



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
HM LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

JULY 13, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT

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EXAMINER:

S'ELREY N. DAVID

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

George E. Pataki
Governor

Eric R. Dinallo
Superintendent

July 13, 2007

Honorable Eric Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22559, dated October 30, 2006 and annexed hereto, an examination has been made into the condition and affairs of HM Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 420 Fifth Avenue, 3rd Floor, New York, New York 10018.

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 which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement. (See item 5 of this report)

The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the Superintendent at least thirty days prior to entering into a reinsurance agreement with its affiliate HCI, Inc. (See item 3B in this report)

The Company violated Section 216.11 of Department Regulation No. 64 by failing to maintain in its claim files all communications, transactions, notes, and workpapers that would allow the examiner to reconstruct all events relating to a claim. (See item 7 in this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 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, 2006 to determine whether the Company's 2006 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 the violations and comment 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 16, 1996, under the name of Trans-General Life Insurance Company of New York. The Company was licensed and commenced business on March 26, 1997. Initial resources of \$10,000,000 consisted of common capital stock of \$2,000,000 and paid in and contributed surplus of \$8,000,000. The capital stock was provided through the sale of 200,000 shares of common stock (with a par value of \$10 each) for \$10 per share.

Effective April 1, 1999, the Company changed its name to Highmark Life Insurance Company of New York.

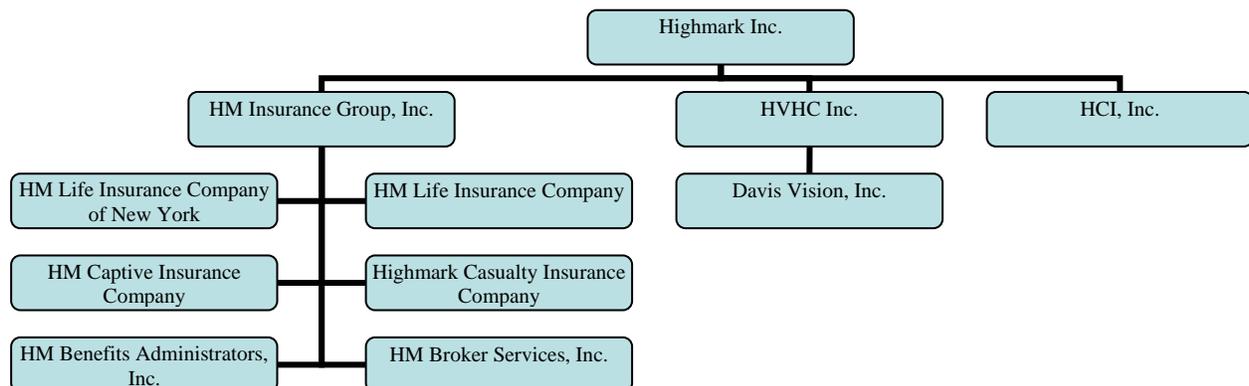
Capital and paid in and contributed surplus were \$2,000,000 and \$13,000,000, respectively, as of December 31, 2006. In 2004 the Company received a capital contribution from its ultimate parent, Highmark Inc. (“Highmark”), of \$5,000,000.

Effective April 1, 2006, the Company changed its name to HM Life Insurance Company of New York.

B. Holding Company

The Company is a wholly owned subsidiary of HM Insurance Group, Inc. (“HMIG”), a Pennsylvania business corporation. HMIG is in turn a wholly owned subsidiary of Highmark, a Pennsylvania non-profit corporation, licensed as a hospital plan and professional health services plan. Highmark is the ultimate parent of the Company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2006 follows:



The Company had 11 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Optical Laboratory Agreement 29202	8/1/2003	Davis Vision, Inc.	the Company	Develop, manufacture and market vision care products.	**
PPO Network Agreement 29202	8/1/2003	Davis Vision, Inc.	the Company	Contract with preferred provider networks of optometrists, and ophthalmologists and pay providers on behalf of the Company.	**
Third Party Administrator Agreement 29202	8/1/2003	Davis Vision, Inc.	the Company	Provide group vision administrative services, billing, premium collection, customer service, claims administration, and record keeping.	2004**\$(2,514,059) 2005**\$(2,931,893) 2006**\$(2,574,104)
Employee Benefit Plan Administrators Agreement 29380	2/1/2001	HM Benefit Administrators, Inc.	the Company	Provide employee benefit plan administration, financial, legal, information technology and other support services.	2004 \$(1,527,062) 2005 \$(2,010,921) 2006 \$(1,591,986)
Investment Advisory Agreement 29381	2/1/2001	Highmark, Inc.	the Company	Provide supervision and direction of investment of cash, securities, and other assets.	2004 \$(1,282) 2005 \$(1,664) 2006 \$(1,875)
Administrative Agreement 29574	5/1/2001	Highmark Life Insurance Company	the Company	Provide underwriting, claims, financial, marketing and advertising, actuarial, EDP, and agent related services.	2004 \$(1,816,108) 2005 \$(1,934,788) 2006 \$(2,872,056)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Integrated Database Agreement 29983	3/1/2002	Highmark Casualty Insurance Company	the Company	Provide the design, development, installation and maintenance of an integrated database generating claims records pertaining to new accounts.	2004 \$(63,738) 2005 \$(63,738) 2006 \$(63,738)
Administrative Agreement 33917	9/1/2005	Davis Vision, Inc	the Company	Provide customer service to all group policyholders and participants who are covered under the Company's group vision policies	**
Administrative Agreement 33752	4/1/2006	the Company	HM Benefits Administrators	Sales and sales administration services, including sales, marketing assistance, and supporting office functions for certain products	2004 \$0 2005 \$0 2006 \$0
Administrative Agreement 33752	4/1/2006	the Company	Highmark Casualty Insurance Company	Sales and sales administration services, including sales, marketing assistance, and supporting office functions for certain products	2004 \$34,654 2005 \$52,976 2006 \$7,285
Administrative Agreement 33752	4/1/2006	the Company	HM Life Insurance Company	Sales and sales administration services, including sales, marketing assistance, and supporting office functions for certain products	2004 \$453,247 2005 \$667,229 2006 \$515,050

* Amount of Income or (Expense) Incurred by the Company

** For ease of administration, data on fees paid to Davis Vision were supplied on an aggregate basis for all services provided.

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

Section 1505(c) of the New York Insurance Law states:

“The superintendent’s prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer’s admitted assets at last year-end.”

In December 2004, the parent, Highmark, made a capital contribution to the Company in the form of a cash contribution in the amount of \$5,000,000. The Company did not file for approval of this transaction which involved approximately 20.3% of the Company’s 2003 admitted assets.

The examiner recommends that the Company obtain the Superintendent’s prior approval for surplus contributions in the future.

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 . . .
(2) reinsurance treaties or agreements . . .”

On January 1, 2005, the Company entered into a reinsurance agreement with its affiliate HCI, Inc. This agreement was submitted to the Department for approval on March 26, 2007 and is still pending at this time.

The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the Superintendent at least thirty days prior to entering into a reinsurance agreement with its affiliate HCI, Inc.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 17 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, 2006, the board of directors consisted of ten members. Meetings of the board are held in February, April, September, and November.

The ten board members and their principal business affiliation, as of December 31, 2006, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
James Colker* Pittsburg, PA	Retired	1996
Roseann J. LaRosa* Valley Stream, NY	Attorney	1996
Daniel J. Lebish Pittsburg, PA	President and Chief Executive Officer HM Life Insurance Company of New York Highmark Life and Casualty Group, Inc.	2003
Kenneth R. Melani M.D. Cheswick, PA	Chairman of the Board HM Life Insurance Company of New York President and Chief Executive Officer Highmark Inc.	2005
Donald L. Morchower* New York, NY	Retired	2003
Donald P. Napier* Manlius, NY	Senior Vice President and Chief Operating Officer POMCO	2001
John N. Shaffer* Santa Fe, NM	Retired	1996
Warren G. Weber* Fairview, PA	Retired	1999
Thomas White* Newcastle, PA	President and Chief Executive Officer Jameson Health Systems, Inc.	1996

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Doris C. Williams* Pittsburgh, PA	President African American Chamber of Commerce of Western Pennsylvania	2002

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

In September 2006 Kenneth R. Melanie M.D. was appointed Chairman of the Board.

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, 2006:

<u>Name</u>	<u>Title</u>
Daniel J. Lebish	President and Chief Executive Officer
Paul A. Robb	Secretary
W. Dennis Cronin*	Senior Vice President, Treasurer and Chief Financial Officer
Mary Butler-Everson	Senior Vice President, Product Development and Marketing
Beata A. Madey	Senior Vice President, Underwriting
Mathew P. Piroch	Senior Vice President, Information Technology and Operations
Eugene A. Susi	Senior Vice President, Sales
Daniel J. Carlton	Vice President
Pamela R. Brown	Vice President, Project Management and Process Improvement
Brian S. Featherstone	Vice President
Mark Daniel Lancellotti	Vice President
William J. Miller	Vice President, Specialty Underwriter

* 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 has never written annuity business.

The Company is licensed to transact business in two states, namely New York and Rhode Island, and the District of Columbia. In 2006, 83% of life premiums were received from New

York and 17% were received from the District of Columbia. All accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company currently writes group term life, group accident and health, and offers an Ordinary Life Conversion product. In 2006, the Company derived 81% of its premium income from the group accident and health line of business. Within the group accident and health line of business the Company offered the following products: long-term disability, short-term disability, statutory disability, accidental death and dismemberment, stop-loss, and vision care.

The majority of the Company's agency operations are conducted on a general agency basis. The Company's vision products are sold through employees/agents of Davis Vision, Inc. ("Davis"), an affiliate. The Company has an agreement with Davis whereby Davis administers all of the Company's vision products including claims and underwriting services. Davis was responsible for 37.5% of the Company's direct premiums written in 2006.

E. Reinsurance

As of December 31, 2006, the Company had reinsurance treaties in effect with 12 companies, of which nine were authorized or accredited. The Company's life and accident and health businesses are reinsured on a coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for group life and group accidental death and dismemberment policies is \$250,000. The maximum retention limit for group long term disability is \$2,500 of the gross monthly benefit. The maximum retention limit for stop-loss is 50% quota share participation of up to \$1,000,000.

The total face amount of life insurance ceded as of December 31, 2006, was \$2,254,552,310, which represents 49% of the total face amount of life insurance in force. Reserve credit taken for life insurance ceded to unauthorized companies, totaling \$820,833 was supported by letters of credit.

The total accident and health premiums ceded as of December 31, 2006, was \$12,307,170 which represents 27% of the total accident and health direct premiums written. Reserve credit taken for accident and health insurance ceded to unauthorized companies, totaling \$7,213,339 was supported by letters of credit and a trust agreement.

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, <u>2003</u>	December 31, <u>2006</u>	<u>Increase</u>
Admitted assets	\$ <u>24,669,452</u>	\$ <u>47,722,955</u>	\$ <u>23,053,503</u>
Liabilities	\$ <u>15,713,422</u>	\$ <u>28,109,247</u>	\$ <u>12,395,825</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	8,000,000	13,000,000	5,000,000
Unassigned funds (surplus)	<u>(1,043,970)</u>	<u>4,613,708</u>	<u>5,657,678</u>
Total capital and surplus	\$ <u>8,956,030</u>	\$ <u>19,613,708</u>	\$ <u>10,657,678</u>
Total liabilities, capital and surplus	\$ <u>24,669,452</u>	\$ <u>47,722,955</u>	\$ <u>23,053,503</u>

The increase in capital and surplus was primarily due to a cash contribution of \$5,000,000 from the Company's ultimate parent and net income. The increase in admitted assets and liabilities was primarily due to an increase in direct premiums written in the group stop loss and group vision lines of business and a corresponding increase in the reserves.

The Company's invested assets as of December 31, 2006, were mainly comprised of bonds (55.5%) and cash and short-term investments (41.0%). The majority (99.5%) of the Company's bond portfolio, as of December 31, 2006, was comprised of investment grade obligations.

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>2004</u>	<u>2005</u>	<u>2006</u>
Ordinary life insurance	\$ (13,192)	\$ (6,006)	\$ 14,814
Group life	292,152	1,124,500	(477,277)
Accident and health - group	<u>707,862</u>	<u>919,258</u>	<u>3,206,070</u>
Total	<u>\$986,822</u>	<u>\$2,037,752</u>	<u>\$2,743,607</u>

The increase in group life in 2005 was due mainly to an increase in premiums of approximately \$785,000. Additionally, the death benefits paid in 2005 decreased approximately \$458,000 from 2004. Federal income taxes increased in 2005, offsetting the favorable results in premiums and claims by \$414,000. The subsequent loss in 2006 was due primarily to a drop in net premium of \$3,855,000 caused by terminated cases, as well as a new reinsurance arrangement. Death benefits dropped by only \$1,800,000 for the same period and federal income taxes decreased by \$337,000.

The increase in group accident and health in 2006 was due to an increase in the stop loss line of business. Stop loss premiums increased by \$3,263,070, while the stop loss claims expense increased by only \$822,745.

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>2004</u>	<u>2005</u>	<u>2006</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	66.3%	68.0%	67.9%
Commissions	9.8	8.4	4.5
Expenses	<u>22.6</u>	<u>22.8</u>	<u>21.3</u>
	<u>98.7%</u>	<u>99.2%</u>	<u>93.7%</u>
Underwriting results	<u>1.3%</u>	<u>0.8%</u>	<u>6.3%</u>

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2006, as contained in the Company's 2006 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, 2006 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2006

Admitted Assets

Bonds	\$24,374,303
Cash, cash equivalents and short term investments	19,465,520
Other invested assets	49,893
Investment income due and accrued	306,920
Premiums and considerations	
Uncollected premiums and agents' balances in the course of collection	534,799
Reinsurance:	
Amounts recoverable from reinsurers	1,550,752
Other amounts receivable under reinsurance contracts	635,105
Net deferred tax asset	378,678
Electronic data processing equipment and software	0
Receivables from parent, subsidiaries and affiliates	404,760
Other receivables	19,366
Unapplied claim refunds	<u>2,859</u>
 Total admitted assets	 <u>\$47,722,955</u>

Liabilities, Capital and Surplus

Aggregate reserve for life contracts	\$ 2,753,124
Aggregate reserve for accident and health contracts	9,779,262
Contract claims:	
Life	992,147
Accident and health	5,740,495
Premiums and annuity considerations for life and accident and health contracts received in advance	30,496
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	8,232
Interest maintenance reserve	38,562
Commissions to agents due or accrued	335,604
General expenses due or accrued	1,417,950
Taxes, licenses and fees due or accrued, excluding federal income taxes	23,253
Current federal and foreign income taxes	1,046,237
Amounts withheld or retained by company as agent or trustee	162,069
Remittances and items not allocated	142,507
Miscellaneous liabilities:	
Asset valuation reserve	99,163
Reinsurance in unauthorized companies	82,449
Payable to parent, subsidiaries and affiliates	2,970,156
Unclaimed property	487,541
Purchase price deposit for pending reinsurance transaction	<u>2,000,000</u>
 Total liabilities	 <u>\$28,109,247</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	13,000,000
Unassigned funds (surplus)	<u>4,613,708</u>
 Total capital and surplus	 <u>\$19,613,708</u>
 Total liabilities, capital and surplus	 <u>\$47,722,955</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$43,708,866	\$50,768,642	\$49,761,098
Investment income	1,031,596	1,495,437	1,779,076
Commissions and reserve adjustments on reinsurance ceded	1,517,068	2,278,482	3,581,194
Miscellaneous income	<u>394</u>	<u>(80,124)</u>	<u>(46,220)</u>
Total income	<u>\$46,257,924</u>	<u>\$54,462,437</u>	<u>\$55,075,148</u>
Benefit payments	\$28,159,712	\$32,600,963	\$33,419,926
Increase in reserves	1,151,329	1,187,045	925,907
Commissions	5,710,005	6,503,492	5,530,816
General expenses and taxes	9,465,724	10,968,083	11,133,103
Miscellaneous deductions	<u>5,000</u>	<u>0</u>	<u>250</u>
Total deductions	<u>\$44,491,770</u>	<u>\$51,259,583</u>	<u>\$51,010,002</u>
Net gain (loss)	\$ 1,766,154	\$ 3,202,854	\$ 4,065,146
Federal and foreign income taxes incurred	<u>779,332</u>	<u>1,165,104</u>	<u>1,321,547</u>
Net income	<u>\$ 986,822</u>	<u>\$ 2,037,750</u>	<u>\$ 2,743,599</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	\$ <u>8,956,030</u>	\$ <u>14,931,484</u>	\$ <u>16,922,491</u>
Net income	\$ 986,822	\$ 2,037,750	\$ 2,743,599
Change in net deferred income tax	220,833	23,203	(85,411)
Change in non-admitted assets and related items	(217,970)	55,377	42,353
Change in liability for reinsurance in unauthorized companies	0	(98,545)	16,096
Change in asset valuation reserve	(14,231)	(26,778)	(25,420)
Surplus adjustments:			
Paid in	<u>5,000,000</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>5,975,454</u>	\$ <u>1,991,007</u>	\$ <u>2,691,217</u>
Capital and surplus, December 31, current year	\$ <u>14,931,484</u>	\$ <u>16,922,491</u>	\$ <u>19,613,708</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 and solicitations.

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

“Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. . . .”

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

“ . . . Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other state whether or not licensed in such other state, with a notation attached to each such advertisement which shall indicate the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to regular and periodical inspection by the department. . . .”

The Company's Advertising Procedures Manual, states in part:

“Each advertising File must contain all drafts copies, any correspondence concerning the copy, all 'Marketing Draft Approval Forms' concerning the copy, a copy of the printing and shipping instructions, a copy of the printing invoice indicating the number shipped and the printing cost, a copy of the shipping invoice (if separate) and a copy of the printed advertisement, and a notation indicating the manner and extent of distribution and form number of any policy advertised.

The Advertising File System must have a master list of all advertisements in an electronic data base sorted and/or accessible by company, state, review date(s), approval date(s), marketing control number, applicable policy forms, number shipped, destination, cost and audience.”

The Company provided a computer disk purporting to contain all advertising files covering the examination period as required by Department Regulation Nos. 34 and 34A. The examiner's review of the computer disk revealed that it contained draft copies, many of which had markings on them and were illegible. The examiner had to request the complete advertising file which was shipped to the Company's home office from Pittsburgh.

The Company did not comply with its Advertising Procedures Manual by failing to assign marketing control numbers and failing to provide a notation indicating the method and manner of distribution of its advertisements.

The Company violated Section 219.5(a) of Department Regulation No. 34-A, Section 215.17(a) of Department Regulation No. 34 and failed to comply with its Advertising Procedures Manual by failing to maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement disseminated in this state, with a notation indicating the manner and extent of distribution.

2. Section 1313(f) of the New York Insurance Law states:

“Advertisements and other public announcements directed primarily at calling the attention of policyholders or prospective policyholders to an insurer and containing a statement of the separate financial condition of the holding company system shall also contain a statement of the separate financial condition of the insurer which shall comply with this section.”

The Company issued four brochures which made reference to the assets of its parent, Highmark, without also disclosing the assets of the Company.

The Company violated section 1313(f) of the New York Insurance Law issuing brochures which make reference to the assets of Highmark, without disclosing the assets of the Company.

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. RECORD RETENTION

Section 216.11 of Department Regulation No. 64 states, in part:

“To enable department personnel to reconstruct an insurer's activities, all insurers subject to the provisions of this Part must maintain within each claim file all communications, transactions, notes and work papers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer. Claim files must be so maintained that all events relating to a claim can be reconstructed by the Insurance Department examiners. Insurers shall either make a notation in the file or retain a copy of all forms mailed to claimants.”

The review of various claim files revealed that the Company failed to maintain all communications, transactions, notes, and workpapers that would allow the examiner to reconstruct the insurer's activities in 7 of the 9 long-term disability claim files reviewed, 12 of the 43 group life denied claim files reviewed, and 13 of the 38 statutory disability claims reviewed.

The Company violated Section 216.11 of Department Regulation No. 64 by failing to maintain all the communications, transactions, notes, and workpapers that would allow the examiner to reconstruct all events relating to a claim.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and 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 violated Section 1505(d)(3) of the New York Insurance Law by providing services on a regular basis to its affiliates without receiving the Superintendent's prior approval.</p> <p>The Company submitted the sales administration agreements with HM Life Insurance Company, Highmark Casualty Insurance Company, and HM Benefits Administrators, Inc., to the Department for approval on March 23, 2005. The agreements were approved by the Department on April 17, 2006, with an effective date of April 1, 2006.</p>
B	<p>The Company violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or its investment committee, approve the purchases and sales of investments during the examination period.</p> <p>The Investment Committee retroactively approves the purchases and sales of investments at its regularly scheduled meetings.</p>
C	<p>The Company failed to comply with its by-laws when its investment committee failed to hold meetings.</p> <p>The Investment Committee commenced holding regular meetings on February 16, 2005</p>
D	<p>The Company violated Section 215.13(a) of Department Regulation No. 34 by advertising products on the Company's website without indicating the form number for each product.</p> <p>The Company corrected its website to include applicable form number(s).</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Company obtain the Superintendent's prior approval for surplus contributions in the future.	7
B	The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the Superintendent at least thirty days prior to entering into a reinsurance agreement with its affiliate HCI, Inc.	7
C	The Company violated Section 219.5(a) of Department Regulation No. 34-A, Section 215.17(a) of Department Regulation No. 34 and failed to comply with its Advertising Procedures Manual by failing to maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement disseminated in this state, with a notation indicating the manner and extent of distribution.	18
D	The Company violated section 1313(f) of the New York Insurance Law in four brochures, by making reference to the assets of Highmark, the combined entity, without disclosing the assets of the Company.	18
E	The Company violated Section 216.11 of Department Regulation No. 64 by failing to maintain all communications, transactions, notes, and workpapers that would allow the examiner to reconstruct all events relating to a claim.	20

APPOINTMENT NO. 22559

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

S'ELREY DAVID

as a proper person to examine into the affairs of the

HM LIFE INSURANCE COMPANY 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 30th day of October, 2006



HOWARD MILLS
Superintendent of Insurance

Howard Mills
Superintendent