

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

BAPTIST LIFE ASSOCIATION

AS OF

DECEMBER 31, 2003

DATE OF REPORT:

JUNE 4, 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

June 4, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 22124, dated January 15, 2004 and annexed hereto, an examination has been made into the condition and affairs of the Baptist Life Association, hereinafter referred to as "the Association," at its home office located at 8555 Main Street, Buffalo, New York 14221.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences that materially affected the Association'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 Association'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 Association. (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 Association's 2003 filed annual statement fairly presents its financial condition. The examiner reviewed the Association'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:

- Association 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 Association
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Association with respect to the violations and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 7 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 ASSOCIATION

A. History

The Association was established in Buffalo, New York in 1883 and was incorporated on June 23, 1899 under the name of the Mutual Benefit Association of the German Baptists of North America. The Association received its final certificate of authority to transact business as a fraternal benefit society on August 22, 1899. The name was changed to the German Baptist Life Association in 1911, and to its present name, Baptist Life Association, in 1934.

The by-laws set forth the purpose of the Association, which are as follows:

“The corporate purpose of the Association shall be to provide protection to its Baptist Life constituency against financial loss upon disability or death and retirement security through annuities, in any form authorized by the Insurance Law of the State of New York relating to fraternal benefit societies. Fraternal and Benevolent activities shall promote the spiritual, physical, and cultural welfare of its members, Baptist congregations and institutions, or any Christian cause as the Board of Directors may determine.”

B. Management

The Quadrennial Convention is the supreme governing body that has exclusive legislative authority. It meets every four years. The Quadrennial convention consists of elected delegates and directors of the Association. Each local branch is entitled to one delegate. The board of directors (“board”) is elected by a plurality of delegates at the Quadrennial Convention. The board may fill any vacancies occurring between regular meetings of the Quadrennial Convention for the unexpired term.

Special conventions may be called by the Chairman of the Board, the President of the Association, or by a majority of the board.

The Association’s by-laws had previously stated that the board should be comprised of not less than 15 directors. On August 19, 2000, the Association amended its by-laws to reduce the minimum number of directors from 15 to 12. As of December 31, 2003, the board consisted of 12 members. The board meets at least twice a year.

The 12 board members and their principal affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John M. Andrews* Erie, PA	Accountant Baldwin General Contractors	1980
Dr. David Draewell* East Dundee, IL	Retired Financial Administrator Judson College	1984
John C. Garas* Clarence, NY	Attorney Renaldo, Meyers & Palumbo, P.C.	2000
Kenneth L. Griffiths* Tonawanda, NY	Retired Disability Claims Adjuster Sellers Agency	1984
Dr. Richard E. Ice* Alameda, CA	President Emeritus American Baptist Homes of the West	1988
R. Gordon Mooney* New Castle, PA	District Account Executive Canon U.S.A.	1992
Richard H. Murphy East Amherst, NY	Vice Chairman of the Board Baptist Life Association	1984
Stephen L. Pelton, M.D.* Victor, NY	Dermatologist Barrington – Park Dermatological	1998
Marilyn R. Schaer* Wheaton, IL	Retired Associate Director of Development North American Baptist Conference	1995
Calvin A. Sues Lancaster, NY	Chairman of the Board Baptist Life Association	1980
William A. Wells, Jr.* Pendleton, NY	Vice President Beechwood Continuing Care	1998
Steven J. Woodard* Lancaster, NY	Vice President Alden State Bank	1998

*Not affiliated with the Association

As of December 31, 2003, the Association had the following six sub-committees of the board:

1. Executive Committee;
2. Finance Committee;
3. Business Policy and Strategy Committee;
4. Examining Committee;
5. Compliance Committee; and
6. Fraternal Service Committee.

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 Association as of December 31, 2003:

<u>Name</u>	<u>Title</u>
Kenneth C. Kirsch	President
Kit Francis Burr	Chief Executive Officer
John Q. Curtin, Jr.*	Secretary/Treasurer

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

Effective January 31, 2004, Kenneth C. Kirsch resigned as President of the Association. As of this report date, a permanent replacement has not been named.

C. Territory and Plan of Operation

The Association 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 Association ceased writing accident and health insurance in 1993.

The Association is licensed to transact business in 25 states. In 2003, 73% of life premiums were received from New York (28.9%), Texas (14.1%), North Carolina (11.9%), Michigan (9.2%), and Pennsylvania (8.9%). A majority (68.7%) of all annuity considerations were received from New York (34.8%), Texas (24.9%) and Michigan (9%). Policies are written on a participating basis.

Life insurance products sold by the Association during the period under examination included basic and single premium whole life, interest sensitive life, annual renewable term, term to age 25, 10-year term, and juvenile term insurance. Annuity products sold during the examination period included flexible annuities and single premium deferred annuities. During the examination period, 77.1% of first year premiums and considerations was derived from the sale of annuity contracts, and 22.9% was derived from the sale of life insurance certificates.

The Association's agency operations are conducted on a general agency basis.

D. Reinsurance

As of December 31, 2003, the Association had reinsurance treaties in effect with four companies, all of which were authorized or accredited. Reinsurance of the Association's life and accident and health policies is ceded on a coinsurance, modified coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded, as of December 31, 2003, was \$90,715,748, which represents 41.3% of the total face amount of life insurance in force. The Association does not assume business.

The Association reported surplus relief of \$205,000 as of December 31, 2003.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Association 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 Association's financial growth during the period under review:

	December 31, <u>2000</u>	December 31, <u>2003</u>	<u>Increase</u>
Admitted assets	\$ <u>19,346,466</u>	\$ <u>21,716,843</u>	\$ <u>2,370,377</u>
Liabilities	\$ <u>18,539,384</u>	\$ <u>20,904,700</u>	\$ <u>2,365,316</u>
Contingent reserve for orphan benefits	\$ 20,000	\$ 20,000	\$ 0
Unassigned funds (surplus)	<u>787,082</u>	<u>792,143</u>	<u>5,061</u>
Total surplus	\$ <u>807,082</u>	\$ <u>812,143</u>	\$ <u>5,061</u>
Total liabilities and surplus	\$ <u>19,346,466</u>	\$ <u>21,716,843</u>	\$ <u>2,370,377</u>

The Association's invested assets as of December 31, 2003, were mainly comprised of bonds (86.1%) and cash and short-term investments (9.5%). The majority (95.9%) of the Association's bond portfolio, as of December 31, 2003, was comprised of investment grade obligations, with 73.1% and 22.8% in Class 1 and Class 2, respectively.

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 Association's filed annual statements:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Ordinary:			
Life insurance	\$ 95,072	\$ 169,591	\$ (59,511)
Individual annuities	48,349	121,548	128,391
Supplementary contracts	<u>(13,521)</u>	<u>(13,136)</u>	<u>(12,047)</u>
Total ordinary	<u>\$ 129,900</u>	<u>\$ 278,003</u>	<u>\$ 56,833</u>
Accident and health	\$ <u>(175)</u>	\$ <u>(178)</u>	\$ <u>(17)</u>
Fraternal	\$(<u>120,999</u>)	\$(<u>123,033</u>)	\$(<u>106,949</u>)
Total	<u>\$ 8,726</u>	<u>\$ 154,792</u>	<u>\$ (50,133)</u>

The Association's loss in the ordinary life line of business for 2003 was due to an unusual increase in death claims.

The fraternal line of business will always reflect a loss, as that line of business has no income. The Association does not charge its members dues or fees.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds as of December 31, 2003, as contained in the Association's 2003 filed annual statement, a condensed summary of operations and a reconciliation of the 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 Association's financial condition as presented in its financial statements contained in the December 31, 2003 filed annual statement.

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

Admitted Assets

Bonds	\$18,224,879
Stocks: common stocks	5,324
Real estate: properties occupied by the Association	324,718
Contract loans	613,176
Cash and short term investments	2,000,338
Amounts recoverable from reinsurers	400
Electronic data processing equipment and software	11,293
Life insurance premiums and annuity considerations deferred and uncollected on in force business	184,676
Investment income due and accrued	<u>352,039</u>
 Total admitted assets	 <u>\$21,716,843</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$20,287,714
Liability for deposit-type contracts	162,239
Certificate and contract claims: life	184,363
Premiums and annuity considerations for life and accident and health contracts received in advance	17,315
Commissions to fieldworkers due or accrued	6,143
General expenses due or accrued	25,103
Taxes, licenses and fees due or accrued	21,499
Amounts withheld or retained by Association as agent or trustee	5,569
Remittances and items not allocated	1,364
Asset valuation reserve	173,035
Unclaimed benefits	13,451
Benevolent fund	<u>6,905</u>
Total liabilities	<u>\$20,904,700</u>
Contingent reserve for orphan benefits	\$ 20,000
Unassigned funds (surplus)	<u>792,143</u>
Total surplus and other funds	<u>\$ 812,143</u>
Total liabilities, surplus and other funds	<u>\$21,716,843</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$1,626,634	\$1,943,408	\$1,796,067
Investment income	1,309,888	1,351,825	1,296,823
Commissions and reserve adjustments on reinsurance ceded	648	648	576
Miscellaneous income	<u>4,778</u>	<u>1,739</u>	<u>1,221</u>
 Total income	 <u>\$2,941,948</u>	 <u>\$3,297,620</u>	 <u>\$3,094,687</u>
Benefit payments	\$1,608,040	\$1,108,676	\$1,595,861
Increase in reserves	384,729	1,085,767	638,762
Commissions	118,856	128,008	117,118
General expenses and taxes	819,652	819,400	803,855
Increase in loading on deferred and uncollected premium	<u>1,945</u>	<u>977</u>	<u>(10,776)</u>
 Total deductions	 <u>\$2,933,222</u>	 <u>\$3,142,828</u>	 <u>\$3,144,820</u>
Net gain (loss) from operations before net realized capital gains	\$ 8,726	\$ 154,792	\$ (50,033)
Net realized capital gains (losses)	<u>14</u>	<u>(39)</u>	<u>(58)</u>
 Net income	 <u>\$ 8,740</u>	 <u>\$ 154,753</u>	 <u>\$ (50,191)</u>

C. SURPLUS ACCOUNT

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Surplus, December 31, prior year	\$ <u>807,082</u>	\$ <u>811,695</u>	\$ <u>865,903</u>
Net income	\$ 8,740	\$154,753	\$ (50,191)
Change in net unrealized capital gains (losses)	(7,214)	(41,398)	48,668
Change in non-admitted assets and related items	3,342	4,885	(1,564)
Change in asset valuation reserve	(15,385)	10,010	(54,715)
Changes in surplus as a result of reinsurance	<u>15,130</u>	<u>(74,042)</u>	<u>4,042</u>
Net change in capital and surplus	\$ <u>4,613</u>	\$ <u>54,208</u>	\$ <u>(53,760)</u>
Capital and surplus, December 31, current year	\$ <u>811,695</u>	\$ <u>865,903</u>	\$ <u>812,143</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Association's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Association.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Association'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. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Association violated Sections 2611(a), (b)(3) and (b)(5) of the New York Insurance Law by not using consent forms that contained the information required by Law.</p> <p>The Association instituted procedures to ensure that the consent forms used contained all of the information required by Law. The examination did not reveal any instances where a consent form was used that failed to include all of the information required by Law.</p>
B	<p>The examiner recommended that the Association enter into a custodial agreement for the holding of its securities with an appropriate institution.</p> <p>The examination revealed that the Association continues to maintain its securities at two brokerage houses, and does not maintain a custodial agreement with either of the brokerages.</p>
C	<p>The Association violated Sections 2112 and 2114 of the New York Insurance Law when it compensated two agents that were neither licensed nor appointed with the Association.</p> <p>The Association instituted procedures to ensure that all representatives under contract are licensed and appointed in order to receive renewal commissions on five-year renewable term plans. The examination did not reveal any instances where renewal commissions were paid to agents who were neither licensed nor appointed with the Association.</p>

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 _____ 2004.

APPOINTMENT NO. 22124

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

BAPTIST LIFE ASSOCIATION

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

SOCIETY

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 January, 2004



GREGORY V. SERIO
Superintendent of Insurance

Gregory V. Serio
Superintendent