



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

CONDITION:

DECEMBER 31, 2003

DATE OF REPORT:

JANUARY 10, 2006

STATE OF NEW YORK INSURANCE DEPARTMENT

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OF THE

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EXAMINER:

EDEN M. SUNDERMAN

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

George E. Pataki
Governor

Howard Mills
Superintendent

January 10, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22231, dated May 19, 2004 and annexed hereto, an examination has been made into the condition and affairs of Utica National Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 180 Genesee Street, New Hartford, New York 13413.

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 several sections of Department Regulation No. 60 regarding the replacement of insurance. The Department and the Company have agreed on remediation plans for the policyholders that have been adversely affected. (See item 6A of this report)

The Company violated Section 53-3.6(b) of Department Regulation No. 74 by disseminating annual reports to universal life policyholders that did not include an in-force illustration or contain certain language. (See Section 6C of this report)

The examiner recommends that the Company develop and implement a plan to improve the Company's system of internal controls in the areas of financial reporting and recordkeeping, information systems, corporate governance and market conduct (regulatory compliance). The examiner also recommends that senior management and the independent committee of the board increase their level of involvement and oversight over the Company's life insurance and annuity operations to ensure that appropriate resources are allocated to develop and implement an effective, efficient and reliable system of internal controls. (See Section 7 of this report)

The examiner has made several recommendations regarding the Company's investment policy, the controls over the external investment manager, and compliance with New York Insurance Law and Department Regulations. (See Section 8 of this report)

The Company violated Section 1202(b)(2) of the New York Insurance Law and Section 4230(c) of the New York Insurance Law by failing to have its committee consisting of independent directors evaluate the performance of principal officers and recommend the compensation of such individuals to the board of directors for approval. (See item 3C of this report)

The examiner recommends that the Company develop a formal, written business continuity plan. The business continuity plan should be approved and periodically reviewed by management to ensure that it meets the needs of the business. Documentation of the business continuity test plan and results and documentation of management approval of the plan should be maintained and be readily accessible for examination purposes. (See Section 9 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
- Fidelity bond insurance
- 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 violation contained in the prior report on examination. The results of the examiner's review are contained in item 11 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 July 7, 1961 and was licensed and commenced business on March 26, 1962 as General Reinsurance Life Corporation. Initial resources of \$5,000,000 consisting of common capital stock of \$1,000,000 and paid in and contributed surplus of \$4,000,000 were provided through the sale of 10,000 shares of common stock (with a par value of \$100 each) for \$500 per share.

On January 1, 1978, Utica Mutual Insurance Company purchased all of the outstanding stock of the Company from the General Reinsurance Corporation. The name of the Company was changed to Utica National Life Insurance Company on March 22, 1978.

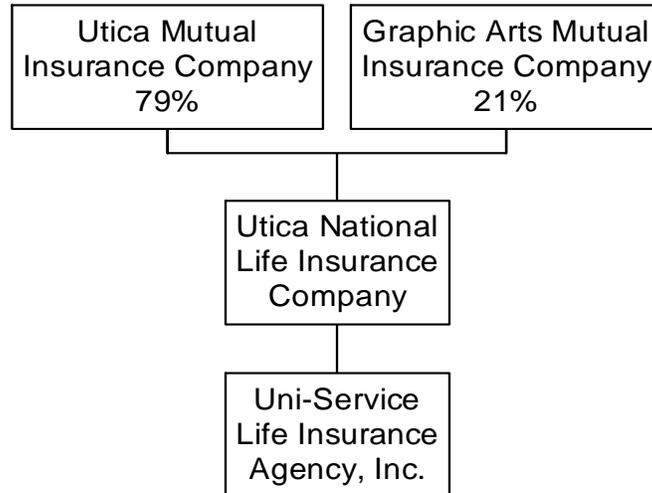
In 1997, Graphic Arts Mutual Insurance Company, a member of the Utica National Insurance Group, acquired a 21% interest in the Company by purchasing 2,658 shares of newly issued common stock (par value \$200) for \$1,072.99 per share, or \$2,852,000, thereby increasing the Company's capital by \$531,600 and contributed surplus by \$2,320,400. As of December 31, 2003, the Company had common capital stock of \$2,531,600 and paid in and contributed surplus of \$10,329,480.

B. Holding Company

The Company is a wholly owned subsidiary of Utica Mutual Insurance Company ("Utica") (79%) and Graphic Arts Mutual Insurance Company (21%), both of which are licensed insurers in the State of New York.

The Company's subsidiary, Uni-Service Life Agency, Inc. ("Uni"), commenced operations in 1987 and is licensed as a life, accident and health insurance agency.

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 two service agreements in effect with affiliates during the examination period.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Services (Department File No. 26016)	1/01/99	Utica	the Company	All services including personnel, space, etc.	2003 \$(2,880,866) 2002 \$(3,564,452) 2001 \$(3,087,508)
Services	1/01/89	Company	Uni-Service Life Agency, Inc.	Subcontracting to provide personnel, services, space, etc.	2003 \$167,584 2002 \$240,273 2001 \$270,478

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

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 14 directors. In February 2001, the board approved a resolution changing the required number of directors from 13 to 14. Directors are elected for a period of three years at the annual meeting of the stockholders held in April of each year. As of December 31, 2003, the board of directors consisted of 14 members. Meetings of the board are held at least three times in each calendar year.

The 14 board members and their principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Russell A. Acevedo* Syracuse, NY	Director Critical Care Associates of Syracuse, PC	2002
C. William Bachman* Rochester, NY	President Empire Digital Communications	1999
Alfred E. Calligaris* Watertown, NY	Chairman, President, and Chief Executive Officer Stebbins Engineering & Manufacturing Co., Inc.	1992
Roy A. Cardia* New York, NY	President M & M Bindery, Inc.	1995
David C. Cunningham New Hartford, NY	President and Chief Operating Officer Utica National Life Insurance Company	1997
Gregory M. Harden* McConnellsville, NY	President and Chief Executive Officer Harden Furniture Company	2001
Jerry J. Hartman* Baltimore, MD	President Reese Press	1995
W. Craig Heston New Hartford, NY	Chairman Utica Mutual Insurance Company	1987
Herbert P. Ladds, Jr.* Buffalo, NY	President The Ladds Group, Inc.	1984
Alan J. Pope* Alpharetta, GA	President and Chief Executive Officer Love, Douglas, & Pope, Inc.	2001

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Timothy R. Reed* Utica, NY	President ECR International	2001
J. Douglas Robinson New Hartford, NY	Chairman and Chief Executive Officer Utica National Life Insurance Company	1993
Linda E. Romano* Utica, NY	Attorney	1997
John R. Zapisek Hew Hartford, NY	Retired Treasurer and Chief Financial Officer Utica National Life Insurance Company	1992

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

In March 2004, David C. Cunningham resigned from the board. As of the date of this report, no one has been appointed to replace him.

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.

Section 1202(b)(2) of the New York Insurance Law states, in part:

“The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee or committees shall have responsibility for . . . evaluating the performance of officers deemed by such committee or committees to be principal officers of the company and recommending to the board of directors the selection and compensation of such principal officers and in the case of a domestic stock life insurance company, recommending to its board of directors any plan to issue options to its officers and employees for the purchase of shares of stock, pursuant to section one thousand two hundred seven of this article.”

Section 4230(c) of the New York Insurance Law states, in part:

“No principal officer or employee . . . who is paid a salary for his services shall receive any other compensation, bonus or emolument from such company, directly or indirectly, except in accordance with a plan recommended by a committee of the board pursuant to subsection (b) of section one thousand two hundred two of this chapter and approved by the board of directors.”

Article IV, Section 3 of the Company’s by-laws state, in part:

“The Board of Directors, by resolution, shall elect an Audit/Compensation/Nominating Committee consisting solely of three (3) or more directors who are not officers or employees of the company or any entity controlling, controlled by, or under common control of the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity . . . Such committee shall be responsible for recommending . . . evaluating the performance of officers deemed to be principal officers of the company and recommending to the board of directors the selection and compensation of such principal officers . . . ”

The examiner reviewed the audit, compensation, and nominating committee (“audit committee”) minutes and the board minutes for the period under examination. There was no evidence that the Company’s audit committee evaluated the performance of principal officers or recommended to the board the compensation of such principal officers during the examination period. During the examination period, the full board did, however, review and approve compensation, including incentive compensation, paid to the Company’s principal officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law and Section 4230(c) of the New York Insurance Law by failing to have its committee consisting of independent directors evaluate the performance of principal officers and recommend the compensation of such individuals to the board of directors for approval.

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

<u>Name</u>	<u>Title</u>
J. Douglas Robinson	Chairman and Chief Executive Officer
David C. Cunningham	President and Chief Operating Officer
Anthony C. Paolozzi	Chief Financial Officer and Treasurer
George P. Wardley	Secretary
Donald R. Kenderdine*	Vice President – Operations
Cynthia L. Casale	Vice President – Investments

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

In March 2004, David C. Cunningham resigned; he was replaced as President by J. Douglas Robinson. As of the date of this report, no one has been appointed to replace Mr. Cunningham as the Chief Operating 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 licensed to transact business in 27 states. In 2003, 85.5% of life premiums and 87.6% of annuity considerations were received from New York. Policies are written on a non-participating basis.

During the examination period, the Company sold primarily life insurance and annuity products. The life products include term life and universal life insurance. The annuity products include single premium deferred, single premium immediate, and flexible premium deferred annuities.

The Company and its property/casualty affiliates offered a portable, voluntary universal life insurance product through worksite marketing to employees of businesses with 25 or more eligible employees that are not involved in hazardous or high-turnover operations. A number of optional rider benefits, including a disability income benefit rider, were also available through the worksite program. The universal life product was offered on both a simplified and guaranteed issue basis. Guaranteed issue was contingent upon the employer case meeting

requisite employee participation levels. Worksite premiums are paid by salary deduction. Measured in terms of the number of new policies issued, worksite marketing has represented the fastest growing area within the Company. However, as of February 2005, the Company has indefinitely ceased marketing their worksite product to new employer groups. This decision was made because the dynamics of the process have shown indications of anti-selection beyond the Company's pricing assumptions and the processes and procedures have made this market segment more expensive to process than priced for.

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

E. Reinsurance

As of December 31, 2003, the Company had reinsurance treaties in effect with 12 companies, all of which were authorized or accredited. The Company's life business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$100,000. The total face amount of life insurance ceded as of December 31, 2003, was \$1,564,648,696, which represents 48.3% of the total face amount of life insurance in force.

Effective July 1, 2001, the Company stopped ceding new business under its modified coinsurance treaty with Annuity and Life Re, Ltd. ("ALRE"). Effective January 1, 2003, the Company and ALRE mutually agreed to terminate the modified-coinsurance reinsurance treaty covering single premium deferred annuity contracts issued by the Company in consideration of a lump sum of \$650,000. The Company recaptured 100% of the annuity business covered under the treaty as a result of the termination of this treaty.

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>2000</u>	December 31, <u>2003</u>	Increase (Decrease)
Admitted assets	<u>\$218,128,322</u>	<u>\$257,879,635</u>	<u>\$39,751,313</u>
Liabilities	<u>\$200,064,872</u>	<u>\$238,763,121</u>	<u>\$38,698,249</u>
Common capital stock	\$ 2,531,600	\$ 2,531,600	\$ 0
Gross paid in and contributed surplus	10,329,480	10,329,480	0
Unassigned funds (surplus)	<u>5,202,368</u>	<u>6,255,431</u>	<u>1,053,063</u>
Total capital and surplus	<u>\$ 18,063,448</u>	<u>\$ 19,116,511</u>	<u>\$ 1,053,063</u>
Total liabilities, capital and surplus	<u>\$218,128,320</u>	<u>\$257,879,632</u>	<u>\$39,751,312</u>

The Company's invested assets as of December 31, 2003, were mainly comprised of bonds (96.8%). The majority (95.9%) of the Company's bond portfolio 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>2001</u>	<u>2002</u>	<u>2003</u>
Ordinary:			
Life insurance	\$(178,024)	\$ 155,253	\$ 879,350
Individual annuities	824,453	1,197,534	719,746
Supplementary contracts	<u>71,486</u>	<u>18,779</u>	<u>137,717</u>
Total ordinary	<u>\$ 717,915</u>	<u>\$1,371,566</u>	<u>\$1,736,813</u>
Group			
Annuities	<u>\$ 16,442</u>	<u>\$ 14,910</u>	<u>\$ 7,930</u>
Total	<u>\$ 734,357</u>	<u>\$1,386,476</u>	<u>\$1,744,743</u>

In 2000, the Company reported a total net gain from operations for its ordinary life operations of \$1,069,826. The decrease in profitability between 2000 and 2001 is largely attributable to an increase in life claims that were incurred during 2001. The fluctuation in reported earnings on the ordinary life operations from 2002 to 2003 is largely the result of expense reductions that were taken during the fourth quarter of 2002. The expenses allocated to the ordinary life line of business decreased by \$1.2 million in 2003. The decrease in general expenses was partially offset by a \$400,000 decrease in net investment income allocated to this line of business.

In 2000, the Company reported a total net gain from operations for its ordinary individual annuity operations of \$1,689. The significant improvement between 2000 and 2001 is a result of the termination of the modified-coinsurance reinsurance treaty between the Company and ALRE for new business effective July 1, 2001. In addition, to lessen the strain on surplus generated from new sales, the Company restricted its annuity sales in 2001. The combination of these two events increased the profitability of the annuity operations. In addition, during 2002, the Company began to lower its crediting rates on annuities to the guaranteed minimum rates stated in the contracts for many of its products. The decrease in earnings on individual annuities between 2002 and 2003 is largely due to the recapture of the existing annuity business ceded to ALRE. Offsetting the expense was a further reduction to the limit placed on new annuity sales in 2003.

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	\$242,302,886
Stocks	0
Common stocks	89,947
Cash and short term investments	3,270,061
Contract loans	4,746,059
Receivable for securities	7,050
Investment income due and accrued	3,652,177
Life insurance premiums and annuity considerations deferred and uncollected on in force business	1,771,339
Reinsurance ceded	
Amounts recoverable from reinsurers	1,485,280
Federal and foreign income tax recoverable and interest thereon	202,060
Net deferred tax asset	280,955
Electronic data processing equipment and software	28,956
Miscellaneous accounts receivable	<u>42,865</u>
 Total admitted assets	 <u>\$257,879,635</u>

Liabilities, Capital, and Surplus

Aggregate reserve for life policies and contracts	\$223,499,372
Liability for deposit-type contracts	9,126,423
Contract claims	
Life	968,713
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	29,350
Contract liabilities	
Interest maintenance reserve	2,426,612
General expenses due or accrued	439,720
Taxes, licenses and fees due or accrued	(55,766)
Unearned investment income	6,309
Amounts withheld or retained by company as agent or trustee	9,823
Amounts held for agents' account	55,586
Remittances and items not allocated	1,469,764
Miscellaneous liabilities	
Payable to parent, subsidiaries and affiliates	583,617
Miscellaneous liabilities	<u>203,599</u>
 Total liabilities	 <u>\$238,763,121</u>
 Common capital stock	 \$ 2,531,600
Gross paid in and contributed surplus	10,329,480
Unassigned funds (surplus)	<u>6,255,431</u>
 Total capital and surplus	 \$ <u>19,116,511</u>
 Total liabilities, capital, and surplus	 <u>\$257,879,632</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$22,590,547	\$25,424,834	\$19,622,895
Investment income	15,997,510	16,019,893	14,622,410
Commissions and reserve adjustments on reinsurance ceded	2,599,576	(1,066,882)	894,160
Miscellaneous income	<u>22,824</u>	<u>(19,161)</u>	<u>(28,924)</u>
Total income	<u>\$41,210,457</u>	<u>\$40,358,684</u>	<u>\$35,110,541</u>
Benefit payments	\$15,243,199	\$15,189,279	\$17,651,197
Increase in reserves	16,546,854	14,471,409	8,674,624
Commissions	2,527,987	2,603,536	2,184,687
General expenses and taxes	5,924,113	6,370,595	4,869,875
Increase in loading on deferred and uncollected premium	10,742	(78,825)	(105,588)
Miscellaneous deductions	<u>32,895</u>	<u>53,381</u>	<u>1,891</u>
Total deductions	<u>\$40,285,790</u>	<u>\$38,609,375</u>	<u>\$33,276,685</u>
Net gain (loss)	\$ 924,667	\$ 1,749,309	\$ 1,833,856
Federal and foreign income taxes incurred	<u>190,308</u>	<u>362,833</u>	<u>89,111</u>
Net gain (loss) from operations before net realized capital gains	\$ 734,359	\$ 1,386,476	\$ 1,744,745
Net realized capital gains (losses)	<u>0</u>	<u>(861,626)</u>	<u>(1,774,419)</u>
Net income	<u>\$ 734,359</u>	<u>\$ 524,849</u>	<u>\$ (29,674)</u>

From 2002 to 2003 there was a significant decrease in both premiums and annuity considerations and the change in reserves as a result of the Company's conscious decision to control or limit new annuity sales. The termination of the ALRE treaty also had an impact on the change in net premiums between 2002 and 2003.

The Company's net investment income decreased \$1.4 million between 2002 and 2003 as the Company's average yield on investments decreased from 6.93% in 2002 to 5.92% in 2003. The decline in investment income is primarily due to continued market volatility and an ongoing low interest rate environment. The Company sold several declining fixed income security holdings during 2002 and 2003. In some instances, the Company also sold other holdings to

offset the capital losses incurred from the sale of the declining or impaired investments realizing that this would create a negative effect on future earnings.

Reinsurance allowances, although declining over the period, have not fluctuated significantly. The decrease between 2001 and 2002 is primarily attributable to reserve adjustments on reinsurance ceded and is directly related to the ALRE modified-coinsurance treaty and reflects the change in reserves and interest risk associated with the annuity policies ceded.

The increase in benefit payments between 2002 and 2003 is largely attributable to annuity and life insurance surrender activity.

The Company realized capital losses in 2003 due to impairments in its holdings of Admiral CBO, Green Tree Financial Corporation, Diamond Investment Grade CDO, and Delta Airlines.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Capital and surplus, December 31, prior year	\$ <u>18,063,445</u>	\$ <u>18,321,086</u>	\$ <u>19,365,674</u>
Net income	\$ 734,359	\$ 524,849	\$ (29,674)
Change in net unrealized capital gains (losses)	(87,805)	(529,324)	359,441
Change in net deferred income tax	0	356,247	(75,292)
Change in non-admitted assets and related items	(239,396)	(160,141)	142,567
Change in asset valuation reserve	(333,891)	852,957	0
Cumulative effect of changes in accounting principles	184,372	0	0
Change in prior year adjustment	0	0	(796,205)
Change in pension obligation	<u>0</u>	<u>0</u>	<u>150,000</u>
Net change in capital and surplus	\$ <u>257,640</u>	\$ <u>1,044,588</u>	\$ <u>(249,163)</u>
Capital and surplus, December 31, current year	\$ <u>18,321,085</u>	\$ <u>19,365,674</u>	\$ <u>19,116,511</u>

The change in prior year adjustments for 2003 totaling (\$796,205) is the result of three separate reporting errors in the amounts of (\$452,890), (\$186,692) and (\$156,622) (any differences are due to rounding and are immaterial), which are further described below.

- 1) The asset valuation reserve (“AVR”) was eliminated in 2003 due to corrections made to properly reflect two capital losses incurred in 2002 and due to capital losses incurred in 2003. In 2002, the capital losses on two bonds were incorrectly transferred to the interest maintenance reserve liability. In 2003, the Company attempted to correct the error and charged the entire loss to surplus. Later in 2003, the Company finally corrected the error by running the loss through the AVR (which reduced the AVR to zero) and the remainder was charged to surplus (\$452,890).
- 2) The Company believed that a security, PGIN Class A Note, required an accounting change as to how income was being recognized. The security was unique in that it incorporated a zero coupon US Treasury and a residential mortgage backed security (“REMIC”) tranche. When the security was purchased in November 1999, the Company set up the security as a bond and the cash flows were recorded as interest income. When the 2003 filed annual statement was prepared, the Company was advised that the cash flows needed to be split between the principal

and interest on the REMIC along with the amortization of the treasury security. This accounting change required the restatement or adjustment in investment income that was recorded for the period 1999 through 2003. The Company reported a negative adjustment to surplus totaling \$186,692 in its 2003 filed annual statement representing the adjustment to cash flows for the period 1999 through 2002 for this security.

3) During 2003, the Company corrected outstanding reinsurance processing errors that were a result of delays in amending existing reinsurance treaties to accommodate conversions or exchanges to newer products. The Company should have established a liability for estimated amounts due to reinsurers. The reinsurance errors have been compounding since 1997. The Company determined that the amount attributable to years prior to 2003 totaled \$156,622 and this was corrected through a negative adjustment to surplus in the 2003 filed annual statement.

The change in the Company's pension liability was the result of good investment returns on the underlying portfolio of assets and the contribution made into the pension liability fund during 2003.

In 2004, after the 2003 annual statement was filed, the Company was advised by its external auditors that the accounting method that the Company originally followed for the PGIN security was the proper method. This opinion caused the Company to revert to their original method of accounting and restate investment income on the security for 2003 (totaling \$632,070) and to increase surplus by \$186,692 representing the income for 1999 through 2002. The Company will reflect these required changes in its 2004 filed annual statement and the net effect on surplus will be an increase of \$818,762.

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.

Section 51.5 of Department Regulation No. 60 states, in part:

"Each agent and broker shall . . .

(c) Where a replacement has occurred or is likely to occur . . .

(3) Present to the applicant, not later than at the time the applicant signs the application, the 'IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts' and a completed 'Disclosure Statement' signed by the agent or broker in the form prescribed by the Superintendent of Insurance and leave copies of such forms with the applicant for his or her records

. . .

(5) Submit with the application to the insurer replacing the life insurance policy or annuity contract: a list of all life insurance policies or annuity contracts proposed to be replaced; a copy 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;' and the completed 'Disclosure Statement,' including the primary reason(s) for recommending the new life insurance policy or annuity contract and why the existing life insurance policy or annuity contract cannot meet the applicant's objectives."

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

"Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .

(1) Require with or as part of each application a list prepared by the agent or broker representing, to the best of his or her knowledge, all of the existing life insurance policies and annuity contracts proposed to be replaced;

(2) Require with or as part of each application a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and proof of receipt by the applicant of the 'IMPORTANT Notice

Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts' and the completed 'Disclosure Statement;'

(3) Examine any proposal used, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the 'Disclosure Statement,' and ascertain that they are accurate and meet the requirements of the Insurance Law and this Part;

(4) Within ten days of receipt of the application furnish to the insurer whose coverage is being replaced 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' . . .

(7) Where the required forms are not received with the application, or if the forms do not meet the requirements of this Part or are not accurate, within ten days from the date of receipt of the application either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefor. In such cases, the insurer shall maintain any material used in the proposed sale, in accordance with the guidelines of Section 51.6(b)(6) herein . . .

(9) In the event the life insurance policy or annuity contract issued differs from the life insurance policy or annuity contract applied for, ensure that the requirements of this Part are met with respect to the information relating to the life insurance policy or annuity contract as issued, including but not limited to the revised 'Disclosure Statement,' any revised or additional sales material used and acknowledgement by the applicant of receipt of such revised material."

Section 243.2(b) of Department Regulation No. 152 states, in part:

"Except as otherwise required by law or regulation, an insurer shall maintain:

(1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer . . . A policy record shall include . . .

(iv) Other information necessary for reconstructing the solicitation, rating, and underwriting of the contract or policy . . .

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review."

In 26 out of 111 (23.4%) external replacement transactions reviewed and in 3 out of 10 (30%) internal replacement transactions reviewed, the examiner was able to determine that a revised Disclosure Statement was required because either: 1) the policy was issued other than as applied for; or 2) the Disclosure Statement contained inaccuracies for either the proposed policy and/or the existing policy(ies) or contract(s). The Company admitted that during the examination period, there was a breakdown in internal control procedures with regard to

providing the applicant with a revised Disclosure Statement when a policy was issued other than as applied for.

The Company violated Section 51.6(b)(9) of Department Regulation No. 60 by failing to provide the applicant with a revised Disclosure Statement where the insurance policy or annuity contract differed from the life insurance policy or annuity contract applied for.

In 16 of 111 (14.4%) external replacement transactions reviewed and 1 out of 10 (10.0%) internal replacement transactions reviewed, the agent failed to obtain and present to the applicant on or before the date that the application was taken one or both of the following required documents: 1) "IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" ("Important Notice") and 2) a completed Disclosure Statement signed by the applicant and the agent. In such instances, evidence maintained in the policy record indicates that the agent obtained these forms after the application and all other paperwork had been submitted to and received by the Company. The Company did not reject the applications.

The Company violated Section 51.6(b)(7) of Department Regulation No. 60 by failing to reject the application in situations where the required Important Notice and/or Disclosure Statement forms were not received with the application.

A copy of the agent authorization form (10-Q-24, Authorization to Disclose Policy Information) which includes a list of all life insurance policies or annuity contracts proposed to be replaced was not maintained in the policy record for 34 out of 111 (30.6%) external replacement transactions reviewed. The Company's replacement procedures on file with the Department indicate that the yellow copy of the agent authorization form is required to be forwarded to the home office by the agent. However, the Company did not enforce their own written procedures and did not require their agents to submit this information with the application during the examination period.

The Company violated Section 51.6(b)(1) of Department Regulation No. 60 and Section 243.2(b) of Department Regulation No. 152 by failing to maintain a list of all life insurance policies or annuity contracts proposed to be replaced as part of the policy record. Such information is necessary in order to reconstruct the solicitation and underwriting of the contract or policy.

In 26 out of 111 (23.4%) external replacement transactions reviewed a copy of the information obtained from the existing insurer(s), necessary to complete the Disclosure Statement was not maintained in the policy record. The examiner was unable to determine the accuracy of the information for the existing policy contained in the Disclosure Statement. The Company's replacement procedures on file with the Department clearly indicate that the agent is required to submit this information with the application. However, during the examination period the Company did not enforce its written procedures and did not require its agents to submit the information that was obtained from the existing insurer(s) and used to complete the Disclosure Statement for the existing policy or contract. Without a copy of the information provided by the existing insurer, it is impossible for the Company to determine the accuracy of the information reported on the Disclosure Statement for the existing policy(ies) or contract(s).

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to examine and ascertain that Disclosure Statements completed by its agents and submitted with applications during the examination period were accurate since the Company did not obtain or maintain information from the replaced insurer to verify the information on the Disclosure Statements.

In 18 out of 111 (16.2%) external replacement transactions reviewed the Company took more than ten days to furnish the existing insurer(s) with a copy of the sales material and Disclosure Statement used in the sale.

The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to furnish the existing insurer a copy of 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.

As a result of the aforementioned examination findings involving violations of Department Regulation No. 60, the Company performed a review of all external and internal replacement transactions made from January 1, 2001 through December 31, 2004. The review focused on compliance with Department Regulation No. 60 and the identification of policyholders that may have been adversely affected by the Company's lack of providing timely, complete and accurate disclosure during the sales process.

The Department and the Company have agreed on remediation plans for those policyholders that have been adversely affected as described above.

A review of the replacement business written by a specific agent appointed by the Company revealed a high incidence of cases where the face amount of universal life insurance initially issued was reduced after the first policy year. Commissions were paid to the agent based on the first year premium paid and commissions were not recouped, even after the policyholder reduced the face amount in subsequent years, with a corresponding decrease in premiums. A review of policy and complaint files indicated that some policyholders did not fully understand the mechanics of the universal life policy that was purchased, specifically future premium requirements required to maintain the policy. In addition, it is unclear to the examiner whether the Company performed adequate underwriting procedures since some insureds were financially unable to maintain the policies they purchased.

During the examination period, the Company conducted several internal reviews related to the business written by the agent in question that were prompted by a complaint filed with the Department. The internal reviews revealed that Company management became aware of the agent's practice of encouraging applicants to purchase universal life insurance policies with higher initial face amounts only to reduce the face amount in later policy years. Management notified the agent that the appropriate method of increasing the face amount or providing for a higher death benefit for short-term needs was the addition of a term rider to the universal life policy.

As a result of the examination findings and at the Department's request, the Company performed an analysis of all of the business written by the agent to identify cases where the initial face amount of insurance issued was higher than the face amount currently in force or where there was evidence in the policy record that a reduction in the face amount may have been planned for future periods. The results of this analysis have been used to remedy or provide relief to those policyholders that were possibly misled or did not fully understand future premium requirements required to maintain their policies.

The Department and the Company have agreed on, and the Company has implemented, remediation plans for those universal life policyholders that have been adversely affected as described above.

The examiner recommends that the Company review its financial underwriting procedures to determine whether such procedures are adequate or whether the procedures need to be revised.

B. Underwriting and Policy Forms

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

Section 3207(b) of the New York Insurance Law states, in part:

“An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months, provided that such policy or policies are effectuated by a person or persons having an insurable interest in the life of such minor or by a person or persons upon whom such minor is dependent for support and maintenance and provided further that an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of twenty-five thousand dollars or the limit of fifty per centum or the limit of twenty-five per centum in the case of a minor under the age of four years and six months of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . .”

As a follow up to the prior examination violation, a sample of work-site and non-worksite policies issued on the lives of minors under the age of fourteen and one-half was reviewed. Based upon evidence contained in the underwriting files, in 2 out of the 30 cases reviewed, the Company issued policies on the lives of minors that were in excess of the limits allowed by Section 3207(b) of the New York Insurance Law. Both of the violations involved non-worksite universal life policies.

The Company violated Section 3207(b) of the New York Insurance Law by issuing policies on the lives of minors that exceeded the limits allowed therein. The past two reports on examination contained violations of Section 3207(b) of the New York Insurance Law for worksite policies. (See item 10A of this report)

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 53-3.6(b) of Department Regulation No. 74 states, in part:

“If the annual report does not include an in-force illustration, it shall contain the following notice displayed prominently: ‘IMPORTANT POLICY OWNER NOTICE: You should consider requesting more detailed information about your policy to understand how it may perform in the future. You should not consider replacement of your policy or make changes in your coverage without requesting a current illustration. You may annually request, without charge, such an illustration by calling, writing to or contacting your agent or broker. If you do not receive a current illustration of your policy within 30 days from the date of your request, you should contact your state insurance department.’”

The examiner reviewed the materials provided by the Company with regard to the annual report requirement of Section 53-3.6 of Department Regulation No. 74 for universal life policyholders. The Company does not include an in-force illustration or a properly worded “Important Policy Owner Notice” with the annual report mailing. Based upon the review of the documentation provided, annual reports sent to universal life policyholders during the examination period through February 2005 did not comply with Section 53-3.6(b) of Department Regulation No. 74.

The Company violated Section 53-3.6(b) of Department Regulation No. 74 by disseminating annual reports to universal life policyholders that did not include an in-force illustration or contain certain language required.

7. INTERNAL CONTROLS, INTERNAL AUDIT, AND CORPORATE GOVERNANCE

During the examination period and through the date of this report, a number of general internal control weaknesses (financial, information systems, corporate governance and market conduct) were identified and brought to the Company's attention by either the Department examiners, the Company's external auditor (PriceWaterhouse Coopers LLC), or the Company's internal auditors.

Although the Company has made progress in some areas, there are still areas that need significant improvement and an appropriate allocation of resources to ensure that internal control processes are in place and working effectively. Examples of such internal control weaknesses or evidence of such are listed below.

Financial Reporting and Recordkeeping

- A number of adjustments to policyholder surplus were required in order to correct prior period reporting errors (related to 2002 and 2003) in the filed annual statement of the following year. (See Section 5C of this report for further details)
- A number of serious monitoring and compliance control weaknesses were identified throughout the course of the examination with regard to the Company's investment operations (or activities). (See Section 8 of this report for further details)
- A number of reporting errors were identified where the Company failed to follow the SVO Purposes and Procedures Manual filing requirements and NAIC Annual Statement Instructions in relation to the Company's fixed income security portfolio. (See Section 8 of this report for further details)
- The Company failed to maintain proper documentation, including but not limited to electronic data extracts¹, to support the number of policies and amounts of insurance for issued, terminated and in force policies as reported in its filed annual statement.
- The Company relies heavily on a single individual for accounting and reporting responsibilities. This situation was addressed in the 2003 management letter from

¹ In addition to the reserve data (including rider data), the Company should maintain the source data that is actually used to report the policy counts and amounts of insurance contained in the Exhibit of Life Insurance.

the Company's external auditors. It is not clear whether the situation has been addressed since this matter was brought to the Company's attention by the external auditors.

- The Company failed to reconcile balances in the agents' advance commission account on a regular and timely basis during the examination period.
- The Company failed to bill reinsurers for recoverable amounts due in a timely manner during the examination period.

Information Systems

- Based upon the Company's information systems questionnaire ("ISQ") response, there is a lack of written documentation and written authorization (audit trail) with respect to information system controls in many respects.
- The Company does not maintain detailed procedures outside the information technologies department to safeguard assets and data and no control procedures exist to mitigate the risk associated with the same individuals being responsible for incompatible duties.
- While the Company may have control procedures to ensure that change requests are appropriately prioritized and monitored, such change requests are not formally documented. Change requests are prioritized based upon verbal discussions with the parties involved.
- The Company does not currently have any internal control procedures in place designed to prevent or detect unauthorized changes made after the completion of testing but before the transfer of program code to the production environment.
- The manual for procedures related to the Company's disaster recovery efforts for life operations are outdated (December 1995), which is indicative that such documentation is not reviewed or revised as necessary on a regular basis.
- The Company has not conducted full recovery testing of any of the Company's mainframe systems (for both the life and property and casualty companies) since 2000.
- The Company has never performed recovery testing on financially significant systems such as the UNI-Bill and the Cash Disbursement System.

- Annual disaster recovery tests do not always include systems that are integral to the Company's life operations. Prior to the 2004 disaster recovery test, the last time that LifePRO, the Company's policy administration system, was included in the corporate-wide disaster recovery plan testing was 2001.
- The Company has not completed business contingency planning (anticipated completion date for a business continuity plan is year-end 2005). (See Section 9 of this report)

Corporate Governance

- Although internal audit performed a number of audits during the examination period, these audits were primarily compliance audits. There was little to no evidence that financial audits were planned or performed on a regular basis. The only financial internal audits provided to the examiner were cases where internal audit was performing a very targeted investigation of a specific situation (for example, reinsurance coding errors).

Market Conduct (Regulatory Compliance)

- The Company terminated the appointment of agents without filing any notices of termination with the Superintendent during the examination period.
- The Company failed to comply with Department Regulation No. 60, as well as the Company's own written procedures, in replacement transactions where the Company replaced existing insurance of another insurer during the examination period through December 2004. (See Section 6A of this report)
- The Company has inadequate or ineffective control and monitoring procedures over agent sales and marketing activities, including suitability standards and review. (See Section 6A of this report)

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. In the case of the Company, duties normally delegated to the audit committee are the fiduciary responsibility of the outside committee (which is comprised of the Company's unaffiliated directors).

The establishment and implementation of internal controls and processes are the responsibility of the Company's management, including the board of directors and specifically the committee of independent directors, and should be designed to provide reasonable assurance to achieve the following objectives:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Management should determine through periodic review of the internal control system(s) in place whether control procedures continue to be relevant and are able to address new risks or whether they need to be revised. The ongoing monitoring of internal control systems, including information systems controls, provides assurance that controls continue to operate effectively.

The examiner recommends that the Company develop and implement a plan to improve the Company's system of internal controls in the areas of financial reporting and recordkeeping, information systems, corporate governance and market conduct (regulatory compliance). The examiner also recommends that senior management and the independent committee of the board increase their level of involvement and oversight over the Company's life insurance and annuity operations to ensure that appropriate resources are allocated to develop and implement an effective, efficient and reliable system of internal controls.

8. INVESTMENT POLICIES AND PROCEDURES

The Department's Capital Markets Bureau conducted a review of the Company's investment operations that included, but was not necessarily limited to: the Company's written investment policy; the Company's written procedures regarding the monitoring and determining of impaired assets; the investment management agreement between the Company and Conning Asset Management ("Conning"); the prospectus and related accounting detail for the PGIN investment; the board minutes; the audit report of the Company's external auditors, PriceWaterhouse Coopers LLC ("PWC"), for the period ending December 31, 2003; and the Company's filed annual statements.

An analysis of the Company's fixed income security holdings at December 31, 2003 and a review of the Company's written investment policy revealed that since February 2003, the Company has operated in violation of the policy.

The investment policy position limits were changed in February 2003 by the board, following losses from investments in bonds issued by WorldCom and Quest. Due to positions existing at the time, the change resulted in a number of issuer and industry limits being out of compliance with the investment policy. Since that time, the Company has taken little action to bring the portfolio into compliance. In cases where the limit excesses were reported to the board, the board did not authorize the investment officer or investment manager to maintain the portfolio out of compliance with the investment policy. In addition to the investment limit excesses resulting from positions that existed prior to the investment policy changes, the Company continued to invest in securities that exceeded the permitted limits.

The Company held 11 below investment grade securities (NAIC designation 3 - 6) at December 31, 2003. The Company's investment policy does not permit investments in securities with NAIC 3 - 6 designations. While the investment officer reported holdings in below grade investments to the board, the board did not explicitly authorize the investment officer or the investment manager to hold below investment grade securities, regardless of whether they were rated below investment grade at purchase or if the credit rating deteriorated subsequent to purchase.

The Company's investment policy does not define "industry" and therefore, the Company does not have a method of measuring and monitoring single industry exposures against the 3% limit contained therein.

Due to marketability concerns (risk), the Company's investment policy states that the purchases of securities with smaller than \$50 million in issue size should be avoided. The policy provides for exceptions to the issue size limitation for unique situations by requiring prior approval from the board. There were a number of securities (at least 15) held by the Company at December 31, 2003 with issue sizes smaller than the required \$50 million. A review of the minutes of the board failed to reveal any instances where the board authorized or approved the investments before they were purchased.

Section 1405(a)(7) of the New York Insurance Law limits Canadian investments to 10% of an insurer's admitted assets. The Company's investment policy states, "Canadian government obligations, if purchased, are not subject to position size limitations." The investment policy limits should comply with the statutory limits to avoid exceeding limitations imposed by Law.

The continual violation of the Company's investment policy illustrates the ineffectiveness of the internal control system in place governing the Company's investment activities. The Company should have an investment policy that clearly reflects the maximum levels of the relevant risk exposures. Those limits must be monitored and enforced, and compliance with the policy must be required.

The examiner recommends that the Company review and revise its investment policy so that it clearly reflects the maximum levels of the relevant risk exposures. The examiner also recommends that the Company and its management monitor, enforce, and require compliance with the investment policy limits established therein.

Neither the Company's external auditors nor the internal auditors conducted investment compliance audits during the examination period, including a review of the Company's statutory filings to determine if the information reported by the Company was accurate.

The examiner recommends that its internal and external auditors incorporate reviews of the Company's investment function, including compliance with the Company's written investment policy and New York Insurance Law and Department Regulations, into their audit plans presented and approved by the audit committee of the board.

The Company's investment management agreement with Conning became effective March 2, 2004. Conning manages the portfolio in violation of the investment policy, in direct violation of the asset management agreement (see next paragraph), without a performance benchmark, and without clear guidelines for asset/liability matching. These situations are indicative that the Company's internal controls and oversight of Conning's management of the Company's assets are weak.

Since March 2004, Conning has actively purchased securities that exceed the position limits established in the Company's investment guidelines and that further increase the limit excesses that existed before they assumed responsibility for the management of the Company's portfolio. In addition, Conning purchased a security in September 2004 that exceeded the issue size limit fixed by the Company's investment policy without obtaining prior approval from the board.

The examiner recommends that the Company implement adequate controls to ensure that the external investment manager operates in accordance with the asset management agreement and manages the Company's assets in compliance with the board approved investment policy.

The Company had not established a performance benchmark for Conning as of the date of the examination. Subsequent to the examination, management reported that it had established a benchmark, and Conning's results against that benchmark were presented to the Board during the third quarter of 2005.

Conning has provided the Company with a liability duration study, but has not received a duration limit within which the portfolio duration should be kept. In absence of a limit, Conning currently maintains the portfolio duration between 3 and 6 years.

The examiner recommends that the Company establish a duration limit and that it be incorporated into the limit structure of the Company's investment policy.

Conning provides the Company with asset valuations. The Company does not perform any market value comparisons from independent sources.

The examiner recommends that the Company perform periodic independent valuations of the Company's assets instead of relying on a single source.

Lastly, the Company's statutory filings contained a number of errors, including but not limited to:

- The Company failed to report a fair value for a number of the securities shown on Schedule D, Part 1 of the Company's filed annual statement for 2003 as required by the National Association of Insurance Commissioners ("NAIC") Securities Valuation Office ("SVO") Purposes and Procedures Manual. In the absence of a publicly available price, the Company is required to provide the SVO with two price quotes for each such security. The Company failed to file the required pricing or fair value information with the SVO.
- The Company failed to report its exposure to unaffiliated foreign securities accurately in accordance with the NAIC Annual Statement Instructions.
- The Company improperly classified its investment in the PGIN security as a bond on Schedule D, Part 1. The SVO classifies this investment as a preferred stock and it should have been reported on Schedule D, Part 2, Section 1 of its filed annual statement.

The examiner recommends that the Company comply with the filing requirements of the NAIC Annual Statement Instructions and the SVO Purposes and Procedures Manual and that the Company exercise greater care when reporting information pertaining to its fixed income security holdings in its filed annual statements.

9. BUSINESS CONTINUITY PLANS

The objective of a business continuity plan is to reasonably ensure that the recovery of critical business processes could take place in the event of a disaster.

In response to Section J of the ISQ, the Company stated that it does not currently have a formal, written business continuity plan. In addition, the Company did not provide any documentation to indicate that it has performed business risk analyses or business impact analyses in an effort to identify critical business operations and processes required to continue servicing its policyholders and customers in the event of a disaster nor did the Company provide any evidence that that it has prioritized the restoration of mission critical business activities and functions.

The examiner recommends that the Company develop a formal, written business continuity plan. Such a plan should identify the recovery of critical business processes. The plan should also identify supporting systems applications, vendors that would assist with locating alternate processing and office site locations, forms and documentation arrangements, network and application restoration procedures, and procedures to be followed by Company personnel during the disaster and recovery period. The plan should contain provisions to ensure periodical testing. The business continuity plan should be approved and periodically reviewed by management to ensure that it meets the needs of the business. Documentation of the business continuity test plan and results and documentation of management approval of the plan should be maintained and be readily accessible for examination purposes.

10. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent action taken by the Company in response to the citation:

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the amounts permitted by Law.</p> <p>The examiner's review indicated that the Company again violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles in amounts that are in excess of the amounts permitted by Law. The past two reports on examination contained violations of Section 3207(b) of the New York Insurance Law for worksite policies.</p>

11. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1202(b)(2) of the New York Insurance Law and Section 4230(c) of the New York Insurance Law by failing to have its committee consisting of independent directors evaluate the performance of principal officers and recommend the compensation of such individuals to the board of directors for approval.	8
B	The Company violated Section 51.6(b)(9) of Department Regulation No. 60 by failing to provide the applicant with a revised Disclosure Statement where the insurance policy or annuity contract differed from the life insurance policy or annuity contract applied for.	21
C	The Company violated Section 51.6(b)(7) of Department Regulation No. 60 by failing to reject the application in situations where the required forms were not received with the application.	21
D	The Company violated Section 51.6(b)(1) of Department Regulation No. 60 and Section 243.2(b) of Department Regulation No. 152 by failing to maintain a list of all life insurance policies or annuity contracts proposed to be replaced as part of the policy record. Such information is necessary in order to reconstruct the solicitation and underwriting of the contract or policy.	21
E	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to examine and ascertain that Disclosure Statements completed by its agents and submitted with applications during the examination period were accurate since the Company did not obtain or maintain information from the replaced insurer to verify the information on the Disclosure Statements.	22
F	The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to furnish the existing insurer a copy of 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.	22

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The examiner recommends that the Company review its financial underwriting procedures to determine whether such procedures are adequate or whether the procedures need to be revised.	23
H	The Company violated Section 3207(b) of the New York Insurance Law by issuing policies on the lives of minors that exceeded the limits allowed therein. Similar violations appeared in the past two reports on examination.	24
I	The Company violated Section 53-3.6(b) of Department Regulation No. 74 by disseminating annual reports to universal life policyholders that did not include an in-force illustration or contain certain language required.	25
J	The examiner recommends that the Company develop and implement a plan to improve the Company's system of internal controls in the areas of financial reporting and recordkeeping, information systems, corporate governance and market conduct (regulatory compliance).	29
K	The examiner recommends that senior management and the independent committee of the board increase their level of involvement and oversight over the Company's life insurance and annuity operations to ensure that appropriate resources are allocated to develop and implement an effective, efficient and reliable system of internal controls.	29
L	The examiner recommends that the Company review and revise its investment policy so that it clearly reflects the maximum levels of the relevant risk exposures.	31
M	The examiner recommends that the Company and its management monitor, enforce, and require compliance with the investment policy limits established therein.	31
N	The examiner recommends that its internal and external auditors incorporate reviews of the Company's investment function, including compliance with the Company's written investment policy and New York Insurance Law and Department Regulations, into their audit plans presented and approved by the audit committee of the board.	31

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
O	The examiner recommends that the Company implement adequate controls to ensure that the external investment manager operates in accordance with the asset management agreement and manages the Company's assets in compliance with the board approved investment policy.	32
P	The examiner recommends that the Company establish a duration limit and that it be incorporated into the limit structure of the Company's investment policy.	32
Q	The examiner recommends that the Company perform periodic independent valuations of the Company's assets instead of relying on a single source.	32
R	The examiner recommends that the Company comply with the filing requirements of the NAIC Annual Statement Instructions and the SVO Purposes and Procedures Manual and that the Company exercise greater care when reporting information pertaining to its fixed income security holdings in its filed annual statements.	33
S	The examiner recommends that the Company develop a formal, written business continuity plan.	34

APPOINTMENT NO. 22231

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:

EDEN SUNDERMAN

as a proper person to examine into the affairs of the

UTICA NATIONAL LIFE INSURANCE COMPANY

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

COMPANY

with such other information as she 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 19th day of May, 2004



GREGORY V. SERIO

Superintendent of Insurance

[Handwritten Signature]
Superintendent