds	$10,401,543

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003
Premiums and considerations	$4,338,727	$4,044,862	$(18,089,728)
Investment income	1,714,813	1,579,239	1,202,367
Commissions and reserve adjustments on reinsurance ceded	56,123	298,745	336,956
Miscellaneous income	0	0	103,105
Total income	$6,109,663	$5,922,846	$(16,447,300)
Benefit payments	$3,125,894	$2,752,792	$ 2,595,788
Increase in reserves	839,858	807,907	(20,500,598)
Commissions	227,184	210,820	196,202
General expenses and taxes	2,460,448	2,549,498	2,563,396
Increase in loading on deferred and Uncollected premiums	308,810	(18,280)	(367,137)
Miscellaneous deductions – current year IMR adjustment	5,654	33	(1,155,382)
Total deductions	$6,967,848	$6,302,770	$(16,667,731)
Net gain (loss)	$ (858,185)	$ (379,925)	$ 220,429
Dividends	29,980	31,582	(5,846)
Federal and foreign income taxes incurred	(40,463)	(154,369)	172,169
Net gain (loss) from operations before net realized capital gains	$ (847,702)	$ (257,139)	$ 54,106
Net realized capital gains (losses)	(164)	(669)	(19,928)
Net income	$ (847,866)	$ (257,808)	$ 34,177

The significant decrease in "premiums and considerations" and "increase in reserves" during 2003 was a result of the 100% coinsurance agreement entered into with SSLONY.

Similarly, the significant decrease in "miscellaneous deductions – current year IMR adjustment" was a result of the Company selling assets to fund the 100% coinsurance transaction, which released a portion of the IMR reserves.

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003
Capital and surplus, December 31, prior year	$5,106,373	$4,209,008	$3,778,370
Net income	$ (847,867)	$ (257,808)	$ 34,177
Change in net deferred income tax	0	20,875	(79,886)
Change in non-admitted assets and related items	(2,112)	(232,184)	90,459
Change in asset valuation reserve	(47,379)	(19,288)	168,405
Cumulative effect of changes in accounting Principles	0	57,767	0
Dividends to stockholders	0	0	(1,000,000)
Monitor Life Insurance Company Block Sale	0	0	3,400,000
Net change in capital and surplus	$ (897,359)	$ (430,638)	$2,613,155
Capital and surplus, December 31, current year	$4,209,014	$3,778,370	$6,391,525

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.

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

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.

7. INTERNAL AUDIT DEPARTMENT

Internal audit is an integral part of effective corporate governance that also includes the audit committee, the board of directors, senior management and the external auditors. In particular, internal auditors and audit committees are mutually supportive. Consideration of the work of internal auditors is essential for the audit committee to gain a complete understanding of the Company's operations. Internal audit identifies strategic, operational and financial risks facing the organization and assesses controls put in place by management to mitigate those risks.

The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent action taken by the Company in response to the citation:

Item	Description
A	The Company violated Section 90.7(a)(3) of Department Regulation No. 33 by failing to allocate its share of the expenses paid to GRLIC to the same expense classification as if it had incurred the entire expense. A review indicated that the Company allocated its share of the expenses paid to GRLIC to the same expense classification as if it had incurred the entire expense.

9. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company’s risk management processes and the accompanying system of internal control.	18

Respectfully submitted,

/s/
Vincent Targia
Associate Insurance Examiner

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

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

/s/
Vincent Targia

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22233

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

VINCENT TARGIA

as a proper person to examine into the affairs of the

MONITOR 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 June, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent