STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2006

DATE OF REPORT: APRIL 21, 2009

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT:	APRIL 21, 2009
EXAMINER:	JOSHUA WEISS

TABLE OF CONTENTS

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

David A. Paterson
Governor

Eric R. Dinallo
Superintendent

May 21, 2009

Honorable Eric Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22628, dated April 3**,** 2007 and annexed hereto, an examination has been made into the condition and affairs of Columbian Mutual Life Insurance Company hereinafter referred to as "the Company" or "CMLIC", at its home office located at 4704 Vestal Parkway East, Binghamton, New York 13902.

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 1, 2007 the Company merged with Farmers and Traders Life Insurance Company, another New York domestic life insurer, with the Company emerging as the survivor. (See item 3 of this report)

The Department is not issuing the certificate of reserve valuation for December 31, 2006 reserves at this time, pending results of a targeted review of an issue regarding Company expenses. (See item 5D of this report)

The Company violated Section 51.6 (e) of Department Regulation No. 60 by failing to establish and implement procedures to ensure that all replacement material is dated upon receipt and by failing to file revised replacements procedures with the Superintendent of Insurance within thirty days of such changes. (See item 6 of this report)

The Company violated Section 51.6 (b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement. (See item 6 of this report)

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. This is a repeat recommendation from the prior report on examination. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2001. This examination covers the period from January 1, 2002 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 recommendations 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 charitable and benevolent association under the laws of New York on November 1, 1882 under the name American Protective Association. The Company was licensed on January 25, 1883 and commenced business on February 1, 1883.

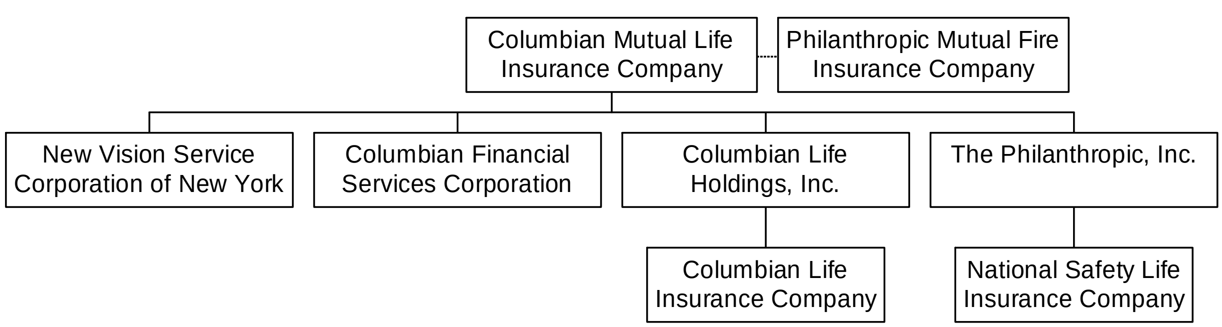
In 1907, the name was changed to Columbian Protective Association and the home office was moved to Binghamton, New York. At the same time, the Company commenced operations as a cooperative life and accident and health insurance company.

On March 11, 1952, the Company converted to a mutual life insurance company and adopted its present name. On December 30, 1996, Golden Eagle Mutual Life Insurance Corporation merged with and into the Company. On February 28, 2006 Philanthropic Mutual Life Insurance Company ("PMLIC"), a Pennsylvania based company, merged with and into the Company.

On October 1, 2007 Farmers and Traders Life Insurance Company, a New York domestic life insurance company, merged into the Company. As of November 30, Columbian Family Life Insurance Company ("CFLIC"), a subsidiary, merged with and into the Company.

B. Subsidiaries

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 three 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
Administrative and Management Services Agreement	March 1, 2006	Columbian Mutual Life Insurance Company	National Safety Life Insurance Company	Centralized underwriting, actuarial, legal, accounting, and investment services	$956,028 - 2006
Administrative and Management Services Agreement	October 27, 1993	Columbian Mutual Life Insurance Company	Columbian Life Insurance Company	Centralized underwriting, actuarial, legal, accounting, and investment services	$11,970,306 - 2006 $11,178,964 - 2005 $11,043,434 - 2004 $ 5,345,028 - 2003 $ 6,186,559 - 2002
Administrative and Management Services Agreement	March 1, 2006	Columbian Mutual Life Insurance Company	Philanthropic Mutual Fire Insurance Company	Centralized underwriting, actuarial, legal, accounting, and investment services	$ 433,688 - 2006

* Amount of income or (Expense) incurred by the Company.

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

The Company owns Columbian Life Holdings, Inc ("CLH") which in turn wholly owns Columbian Life Insurance Company ("CLIC"), an Illinois domiciled life insurer that is also an accredited reinsurer in New York. The Company and its affiliates collectively refer to themselves and operate as the Columbian Financial Group ("CFG"). Other members of CFG include Columbian Financial Service Corporation, a general agency, and New Vision Service Corporation of New York (formerly Golden Eagle Sales Corp), an administrative service company.

Effective February 28, 2006, The Philanthropic Mutual Life Insurance Company ("Philanthropic Mutual") merged with and into Columbian Mutual. As a result of the merger with Philanthropic Mutual, National Safety Life Insurance Company ("NSLIC") became an indirect subsidiary of the Company. Philanthropic Mutual shared common Board and Management with Philanthropic Mutual Fire Insurance Company ("Philanthropic Mutual Fire"), a property and casualty mutual company. Effective February 28, 2006, Philanthropic Mutual Fire shares common board and management with CMLIC.

Although licensed in all states, CMLIC primarily markets participating products within New York State. CLIC markets non-participating products in other jurisdictions.

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 thirteen directors. Directors are elected for a period of three years at the annual meeting of the board held in May of each year. As of December 31, 2006, the board of directors consisted of 11 members. Meetings of the board are held quarterly.

The 11 board members and their principal business affiliation, as of December 31, 2006, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
William W. Atkin* Fort Myers, FL	Financial Consultant	2004
Carey S. Barney* Los Angeles, CA	Attorney and Partner Lord, Bissell & Brook	1995
Richard E. Bauer Berwyn, PA	Senior Vice President Columbian Mutual Life Insurance Company	2006
Joseph Fafian, Jr.* Staten Island, NY	President Fafian and Associates, Inc.	1991
Alan W. Feagin* Tallahassee, FL	Retired	2006
Peter M. Husting* Winnetka, IL	President Husting Enterprises	1992
George J. Matkov, Jr.* Chicago, IL	Attorney Ford & Harrison	1993
Edward J. Muhl* Ponte Vedra Beach, FL	Independent Consultant	1997
Thomas E. Rattmann Vestal, NY	Chairman, President and Chief Executive Officer Columbian Mutual Life Insurance Company	1996
Robert W. Singer* Dallas, TX	Consultant	1999
James C. Tappan* Hobe Sound, FL	President Tappan Capital Partners	1987

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

In May, 2007, Peter M. Husting, Robert W. Singer and James C. Tappan retired from the board. These three directors were replaced by Isabelle C. Goossen and Mitchell F. Vernick, outside directors, effectively decreasing the board to ten members.

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:

Name	Title
Thomas E. Rattmann	President and Chief Executive Officer
Daniel J. Fischer	Senior Vice President and General Counsel
August S. Dittemore	Senior Vice President, Sales and Marketing
Bruce J. Crozier	Senior Vice President and Chief Actuary
Richard E. Bauer	Senior Vice President
Gregory J. Nilles	Vice President, Treasurer and Comptroller
Michael S. Fosbury*	Vice President, Investments and Customer Service
Diane M. Novak	Corporate Secretary

* 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 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. In 2006, 82% of life premiums were received from three states: New York (67%), Florida (10%), and New Jersey (5%). Policies are written on a participating and non-participating basis.

The Company's primary business is ordinary life insurance which it sells on a monthly debit basis. These policies have low face amounts and are sold through general agents. The Company also markets a home service life insurance product which is marketed and serviced through independent agents. The agents call on customers in their home to sell life insurance, provide service related to policies in force and collect premiums. The Company also sells final expense products which are sold through independent marketing organizations.

CMLIC's core business is managed through three divisions: pre-need insurance (not marketed in New York), home service, and final expense. Pre-need insurance is marketed through funeral homes and independent marketing organizations. Pre-need remains the Group's largest sales division, as measured by new annualized premiums.

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

E. Reinsurance

As of December 31, 2006, the Company had reinsurance treaties in effect with 19 companies, of which 13 were authorized or accredited. The Company's life and accident and health business is reinsured 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 $250,000. The total face amount of life insurance ceded as of December 31, 2006, was $843,865,000, which represents 30% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $6,705,101, was supported by letters of credit, trust agreements and/or funds withheld

Sections 125.5 (b)(1) and (b)(4)of Department Regulation No. 20 states, in part:

> "(b)(1) . . .credit taken by a ceding insurer for reinsurance ceded to an unauthorized insurer shall not exceed the aggregate of the net amount of reserves . . . which had been set up and reported to the ceding insurer as being held by the assuming unauthorized insurer . . .
> (b)(4)The report . . . shall be obtained by the ceding insurer from: the assuming insurer . . . with respect to the net reserves held by each of them. Each such report shall be in writing, signed by an officer of the assuming insurer and obtained by the ceding insurer prior to the filing date of the ceding insurer's annual and quarterly statement."

At December 31, 2006 the Company reported reserve credits ceded to eight unauthorized reinsurers of $3.8 million in excess of the amounts reported by the assuming companies. In addition, the Company did not obtain the required signed reports from the assuming insurers.

The Company violated Section 125.5 (b)(1) of Department Regulation No. 125 when it reported reserve credits of $3.8 million in excess of amounts held by the eight unauthorized assuming insurers.

The Company violated Section 125.5 (b)(4) of Department Regulation No. 125 when it failed to obtain the required quarterly reports certified by the unauthorized assuming insurers.

The total face amount of life insurance assumed as of December 31, 2006, was $316,128,566. During 2006 the Company entered into a reinsurance agreement with its subsidiary, CLIC, assuming 80% of all new business, effective January 1, 2006

.

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, *2001	December 31, 2006	Increase
Admitted assets	$349,125,138	$385,179,937	$36,054,799
Liabilities	$313,392,241	$341,960,657	$28,568,416
Aggregate write-ins for special surplus funds	$ 400,000	$ 400,000	$0
Unassigned funds (surplus)	35,332,897	42,819,280	7,486,383
Total surplus	$ 35,732,897	$ 43,219,280	$ 7,486,383
Total liabilities and surplus	$349,125,138	$385,179,937	$36,054,799

*The figures noted above are presented as if the mergers of, CFLIC and PMLIC with and into CMLIC had occurred as of December 31, 2001.

The Company's invested assets as of December 31, 2006 were mainly comprised of bonds (65.7%), mortgage loans (20.6%), contract loans (7.9%), and stocks (5.0%).

The majority (99.5%) of the Company's bond portfolio, as of December 31, 2006, was comprised of investment grade obligations. All mortgage loans were commercial mortgages in good standing.

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:

	*2002	*2003	*2004	*2005	*2006
Industrial Life	$ (57,921)	$ (208,393)	$ (299,420)	$ 758,421	$ 484,631
Ordinary:					
Life insurance	$1,134,493	$(3,154,014)	$1,053,277	$4,944,872	$(189,237)
Individual annuities	117,745	56,679	131,276	33,630	(75,043)
Supplementary contracts	43,676	47,773	106,650	35,696	28,058
Total ordinary	$1,295,914	$(3,049,562)	$1,291,203	$5,014,198	$(236,222)
Group Life	$ (411,704)	$ (324,046)	$ (112,992)	$ (208,334)	$ 3,278
Accident and health:					
Group	$ 189,938	$ 360,432	$ 119,648	$ 275,311	$ 242,033
Other	12,206	141,385	187,734	300,562	133,974
Total accident and health	$ 202,144	$ 501,817	$ 307,381	$ 575,873	$ 376,007
Total	$1,028,433	$(3,080,184)	$1,186,168	$6,140,157	$ 627,694

*The figures for the years 2002 to 2006 are presented in this report as if the mergers of CFLIC and PMLIC with and into CMLIC had occurred as of December 31, 2001.

The loss in the ordinary life line of business in 2003 was due mainly to the establishment of a race based underwriting liability of $1.5 million, increased pension cost of $1.4 million and a decline in investment portfolio return.

The loss in the ordinary life line of 2006 was due mainly to the surplus strain associated with the assumption of 80% of the CLIC new business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities 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 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, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2006

Admitted Assets

Bonds	$235,133,938
Stocks:	
Common stocks	17,856,718
Mortgage loans on real estate:	
First liens	73,615,237
Real estate:	
Properties occupied by the company	4,099,724
Cash, cash equivalents and short term investments	(1,253,266)
Contract loans	28,447,268
Investment income due and accrued	3,536,922
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,742,100
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,146,141
Reinsurance:	
Amounts recoverable from reinsurers	1,804,180
Funds held by or deposited with reinsured companies	427,604
Other amounts receivable under reinsurance contracts	1,818,841
Net deferred tax asset	6,202,661
Electronic data processing equipment and software	107,152
Receivables from parent, subsidiaries and affiliates	5,295,040
Miscellaneous assets	199,678
Total admitted assets	$385,179,937

Liabilities and Surplus

Aggregate reserve for life policies and contracts	$300,463,499
Aggregate reserve for accident and health contracts	1,031,034
Liability for deposit-type contracts	8,256,906
Contract claims:	
Life	3,696,819
Accident and health	151,794
Policyholders' dividends and coupons due and unpaid	9,967
Dividends apportioned for payment	4,492,104
Premiums and annuity considerations for life and accident and health contracts received in advance	185,599
Contract liabilities not included elsewhere:	
Interest maintenance reserve	980,807
Commissions to agents due or accrued	253,161
Commissions and expense allowances payable on reinsurance assumed	1,246,116
General expenses due or accrued	633,538
Taxes, licenses and fees due or accrued, excluding federal income taxes	512,411
Current federal and foreign income taxes	1,248,486
Unearned investment income	418,127
Amounts withheld or retained by company as agent or trustee	10,991,253
Amounts held for agents' account	12,486
Remittances and items not allocated	70,682
Miscellaneous liabilities:	
Asset valuation reserve	2,336,000
Reinsurance in unauthorized companies	16,065
Funds held under reinsurance treaties with unauthorized reinsurers	1,193,896
Payable for securities	2,075,897
Modco reserve adjustment	425,603
Unclaimed funds	353,132
Sales conference liability	257,169
Litigation liability	173,878
Unpaid interest on policy or contract funds	116,385
Payable for subsidiary purchase agreement	100,000
Minimum pension liability	257,837
Total liabilities	$341,960,657
Guaranty Fund – Colorado	$400,000
Unassigned funds (surplus)	42,819,280
Total surplus and other funds	$ 43,219,280
Total liabilities, surplus and other funds	$385,179,937

B. CONDENSED SUMMARY OF OPERATIONS

	*2002	*2003	*2004	*2005	*2006
Premiums and considerations	$40,898,526	$36,736,849	$35,043,907	$33,581,033	$ 76,527,047
Investment income	23,536,420	21,552,407	19,049,963	19,436,791	18,122,183
Commissions and reserve adjustment on reinsurance ceded	5,643,317	4,735,135	4,202,798	3,153,590	3,115,698
Miscellaneous income	1,505,509	1,382,582	2,274,571	2,035,262	2,452,594
Total income	$71,583,772	$64,406,973	$60,571,239	$58,206,676	$100,217,522
Benefit payments	$34,236,842	$29,989,492	$27,657,102	$29,145,660	$ 29,436,874
Increase in reserves	(4,772,523)	(2,901,883)	(2,413,191)	(5,379,704)	21,451,914
Commissions	7,143,949	6,991,700	6,315,100	6,437,498	24,399,292
General expenses and taxes	24,786,908	25,552,194	23,317,601	18,192,665	16,271,666
Increase in loading on deferred and uncollected premiums	97,725	(226,936)	(367,797)	(127,125)	3,539,772
Miscellaneous deductions	0	1,500,000	(801,657)	(362,112)	(162,353)
Total deductions	$61,492,901	$60,904,567	$53,707,158	$ 47,906,882	$ 94,937,165
Net gain (loss)	10,090,871	3,502,406	6,864,081	10,299,794	5,280,357
Dividends	8,414,402	7,031,786	4,763,019	3,316,707	3,158,243
Federal and foreign income taxes incurred	(52,273)	(1,267,167)	623,661	842,931	1,494,420
Net gain (loss) from operations before capital gains	$ 1,728,742	$(2,262,213)	$ 1,477,401	$ 6,140,156	$ 627,694
Net realized capital gains (losses)	(1,873,737)	(28,828)	249,092	(118,292)	148,490
Net income	$ (144,995)	$(2,291,041)	$ 1,726,493	$ 6,021,864	$ 776,184

*The figures for the years 2002 to 2006 are presented in this report as if the mergers of, CFLIC and PMLIC with and into CMLIC had occurred as of December 31, 2001.

The large increase in premium and total income in 2006 was primarily due to a reinsurance entered into with CLIC, whereby the Company agreed to assume 80% of all new business written by CLIC.

C. SURPLUS ACCOUNT

	*2002	*2003	*2004	*2005	*2006
Surplus, December 31, prior year	$41,679,593	$44,198,114	$42,948,443	$45,287,918	$42,237,058
Net income	$ (144,995)	$(2,291,041)	$ 1,726,493	$ 6,021,864	$ 776,184
Change in net unrealized capital gains (losses)	1,521,540	(38,192)	(3,192,660)	(9,214,933)	(1,994,806)
Change in net deferred income tax	7,400,494	1,282,499	152,519	(718,686)	862,080
Change in non-admitted assets and related items	(7,359,910)	1,660,551	6,255,674	1,100,347	460,168
Change in liability for reinsurance in authorized companies	(10,778)	(184,120)	198,057	2,577	30,780
Change in asset valuation reserve	1,151,992	(375,840)	(558,476)	324,185	579,364
Cummulative effect of changes in accounting principles	2,957,739	0	0	0	0
Surplus adjustments:					
Change in surplus as a result of reinsurance	1,056,000	(528,000)	(528,000)	(528,000)	(528,000)
Minimum pension liability	(2,272,855)	345,155	459,894	71,923	1,154,801
Vanguard deferred compensation	408,146	(429,526)	(189,383)	(110,200)	(358,349)
Dividends to stockholders	(840,000)	(860,000)	0	0	0
Pension surplus funds	(1,348,852)	$ 168,852	$(1,984,643)	$ 63	$ 0
Net change in surplus for the year	$ 2,518,521	$(1,249,662)	$ 2,339,475	$(3,050,860)	$ 982,222
Surplus, December 31, current year	$44,198,114	$42,948,452	$45,287,918	$42,237,058	$43,219,280

* The figures for the years 2002 to 2006 are presented in this report as if mergers of, CFLIC and PMLIC with and into CMLIC had occurred as of December 31, 2001.

D. RESERVES

The Department is not issuing the certificate of reserve valuation for December 31, 2006 reserves at this time, pending results of a targeted review of an issue regarding Company expenses.

As noted in the prior report on examination, the Department continues to have concerns about the overall expense levels, and intends a targeted review of the Company's expenses in 2009, including a preliminary review of the implementation of the Company's strategic initiatives to lower expenses going forward.

The Company has a strategic goal of reducing issue and administration costs by 25% over the next four years. Initiatives include:

1. Incorporating economies of scale from recent mergers to lower expenses relative to its sales volume and inforce business.

2. Completing a 5-year administrative system conversion project that will lower expenses in the long run.

With the mergers that have occurred subsequent to the examination date, it was difficult to validate the improvement in expense levels since 2006. The targeted review will focus on the Company's progress with expense level improvements subsequent to December 31, 2006, including effects from the recently completed mergers. It is the intent of the Department to complete its review and issue a 2006 certificate of reserve valuation in 2009.

The Company may be directed to increase the expense assumptions used in cash flow testing supporting prospective actuarial memoranda submitted by the Company if the Company can not substantiate that expense assumptions are appropriate relative to sales and inforce business. The effect of such revised expense assumptions on the cash flow testing may or may not require the Company to establish additional reserves prospectively after March 31, 2009.

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.

1. Advertising

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"

A review of the Company's advertisements disseminated in New York revealed that the Company did not maintain records indicating the manner and extent of distribution of all advertisements disseminated in this state.

The Company violated Section 219.5(a) of Department Regulation No. 34-A when it did not maintain records indicating the manner and extent of distribution of all advertisements disseminated in this state.

2. Replacements

Section 51.6 (e) of Department Regulation No. 60 states, in part:

> "Both the insurer whose life insurance policy or annuity contract is being replaced and the insurer replacing the life insurance policy … shall establish and implement procedures to ensure compliance with the requirements of this Part. These procedures shall include a requirement that all material be dated upon receipt…All insurers covered under this Part shall furnish the Superintendent of Insurance with these procedures … by the effective date of this Part. Any changes in these procedures or the designated principal officer shall be furnished to the Superintendent of Insurance within thirty days of such change."

Section 51.6 (b)(6) of Department Regulation No. 60 states:

> "(b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall:
>
> "(6) Where the required forms are received with the application and found to be in compliance with this Part, maintain copies of: any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; proof of receipt by the applicant of the *"IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts;" the signed and completed "Disclosure Statement;" and the notification of replacement to the insurer whose life insurance policy or annuity contract is to be replaced indexed by agent and broker, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later;"

Section 51.8 of Department Regulation No. 60 states, in part:

> "The forms set forth in Appendixes 10A, 10B, 10C and 11 of this Title are hereby approved for use as specified in this Part… Substantially equivalent forms may be adopted with the prior approval of the Superintendent of Insurance."

The Company wrote 54 replacement policies during the examination period. The examiner selected a sample of 20 replacements. The examiner noted that, in eight of the twenty policies sampled, the Company did not date stamp the disclosure statements received from the agents.

The Company violated section 51.6(e) of Department Regulation No. 60 by failing to establish and implement procedures to ensure that all replacement material is dated upon receipt.

It was also noted that the Company revised its replacement procedures during the examination period and did not file such procedures with the Superintendent pursuant to Section 51.6(e) of Department Regulation No. 60.

The Company violated Section 51.6(e) of Department Regulation No. 60 by failing to file revised replacements procedures with the Superintendent of Insurance within thirty days of making a revision to its procedures.

Of the 20 replacements selected in the examiner's sample, 18 were external replacements. The examiner noted that none of the 18 external replacements files reviewed contained a notification of replacement from the agent or broker to the insurer being replaced requesting the information necessary to complete the Disclosure Statement. The Company did not maintain documentation that the replaced insurer was notified.

The Company violated Section 51.6 (b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement.

The examiner noted that the disclosure statement used in all 20 cases sampled, was different from the appendix 10A form in Department Regulation No. 60 and its approved Disclosure Statement. The Company used Disclosure form No. 1460NY which included at least two modifications from its approved Disclosure Statement

The Company violated Section 51.8 of Department Regulation No. 60 by using a modified disclosure statement different from its approved specimen and the forms set forth in appendix 10A of Department Regulation No. 60.

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

Neither the Company, nor any member of the holding company system, has an internal audit staff. Internal audit is an integral part of 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. This recommendation is repeated from the prior Report on Examination.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations 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 was found to have a high level of expense relative to its sales volume and in-force business. The Company will be implementing a new allocation methodology with the December 31, 2004 annual statement. In addition, the examiner recommends that the Company take measures to reduce its overall expenses. The Company implemented a new allocation methodology in 2005 which did not result in a measurable improvement in expense levels. The Department plans to monitor and review the Company's implementation of initiatives to lower expenses going forward.
B	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. The Company did not 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.
C	The examiner recommends that the Company develop disaster recovery and business continuity plans. The Company developed disaster recovery and business continuity plans.

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendation contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 125.5 (b)(1) and (b)(4) of Department Regulation No. 125 when it took a reserve credit of $3.8 million in excess of amounts held by eight unauthorized assuming insurers and when it failed to obtain the required quarterly reports certified by the unauthorized assuming insurers.	9
B	Comment that the Department is not issuing the certificate of reserve valuation for December 31, 2006 reserves at this time, pending results of a targeted review of an issue regarding Company expenses.	16
C	The Company violated Section 219.5(a) of Department Regulation No. 34-A when it did not maintain records indicating the manner and extent of distribution of all advertisements disseminated in this state.	17
D	The Company violated Section 51.6 (e) of Department Regulation No. 60 by failing to establish and implement procedures to ensure that all replacement material is dated upon receipt and by failing to file revised replacements procedures with the Superintendent of Insurance within thirty days of such changes	18
E	The Company violated Section 51.6 (b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement.	19
F	The Company violated Section 51.8 of Department Regulation No. 60 by using a modified disclosure statement different than its approved specimen or the forms set forth in appendix 10A of the Department Regulation No. 60.	19
G	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.	20

Respectfully submitted,

_____________/s/_____
Joshua Weiss
Associate Insurance Examiner

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

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

_____________/s/____________
Joshua Weiss

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. *22628*

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, ERIC R. DINALLO, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

JOSHUA WEISS

as a proper person to examine into the affairs of the

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 3rd day of April, 2007

ERIC R. DINALLO
Acting Superintendent of Insurance

Acting Superintendent