STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

USAA LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2003

DATE OF REPORT:	JUNE 4, 2004
EXAMINER:	PHARES CATON

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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. 22135, dated January 15, 2004 and annexed hereto, an examination has been made into the condition and affairs of USAA Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 529 Main Street, Highland Falls, New York 10928.

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, 2003 filed annual statement. (See item 5 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from an affiliate without having a filed service agreement with the Superintendent. (See item 3B of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by using a supplemental application form for foreign travel that was not approved by the Department. (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
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendation and comment 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 COMPANY

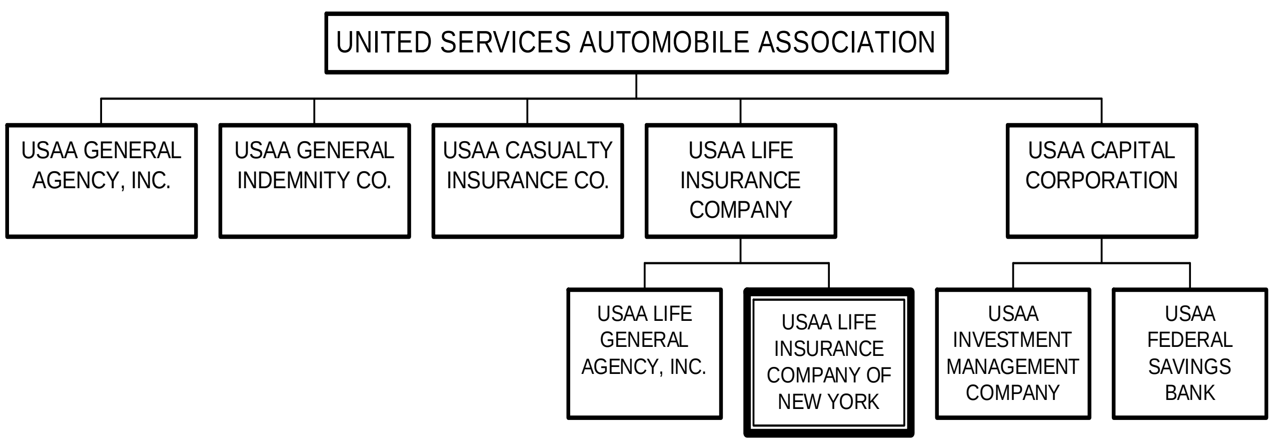
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 1, 1997, and was licensed and commenced business on November 14, 1997. Initial resources of $6,661,425, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $4,661,425, were provided through the sale of 20,000 shares of common stock (with a par value of $100 each) for $333.07 per share.

B. Holding Company

The Company is a wholly owned subsidiary of USAA Life Insurance Company ("USAA Life"), a Texas insurance company. USAA Life is in turn a wholly owned subsidiary of United Services Automobile Association ("USAA"), a Texas reciprocal inter-insurance exchange.

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 three service agreements in effect during the examination period.

Type of Agreement	Effective Date	Provider of Services	Recipient of Services	Specific Services Covered	Income/ (Expense)* For Each Year of the Examination
Administrative Services Agreement	11/14/1997 Amended 5/1/2002	USAA Life	the Company	Policyholder accounting, data processing, tax, auditing, underwriting, policy issue, claims, sales, marketing and promotional services, functional support services	2001 $(2,861,722) 2002 $(3,307,334) 2003 $(3,202,399)
Administrative Services Agreement	5/1/2002	USAA	the Company	Procurement of reinsurance	2002 $0 2003 $0
Financial Management and Investment Advisory Agreement	11/14/1997	USAA Investment Management Company	the Company	Management of investment portfolios	2001 $(100,551) 2002 $(99,288) 2003 $(96,482)

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

The above table indicates that there were no expenses related to the reinsurance administrative services agreement dated May 1, 2002 with USAA, which was filed as a result of the prior examination. If no services are contemplated under this agreement, the examiner recommends that the Company withdraw the agreement.

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 . . . and he has not disapproved it within such period: . . . (3) rendering of services on a regular systematic basis . . .”

Based on information provided by the Company, it has come to the Department’s attention that USAA has provided, throughout the examination period, approximately $4.1 million worth of services to the Company. The Company failed to file a service agreement between the Company and USAA for such services. The services in question were billed under the service agreement with USAA Life; however, there is no provision in that service agreement for subcontracting.

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from an affiliate without having a filed service agreement with the Superintendent.

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 18 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in September of each year. As of December 31, 2003, the board of directors consisted of nine members. Meetings of the board are held in April and September of each year.

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

Name and Residence	Principal Business Affiliation	Year First Elected
John W. Douglas San Antonio, TX	Senior Vice President USAA Life Insurance Company of New York	1997
Russell A. Evenson San Antonio, TX	Senior Vice President and Chief Actuary USAA Life Insurance Company of New York	2001
Joseph R. Holland* Pomona, NY	Commissioner of Social Services Rockland County, New York	1998
David M. Holmes San Antonio, TX	Senior Vice President and Treasurer USAA Life Insurance Company of New York	2003
William J. Larkin, Jr.* New Windsor, NY	Senator New York State	1997

Name and Residence	Principal Business Affiliation	Year First Elected
William P. Maloney* New York, NY	Retired	1997
James M. Middleton San Antonio, TX	President and Chief Executive Officer USAA Life Insurance Company of New York.	2000
William J. Nabholz III San Antonio, TX	Vice President and Secretary USAA Life Insurance Company of New York	2003
Ronald C. Tocci* New Rochelle, NY	Assemblyman New York State	1997

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

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

In April 2004, James M. Middleton resigned from the board and was replaced by Kristi A. Matus.

The following is a listing of the principal officers of the Company as of December 31, 2003:

Name	Title
James M. Middleton	President and Chief Executive Officer
Lynda C. Cabell	Senior Vice President and Assistant Treasurer
James W. Douglas*	Senior Vice President
Russel A. Evenson	Senior Vice President and Chief Actuary
David M. Holmes	Senior Vice President and Treasurer
Mark S. Rapp	Senior Vice President
Amy D. Cannefax	Vice President
Pattie S. McWilliams	Vice President
William J. Nabholz III	Vice President and Secretary
Allen R. Pierce Jr.	Vice President
Diana L. Scheel	Vice President
Cynthia A. Toles	Vice President

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

In April 2004, Kristi A. Matus became president and chief executive officer.

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 only licensed to transact business in New York. In 2003, 91.2% of life premiums, 98.9% of annuity considerations, and 100% of deposit-type funds were received from New York. Policies are written on a participating and non-participating basis.

During the examination period, the Company mainly sold individual life insurance (whole, term and universal) and fixed annuities. The Company's target market is active and retired military personnel, but it also issues policies to the general public.

The Company's sales operations are conducted on a direct response basis.

E. Reinsurance

As of December 31, 2003, the Company had reinsurance treaties in effect with six companies, all of which were authorized or accredited. The Company's whole life, universal life and term life policies are ceded on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life insurance is $200,000. The total face amount of life insurance ceded, as of December 31, 2003, was $2,324,282,430 which represents 59% of the total face amount of life insurance in force.

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
Admitted assets	$180,873,242	$255,969,371	$75,096,129
Liabilities	$156,004,168	$220,608,962	$64,604,794
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	21,482,647	21,482,647	0
Unassigned funds (surplus)	1,386,427	11,877,762	10,491,335
Total capital and surplus	$ 24,869,074	$ 35,360,409	$10,491,335
Total liabilities, capital and surplus	$180,873,242	$255,969,371	$75,096,129

The majority (99.1%) of the Company's bond portfolio, as of December 31, 2003, was comprised of investment grade obligations. The Company's invested assets, as of December 31, 2003, were mainly comprised of bonds (90.9%), and stocks (5.4%).

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	$1,623,513	$1,315,391	$2,922,213
Individual annuities	2,293,603	1,892,250	1,862,210
Supplementary contracts	85,135	(88,721)	(13,157)
Total ordinary	$4,002,251	$3,118,921	$4,771,267
Total	$4,002,251	$3,118,921	$4,771,267

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus 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 which 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 AND SURPLUS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	$223,787,315
Stocks:	
Preferred stocks	4,258,321
Common stocks	9,006,978
Cash and short term investments	6,058,269
Contract loans	2,995,408
Investment income due and accrued	3,277,361
Life insurance premiums and annuity considerations deferred and uncollected on in force business	4,346,925
Reinsurance ceded:	
Amounts recoverable from reinsurers	1,647,432
Net deferred tax asset	591,363
Total admitted assets	$255,969,371

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$206,096,232
Liability for deposit-type contracts	6,461,580
Policy and contract claims:	
Life	941,342
Policyholders' dividend and coupon accumulations	76,075
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:	
Dividends apportioned for payment	1,455,422
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	83,234
Policy and contract liabilities:	
Interest maintenance reserve	99,288
Federal and foreign income taxes	1,272,701
Net deferred tax liability	73,385
Unearned investment income	20,219
Remittances and items not allocated	50,263
Miscellaneous liabilities:	
Asset valuation reserve	2,319,061
Payable to parent, subsidiaries and affiliates	1,626,428
Payable to others	23,418
Accrued interest payable on policy funds	10,314
Total liabilities	$220,608,962
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	21,482,647
Unassigned funds (surplus)	11,877,762
Total capital and surplus	$ 35,360,409
Total liabilities, capital and surplus	$255,969,371

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003
Premiums and considerations	$45,610,880	$29,640,791	$24,622,532
Investment income	12,615,340	13,590,984	14,080,278
Commissions and reserve adjustments on reinsurance ceded	826,633	1,252,964	1,389,484
Miscellaneous income	4	51	0
Total income	$59,052,857	$44,484,790	$40,092,294
Benefit payments	$28,763,808	$12,867,637	$ 9,611,227
Increase in reserves	18,656,457	21,528,899	18,220,675
General expenses and taxes	3,714,814	3,795,385	3,783,191
Increase in loading on deferred and uncollected premium	(229,511)	(234,602)	(138,173)
Miscellaneous deductions	140	0	946
Total deductions	$50,905,708	$37,957,319	$31,477,866
Net gain (loss)	$ 8,147,149	$ 6,527,471	$ 8,614,428
Dividends	1,859,229	1,707,141	1,445,273
Federal and foreign income taxes incurred	2,285,669	1,701,409	2,397,889
Net gain (loss) from operations before net realized capital gains	$ 4,002,251	$ 3,118,922	$ 4,771,266
Net realized capital gains (losses)	(123,244)	(115,571)	271,125
Net income	$ 3,879,006	$ 3,003,351	$ 5,042,391

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003
Capital and surplus, December 31, prior year	$24,869,073	$28,280,717	$29,232,689
Net income	$ 3,879,006	$ 3,003,351	$ 5,042,391
Change in net unrealized capital gains (losses)	(758,210)	(941,930)	948,121
Change in net deferred income tax	0	91,000	22,597
Change in non-admitted assets and related items	1,756	(1,633,573)	1,496,555
Change in asset valuation reserve	289,092	(184,876)	(1,381,943)
Cumulative effect of changes in accounting principles	0	618,000	0
Net change in capital and surplus	$ 3,411,644	$ 951,972	$ 6,127,720
Capital and surplus, December 31, current year	$28,280,717	$29,232,689	$35,360,409

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

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

B. Underwriting and Policy Forms

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

Section 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 requires an applicant to complete a "Foreign Travel Form" when the applicant indicates in the application that he/she engages in foreign travel. If the country that is indicated in this supplemental application form is deemed unsafe by the United States Government, the Company denies the application. This foreign travel form was not approved by the Department.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using a form that was not approved by the Department.

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.

Section 4231(a)(3) of the New York Insurance Law states, in part:

> " . . . every such company shall thereupon apportion the remainder of such earnings, if any, derived from participating policies and contracts, equitably to all policies or contracts entitled to share therein during the full dividend year adopted by the company for such purpose . . . "

The Department views the word "company" in the above context as referring to the Company's board of directors. Thus, Section 4231(a)(3) of the New York Insurance Law, as well as good corporate governance practices, requires the method of apportioning earnings, including the dividend formula itself, to be approved by the Company's board of directors.

For 2001, the Company met that requirement, in that its board approved both the amount of earnings to be distributed, and the dividend formula by which the earnings were to be apportioned to individual policies. In 2002 and 2003, however, the board approved only the total amount to be distributed, and did not approve the dividend formula itself. The matter was discussed with the Company, and the Company has agreed to obtain board approval for dividend computational methodologies henceforward.

Dividends in 2002 and 2003 were computed by applying reduction factors, varying by policy type, to the 2001 dividend scale. The reduction factors were derived from projection studies designed to preserve the profitability of the various policy types. Such a procedure takes into account experience among policy types, but does not take into account variations in experience that may occur by issue age and duration. As such, it produces an equitable distribution of earnings only if used over a short period of time, before age/duration experience variations have a chance to become large in magnitude.

The Company has indicated that it will adopt a fully revised dividend formula, taking into account experience at the age and duration levels, for the 2005 dividend scale.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The Company violated Section 1505(d)(3) by acting under a service agreement that is still under review by the Superintendent and by entering into transactions with USAA for the rendering of services on a systematic basis without notifying the Superintendent, in writing, thirty days prior to entering into such transactions.
	The Company received approval from the Department in 2002 to render these services.
B	The Company violated Section 1411(a) of the New York Insurance Law by failing to have its board of directors, or a committee thereof, authorize or approve the Company's investments.
	The investment committee meets on a monthly basis to review and approve all investments.
C	The Company violated Section 216.4(c) of Department Regulation No. 64 by failing to appoint a new consumer services officer until September 21, 2001, and by not furnishing the Superintendent the officer's name until October 26, 2001.
	Since October 26, 2001, this position has been filled by James W. Douglas.
D	Reinsurance reporting errors resulted in the Company's liabilities being understated by $50,831.
	In 2001, the Company made adjustments to Schedule S to reflect the correct amount of liabilities.
E	The examiner recommended that the Company exercise care when preparing Schedule S and its reinsurance treaties.
	The Company has taken steps to have better communication between the reinsurers and the actuarial department, and has improved its preparation of Schedule S.
F	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer in its advertisements.

During the examination period, the Company did not call attention to unauthorized insurers in its New York advertisements.

G The Company violated Section 219.4(p) of Department Regulation No. 34-A by not including required information in its advertisements.

During the examination period, the Company included the required information in its advertisements.

H The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain a complete advertising file containing a notation indicating the manner and extent of distribution.

The Company now maintains a complete advertising file.

I The Company violated Section 3207(c) of the New York Insurance Law by issuing policies of life insurance upon the lives of minors in amounts exceeding the limits permitted by the aforementioned Section of the New York Insurance Law.

The Company took the following action to prevent such occurrences in the future: 1) the Company's underwriting department circulated a memorandum to all sales and underwriting personnel advising of the critical importance of enforcing the policy limits prescribed by New York Insurance Law; 2) the Company's on-line underwriting procedures were updated to include specific steps and requirements to ensure compliance with New York Insurance Law on this subject; and 3) the Company filed new application forms and received approval from the Department to specifically solicit life insurance in force information on the proposed policy owner when juvenile coverage is requested. The examiner’s review did not note any exceptions.

8. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The examiner recommends that the Company withdraw the service agreement with USAA.	5
B	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from an affiliate without having a filed service agreement with the Superintendent.	6
C	The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not approved by the Department.	15
D	In the future, the Company will obtain board approval whenever it changes its dividend computational methodology.	16
E	The Company will revise its dividend formula to take into account experience at the age and duration levels for the 2005 dividend scale.	16

Respectfully submitted,

_______/s/__________________
Phares Caton
Associate Insurance Examiner

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

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

_______/s/__________________
Phares Caton

Subscribed and sworn to before me

this__________ day of ____________________2004.

APPOINTMENT NO. 22135

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:

PHARES CATON

as a proper person to examine into the affairs of the

USAA 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 15th day of January, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent