



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON MARKET CONDUCT EXAMINATION  
OF THE  
FARM FAMILY LIFE INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2012

DATE OF REPORT:

MAY 19, 2014

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

ANTHONY CHIAREL

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Shirin Emami  
Acting Superintendent

December 14, 2015

Honorable Shirin Emami  
Acting Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31390, dated November 17, 2015 and annexed hereto, an examination has been made into the condition and affairs of Farm Family Life Insurance Company, hereinafter referred to as “the Company,” at its home office located at 344 Route 9W, Glenmont, New York 12077.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

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

## 1. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2008 through December 31, 2012. As necessary, the examiner reviewed matters occurring subsequent to December 31, 2012 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of market conduct activities and utilized the National Association of Insurance Commissioners' Market Regulation Handbook or such other examination procedures, as deemed appropriate, in such review.

The examiner reviewed the corrective actions taken by the Company with respect to the market conduct violations and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 4 of this report.

This report on examination is confined to comments on matters which involve departure from laws, regulations or rules, or which require explanation or description.

## 2. DESCRIPTION OF COMPANY

### A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 20, 1953, and was licensed and commenced business on January 20, 1954. Initial resources of \$600,000, consisting of common capital stock of \$300,000 and paid in and contributed surplus of \$300,000, were provided through the sale of 3,000 shares of common stock (with a par value of \$100 each) for \$200 per share.

The Company was formerly sponsored and entirely owned by ten farm bureaus. On July 26, 1996, pursuant to a Plan of Reorganization and Conversion, Farm Family Mutual Insurance Company, an affiliated property and casualty insurer, converted from a mutual company to a stock company and changed its name to Farm Family Casualty Insurance Company (“FFCIC”). The Company, FFCIC and United Farm Family Insurance Company (“UFFIC”), all domiciled in New York, had common management before the reorganization. Simultaneous with the reorganization and conversion of FFCIC, Farm Family Holdings, Inc. (“FFH”), a holding company organized under the laws of the State of Delaware, was formed to acquire all of the capital stock of FFCIC. In addition, an option purchase agreement was entered into by FFH and the shareholders of the Company, pursuant to which FFH had an option to acquire the Company through an exchange of stock. FFH acquired the Company in 1999.

On April 10, 2001, American National Insurance Company (“ANICO”), a Texas domiciled insurance company, acquired FFH.

Prior to December 2004, the Company owned 100% of the outstanding shares of stock of UFFIC. On December 1, 2004, the Company transferred all of its outstanding shares of UFFIC to FFH in exchange for \$3,435,239.

On August 23, 2007, American National Property and Casualty Holding Company, LLC merged into FFH and FFH changed its name to American National Property & Casualty Holdings, Inc. (“ANPAC Holdings”).

B. 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 13 states. Policies are written on a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2012:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	39.4%	New York	37.8%
New Jersey	17.4%	West Virginia	19.8%
West Virginia	8.6%	Massachusetts	12.6%
Massachusetts	5.6%	New Jersey	6.3%
Maine	<u>5.3%</u>	Vermont	<u>5.7%</u>
Subtotal	76.3%	Subtotal	82.1%
All others	<u>23.7%</u>	All others	<u>17.9%</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

### 3. MARKET CONDUCT ACTIVITIES

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

#### A. Advertising and Sales Activities

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

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

#### B. Underwriting and Policy Forms

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

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

#### C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Section 420.18 of Department Regulation 169 states, in part:

“ . . . (b) An authorization shall specify a length of time, for which the authorization shall remain valid, which in no event shall be for more than 24 months. . . .”

The examiner reviewed a sample of 10 disability claim files. Eight of the 10 files reviewed (80%) did not contain the required notification specifying the length of time for which the authorization shall remain valid, which in no event shall be for more than 24 months.

The Company violated Section 420.18 of Department Regulation No. 169 by failing to specify a length of time for which the authorization shall remain valid, which in no event shall be for more than 24 months.

#### 4. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to examine and ascertain that the Disclosure Statement used in the sale of the proposed Company policy or annuity contract was accurate and met the requirements of the Insurance Law and Department Regulation No. 60.</p> <p>The Company implemented procedures to review Disclosure Statements and other relevant documents upon receipt for completeness and accuracy. The examiner did not note any repeat violations in the sample reviewed.</p>
B	<p>The Company violated Section 243.2(b)(1)(iv) of Department Regulation No. 152 by failing to maintain a copy of the information used to complete the Disclosure Statement.</p> <p>The Company instituted requirements that a copy of the “Request for Policy Information” the agent sent to the replaced company and a copy of the existing policy values and documents that the agent received from the replaced company be submitted with the original application. The examiner did not note any repeat violations in the selected sample reviewed.</p>
C	<p>The Company violated Section 51.6(b)(2) of Department Regulation No. 60 by failing to require its agents to submit a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract.</p> <p>The Company instituted requirements that a copy of all sales material used at point of sale be submitted with the original application. The examiner did not note any repeat violation in the sample reviewed.</p>
D	<p>The Company violated Section 51.6(b)(9) of Department Regulation No. 60 by failing to provide a revised Disclosure Statement in situations where the life insurance policy or annuity contract issued differed from the life insurance policy or annuity contract applied for.</p> <p>The Company implemented procedures to have the Suitability and Replacement Administrator assume responsibility for providing agents with revised Disclosure Statements whenever the policy issued differed from the policy applied for. The agent will then be responsible for obtaining the applicant’s signature on the revised Disclosure Statement. The examiner did not note any repeat violations in the sample reviewed.</p>

<u>Item</u>	<u>Description</u>
E	<p>The Company violated Section 51.6(b)(7) of Department Regulation No. 60 by failing to reject the application when the required forms were not received or the forms did not meet the requirements of Department Regulation No. 60.</p> <p>The Company implemented procedures to confirm that all required forms are received and Disclosure Statements and other relevant documents are reviewed upon receipt for completeness and accuracy. The examiner did not note any repeat violations in the sample reviewed.</p>
F	<p>The Company violated Section 243.2(b) of Department Regulation No. 152 by failing to maintain the agent authorization form as part of the policy record.</p> <p>As part of the Regulation 60 procedures adopted in 2009, the Company retains a copy of the agent authorization form in the policy record. The examiner did not note a repeat of this violation in the sample reviewed.</p>
G	<p>The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to furnish the insurer whose coverage was being replaced with a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement within ten days of receipt of the application.</p> <p>The Company instituted requirements that a copy of all sales material used at point of sale be submitted with the original application and have the Suitability and Replacement Administrator assume responsibility for sending the Company's 10 day notification to the replaced company. The examiner's review of a selected sample of Department Regulation No. 60 files did not note any repeat violation.</p>
H	<p>The Company violated Section 51.6(e) of Department Regulation No. 60 by failing to date all material upon receipt, including the required Definition of Replacement, Disclosure Statement, Important Notice and illustrations used at the point of sale for the proposed policy.</p> <p>The Company implemented procedures to date stamp all replacement documents upon receipt at their home office.</p>

<u>Item</u>	<u>Description</u>
I	<p>The examiner recommended that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee.</p> <p>A 2009 Internal Audit Plan was approved by the Company's Governance Committee (the Company's designated audit committee) at its meeting on March 2, 2009. The Plan included quarterly reviews of the Company's compliance with Department Regulation No. 60. For calendar years 2010 through 2012, the Internal Audit Plans included an annual review of the Company's compliance with Department Regulation No. 60. The results of these reviews were made available to the Governance Committee.</p>
J	<p>The Company violated Section 2112(d) of the New York Insurance Law by failing to file notice of the termination of all certificates of appointment, within thirty days of such termination, with the Superintendent.</p> <p>The Company had the Marketing Department assume responsibility for notifying the Superintendent of the termination of an agent's appointment. The examiner did not note a repeat of this violation during the review of the termination of agents' appointments.</p>
K	<p>The Company violated Section 3209(b)(1)(B) of the New York Insurance Law by failing to provide a policy summary to certain level term policyholders upon delivery of their policy.</p> <p>Policy summary documents are now generated automatically for delivery with all NY Level Term policies issued on and after October 27, 2008. In addition, the Company mailed a letter and policy summary to all of the NY Level Term policyholders who did not receive a policy summary with their policy.</p>
L	<p>The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on matured endowments during the examination period.</p> <p>The Company enhanced a report regarding the payment of interest on death claims to include maturities. This was completed as of May 1, 2009. The samples reviewed indicated that the Company is now paying interest on matured endowments. The Company also paid interest on the matured endowments included in the prior report that had not previously received the interest required by Section 3214(c) of the New York Insurance Law.</p>

<u>Item</u>	<u>Description</u>
M	<p>The Company violated Section 403(d) of the New York Insurance Law and Section 86.4(a) of Department Regulation No. 95 by using claim forms that failed to contain required fraud warning statements.</p> <p>The Company revised its claim forms to contain the required fraud warning statements in compliance with Section 403(d) of the New York Insurance Law and Section 86.4(a) of the Department Regulation No. 95.</p>
N	<p>The Company violated Section 86.4(d) of Department Regulation No. 95 by failing to place the fraud warning statement immediately above the space provided for the signature of the person executing the claim form.</p> <p>The Company revised its claim forms to comply with Section 86.4(d) of Department Regulation No. 95 by placing the required fraud warning statement immediately above the space provided for the signature of the person executing the claim form.</p>
O	<p>The Company violated Section 4221(a)(7) of the New York Insurance Law by failing to provide a statement containing the loan value under the policy at least annually to universal life policyholders.</p> <p>The Company revised its Universal Life Annual Statements to include the policy loan value.</p>

5. SUMMARY AND CONCLUSIONS

Following is the violation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 420.18 of Department Regulation No. 169 by failing to specify a length of time for which the authorization shall remain valid, which in no event shall be for more than 24 months.	5

Respectfully submitted,

\_\_\_\_\_/s/  
Anthony Chiarel  
Associate Insurance Examiner

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

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

\_\_\_\_\_/s/  
Anthony Chiarel

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, ANTHONY J. ALBANESE, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**ANTHONY CHIAREL**

as a proper person to examine the affairs of the

**FARM FAMILY LIFE INSURANCE COMPANY**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 17th day of November, 2015

ANTHONY J. ALBANESE

Acting Superintendent of Financial Services

By:

*Mark McLeod*

MARK MCLEOD

ASSISTANT CHIEF - LIFE BUREAU

