



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

CONDITION:

DECEMBER 31, 2004

DATE OF REPORT:

SEPTEMBER 30, 2005

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

ALLIANZ LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2004

DATE OF REPORT:

SEPTEMBER 30, 2005

EXAMINER:

PHARES CATON

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	4
3. Description of Company	5
A. History	5
B. Holding company	5
C. Management	8
D. Territory and plan of operation	11
E. Reinsurance	12
4. Significant operating results	13
5. Financial statements	16
A. Assets, liabilities, capital, surplus and other funds	16
B. Condensed summary of operations	18
C. Capital and surplus account	19
D. Reserves	19
6. Annual statement reporting errors	20
7. Market conduct activities	21
A. Advertising and sales activities	21
B. Underwriting and policy forms	25
C. Treatment of policyholders	26
D. Medical conversions	28
8. Agency operations	30
9. Prior report summary and conclusions	32
10. Summary and conclusions	33



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

George E. Pataki
Governor

Howard Mills
Superintendent

September 30, 2005

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22336, dated March 7, 2005 and annexed hereto, an examination has been made into the condition and affairs of Allianz Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 75 Wall Street, New York, 10005.

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

This examination covers the period from January 1, 2002 through December 31, 2004. The examination comprised a verification of assets and liabilities as of December 31, 2004 to determine whether the Company's 2004 filed annual statement fairly presents its financial condition. 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.

The examination revealed the following key findings and recommendations:

1. A review of the Company's reserves as of December 31, 2004 revealed that reserves for some variable annuity contracts were understated due to annuitization benefits not properly recognized in the reserve methodology. The Company corrected this error with the September 30, 2005 quarterly statement, which increased reserves by approximately \$3.5 million. (See item 5D of this report)
2. The Company violated various sections of Department Regulation No. 60 regarding the replacement of annuity contracts. The review revealed that the Company failed to verify the accuracy of the information contained in the Disclosure Statements, the Company replaced annuities without receiving the required Regulation 60 forms, the Company accepted from its agents Disclosure Statements that contained potentially deceptive or misleading information, the Company failed to furnish sales material to the insurer whose coverage was replaced, the Company failed to maintain copies of the sales material used in the sale of the proposed annuity contracts, and the Company failed to implement procedures to ensure compliance with Department Regulation No. 60. The examiner recommends that the Company implement a remediation plan acceptable to the Department to mitigate the deficiencies noted and provide relief to all contractholders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing contracts. The examiner also recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. (See item 7A of this report)
3. The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent in writing of its intention to enter into transactions with affiliated companies, Pacific Investment Management Company ("PIMCO") and Delaware Valley Financial Services, LLC, for the rendering of services on a regular or systematic basis. (See item 3B of this report)
4. The Company violated Section 1202 (b)(2) of the New York Insurance Law when its Audit and Evaluation Committee failed to properly evaluate the performance and approve the salaries of its principal officers. The examiner also recommends that the minutes correctly reflect the portion of the meetings that non-independent persons are present, and clearly identify when such persons withdraw from continued participation in the meetings. (See item 3C of this report)

5. The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not approved by the Superintendent. (See items 7B and 7D of this report)
6. The Company violated Section 243.2(b)(4) of Department Regulation No. 152 and Section 216.11 of Department Regulation No. 64 when it could not produce surrender files requested. The Company also violated the above sections when it failed to maintain all correspondence relating to denied claim files. (See item 7C of this report)
7. The Company violated Sections 2112(a) and 2112(d) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company and failed to notify the Superintendent that agents have been terminated. (See item 8 of this report)
8. The Company failed to comply with Department Circular Letter No. 15 (2001) and also violated Sections 2601(a)(3) and 2403 of the New York Insurance Law by failing to search for additional coverage on a decedent's life upon notification of death. (See item 7C of this report)
9. Comment that the Company is advised that its Agreement with Celtic can be considered an attempt to assist an unauthorized insurer in doing an insurance business in this State, and acting as an agent by effectuating insurance for the unauthorized insurer in violation of Section 2117(a) of the New York Insurance Law. The examiner recommends that the Company avoid entering into such agreements in the future. (See item 7D 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, 2004. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2004 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, 2004 to determine whether the Company's 2004 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 9 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

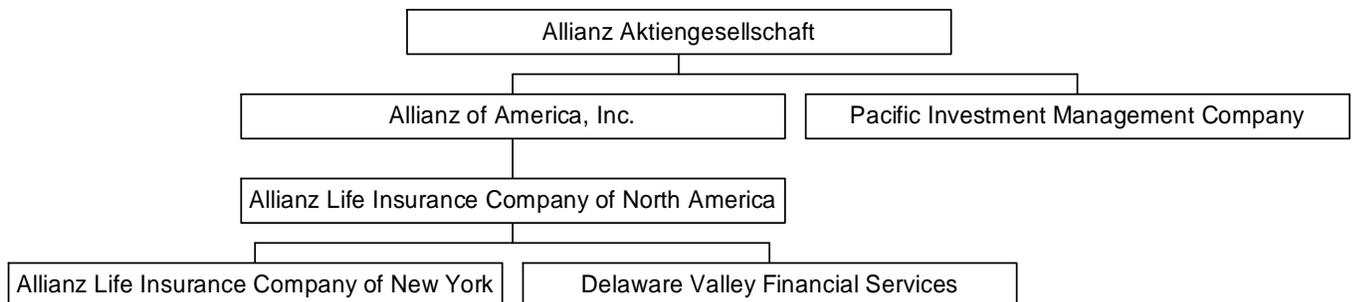
The Company was incorporated as a stock life insurance company under the laws of New York under the name of Preferred Life Insurance Company of New York on September 21, 1982, was licensed on April 11, 1984 and commenced business on September 1, 1984. Initial resources of \$6,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,000,000, were provided through the sale of 200,000 shares of common stock (with a par value of \$10 each) for \$30 per share. The Company received surplus contributions from its parent of \$5,000,000 in 1993 and \$6,500,000 in 1994, bringing its capital and paid in and contributed surplus to \$17,500,000 as of December 31, 2004.

The Company changed its name to Allianz Life Insurance Company of New York effective January 1, 2003.

B. Holding Company

The Company is a wholly owned subsidiary of Allianz Life Insurance Company of North America (“Allianz”), a Minnesota insurance company. Allianz is in turn a wholly owned subsidiary of Allianz of America, Inc. (“AZOA”), a Delaware holding company. The ultimate parent of the Company is Allianz Aktiengesellschaft, a German property and casualty company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2004 follows:



The Company had 4 service agreements in effect with affiliates during the examination period.

Type of Agreement and Dept. File No.	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 Services File #29796	1/1/02	Allianz Life Insurance Company of North America	The Company	Accounting, actuarial, administration of the sales force, marketing, market conduct, underwriting, administrative claims services, data processing, legal services, premium billing, record retention and reinsurance administration and management.	2002 2003 2004	\$(4,694,000) \$(7,893,000) \$(4,511,000)
Administrative Services File #32833	4/19/2005	Delaware Valley Financial Services, LLC	The Company	Administrative services in regard to variable products, including processing new business applications, posting premiums, maintaining annuitant's records, processing disbursements and providing customer service.	2002 2003 2004	\$0 \$(852,000) \$(902,000)
Investment Advisory Agreement File #23107	12/1/83, amended 10/19/92	Allianz Investment Corp.	The Company	Management of investment portfolio, investment advisory services.	2002 2003 2004	\$(12,000) \$(92,000) \$(65,000)
Investment Management Agreement**	12/1/99	The Company	Pacific Investment Management Company ("PIMCO")	Teleservicing support of PIMCO's separate accounts, including answering questions relating to variable contracts referred by the contractholders.	2002 2003 2004	\$ 3,809 \$13,419 \$32,172

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

** Agreement not filed with the Department

In addition, the Company participates in a federal tax allocation agreement with AZOA wherein its federal income taxes are filed on a consolidated basis. This agreement has been reviewed by the Department.

Section 1505(d)(3) of the New York Insurance Law states in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period...(3) rendering of services on a regular or systematic basis,”

The Company entered into an agreement to provide services to PIMCO as was evidenced by an executed agreement between the Company and PIMCO, effective December 1, 1999. The Company received \$3,809, \$13,419 and \$32,172 in 2002, 2003 and 2004, respectively, for providing teleservicing support, and delivering prospectuses, reports, proxy statements and other informational material to variable contractholders on behalf of the PIMCO Variable Trust. Based on the examiner’s review, it was revealed that this service agreement was not filed with the Department.

In June 2003, Allianz purchased Delaware Valley Financial Services (“DVFS”), a former Third Party Administrator (“TPA”). From June 2003 through June 2004, the Company received services from DVFS on a regular or systematic basis without first notifying the Superintendent of its intention to enter into an agreement with an affiliate as required under Section 1505(d)(3) of the New York Insurance Law. On June 21, 2004 the Company notified the Superintendent of its intention to enter into a service agreement with DVFS. This agreement was approved on April 19, 2005.

The Company violated Section 1505(d)(3) of the New York Insurance Law when it failed to notify the Superintendent in writing of its intention to enter into agreements with affiliates for the rendering of services on a regular or systematic basis at least thirty days prior to rendering such services.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 23 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2004, the board of directors consisted of 13 members. Meetings of the board are held three times a year.

The 13 board members and their principal business affiliation, as of December 31, 2004, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Stephen P. Blaske Shoreview, MN	Vice President – Appointed Actuary Allianz Life Insurance Company of New York Vice President – Actuarial Financial Reporting Allianz Life Insurance Company of North America	2002
Denise M. Blizil Maple Lake, MN	Senior Vice President – Enterprise Services Allianz Life Insurance Company of North America	2001
Stephen R. Herbert* Pound Ridge, NY	Attorney Locke & Herbert, LLP	1997
Eugene K. Long Elmsford, NY	Vice President – Operations Allianz Life Insurance Company of New York	1995
Dennis J. Marion* Wayne, NJ	President RMS Development	1984
Gabrielle M. Matzdorff Plymouth, MN	Senior Vice President and Chief Financial Officer Allianz Life Insurance Company of New York Senior Vice President and Chief Financial Officer Allianz Life Insurance Company of North America	2002
Reinhard W. Obermueller* New York, NY	Insurance Consultant	1996

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Suzanne J. Pepin Minneapolis, MN	Secretary Allianz Life Insurance Company of New York Senior Vice President, Secretary and Chief Legal Officer Allianz Life Insurance Company of North America	2000
Christopher H. Pinkerton Mendota Heights, MN	USAllianz Investor Services Allianz Life Insurance Company of North America	1999
Jack F. Rockett* New York, NY	Insurance Consultant	1997
Vincent G. Vitiello Huntington Bay, NY	Chairman of the Board, Chief Executive Officer and President Allianz Life Insurance Company of New York Senior Vice President Allianz Life Insurance Company of North America	2004
Kevin E. Walker Eden Prairie, MN	Treasurer Allianz Life Insurance Company of New York Vice President and Treasurer Allianz Life Insurance Company of North America	2002
Eugene T. Wilkinson* Edison, NJ	President The Wilkinson Group	1984

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

Subsequent to December 31, 2004, several changes were made to the board. In March 2005, Reinhard W. Obermueller resigned from the board and was replaced by Gary A. Smith in May 2005. In April 2005, Eugene K. Long resigned from the board and was immediately replaced by John Fleming, Senior Vice President of the Company. In April 2005, Christopher Pinkerton resigned from the board and was replaced by Martha Clark Goss in October 2005. In October 2005, Tyrus Campbell joined the board.

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

During the examination review of the board of directors' minutes, it was revealed that the Company adopted the investment plan executed by Allianz of America, Inc. Such plan, although comprehensive, was not entirely applicable to the Company's investment strategy during the examination period.

The examiner recommends that the Company develop, and the board of directors adopt, an investment plan that is more applicable to the Company's investment strategy.

The following is a listing of the principal officers of the Company as of December 31, 2004:

<u>Name</u>	<u>Title</u>
Vincent G. Vitiello	President and Chief Executive Officer
Gabrielle M. Matzdorff	Senior Vice President, Chief Financial Officer
Eugene K. Long	Vice President
Kelly J. Munger	Vice President
Peggy Moon*	Vice President and Chief Compliance Officer
Kevin E. Walker	Treasurer
Suzanne J. Pepin	Secretary
Stephen P. Blaske	Vice President and Actuary

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

Subsequent to the examination period, in April 2005, Eugene K. Long resigned from the Company and was replaced by John Fleming, Senior Vice President, as the senior officer based in this State.

In October 2005, Tyrus Campbell joined the board and was elected to the position of Treasurer, replacing Kevin Walker. Mr. Walker remained on the board, but not in the position as Treasurer.

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 . . . nominating candidates for director for election by shareholders or policyholders, 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 . . ."

The examiner reviewed the minutes of the Audit and Evaluation Committee. The minutes revealed that, although the committee approved the salary of Eugene Long, the committee did not evaluate his performance. In addition, the committee did not approve the salaries or evaluate the performance of other principal officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law when its Audit and Evaluation Committee failed to properly evaluate the performance and approve the salaries of its principal officers.

Further, the minutes of the Audit and Evaluation Committee reflected that there were non-independent persons present at its meetings. The Company explained that such persons were present to brief the committee in their respective areas of expertise, then recused themselves from the remaining portion of the meetings, although the meeting minutes did not reflect such.

The examiner recommends that the minutes correctly reflect the portion of the meetings that such non-independent persons are present, and clearly identify when such persons withdraw from continued participation in the meetings.

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 six states, namely Connecticut, Illinois, Minnesota, Missouri, New York, North Dakota, and the District of Columbia. In 2004, 80% of life premiums, 77% of health premiums, and 100% of annuity considerations were received from New York. Policies are written on a non-participating basis.

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

During the examination period, the Company's primary lines of business were individual variable annuities, and group accident and health insurance, specifically stop loss insurance. Effective January 1, 2003, the Company also began selling individual fixed annuities.

E. Reinsurance

As of December 31, 2004, the Company had reinsurance treaties in effect with 25 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 \$50,000. The total face amount of life insurance ceded as of December 31, 2004 was \$101,672,861, which represents 65% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$3,847,287, was supported by trust agreements.

In 2002, the Company entered into a multi-line agreement with its parent to reinsure all its group accident and health risks over \$50,000. In 2003, the Company terminated the agreement with its parent for economic reasons. The Company then entered into two contracts, one with London Life Reinsurance Company and the other with Reliastar Life Insurance Company to replace the reinsurance it previously had in place with its parent. In 2004, the Company exited several of its minor reinsurance contracts in an effort to simplify its reinsurance portfolio.

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>2001</u>	December 31, <u>2004</u>	Increase (Decrease)
Admitted assets	\$ <u>457,416,030</u>	\$ <u>554,171,185</u>	\$ <u>96,755,155</u>
Liabilities	\$ <u>409,475,939</u>	\$ <u>500,304,570</u>	\$ <u>90,828,631</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	15,500,000	15,500,000	\$ 0
Group contingency life reserve	2,004,186	0	(2,004,186)
Annuity mortality reserve	526,191	0	(526,191)
Unassigned funds (surplus)	<u>27,909,714</u>	<u>36,366,615</u>	<u>8,456,901</u>
Total capital and surplus	\$ <u>47,940,091</u>	\$ <u>53,866,615</u>	\$ <u>5,926,524</u>
Total liabilities, capital and surplus	\$ <u>457,416,030</u>	\$ <u>554,171,185</u>	\$ <u>96,755,155</u>

The majority (68.9%) of the Company's admitted assets, as of December 31, 2004, was derived from Separate Accounts.

The Company's invested assets as of December 31, 2004, exclusive of Separate Accounts, were mainly comprised of bonds (94.9%), stocks (0.6%), cash and short-term investments (4.4%).

The majority (99.4%) of the Company's bond portfolio, as of December 31, 2004, was comprised of investment grade obligations.

Section 91.4(f)(5) of Department Regulation No. 33 states, in part:

“General indexes such as premium volume, number of policies, and insurance in force shall not be used as basis for distributing costs among major annual statement lines of business, except where the incidence of cost is closely related to such general indexes, or except where there is no more appropriate basis for measurement....”

A review of the Company’s expense allocation methodology revealed that the Company used earned premiums as its basis to allocate expenses. Earned premiums are used to first calculate the ratio of expenses to be charged to all subsidiaries, then the Company’s share of expenses is allocated across the different lines of business on that same basis.

The Company violated Section 91.4(f)(5) of Department Regulation No. 33 when it used earned premiums as its basis for distributing costs among major annual statement lines of business as well as distribution of costs among companies.

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>2002</u>	<u>2003</u>	<u>2004</u>
Ordinary:			
Life insurance	\$ 318,683	\$ (380,500)	\$ 44,515
Individual annuities	566,814	(1,721,851)	1,217,305
Supplementary contracts	<u>(178,163)</u>	<u>0</u>	<u>0</u>
Total ordinary	\$ <u>707,334</u>	\$(<u>2,102,351</u>)	\$ <u>1,261,820</u>
Group:			
Life	\$ <u>458,563</u>	\$ <u>222,135</u>	\$ <u>264,465</u>
Total group	\$ <u>458,563</u>	\$ <u>222,135</u>	\$ <u>264,465</u>
Accident and health:			
Group	\$2,265,418	\$ 692,343	\$3,025,374
Other	<u>(108,325)</u>	<u>(70,423)</u>	<u>(272,403)</u>
Total accident and health	\$ <u>2,157,093</u>	\$ <u>621,920</u>	\$ <u>2,752,971</u>
Total	\$ <u>3,322,990</u>	\$(<u>1,258,296</u>)	\$ <u>4,279,256</u>

The fluctuation experienced in the ordinary life insurance business is partly due to the fact that in 2003 the Company terminated its reinsurance agreement with Allianz. As a result, the reserves associated with its individual life business were reabsorbed into the Company's financial results, causing an increase in reserves.

The fluctuation experienced in 2003 in the individual annuity line of business was mainly due to an increase in individual annuity production and the costs associated with the introduction of a fixed annuity product. The increase in the annuity line of business in turn increased the reserve requirement, thus affecting the results for the line of business.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Increase in contract reserves	0.9%	9.3%	(3.9)%
Incurred losses	32.3	71.6	31.5
Commissions	12.3	1.5	1.4
Expenses	<u>43.9</u>	<u>32.0</u>	<u>24.5</u>
	<u>89.4%</u>	<u>114.4%</u>	<u>53.5%</u>
Underwriting results	<u>10.6%</u>	<u>(14.6)%</u>	<u>46.5%</u>

The fluctuation in incurred losses can be attributed to the size and number of claims paid. The numbers were skewed in 2002 and 2004 because a smaller number of claims was submitted than was anticipated, however, the year 2003 shows a normal rate of claims submitted.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2004, as contained in the Company's 2004 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2004

Admitted Assets

Bonds	\$159,920,606
Common stocks	1,080,697
Cash, cash equivalents and short term investments	7,491,966
Contract loans	77,748
Investment income due and accrued	1,885,842
Uncollected premiums and agents' balances in the course of collection	536,958
Reinsurance:	
Amounts recoverable from reinsurers	6,172
Other amounts receivable under reinsurance contracts	8,722
Net deferred tax asset	430,338
Miscellaneous receivables	964,076
From Separate Accounts	<u>381,768,061</u>
 Total admitted assets	 <u>\$554,171,185</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$107,658,024
Aggregate reserve for accident and health contracts	1,540,382
Liability for deposit-type contracts	561,297
Contract claims:	
Life	289,749
Accident and health	8,400,715
Premiums and annuity considerations for life and accident and health contracts received in advance	890
Interest maintenance reserve	1,861,870
Commissions to agents due or accrued	239,323
Commissions and expense allowances payable on reinsurance assumed	162,585
General expenses due or accrued	170,470
Transfers to Separate Accounts due or accrued	(8,143,680)
Current federal and foreign income taxes	2,019,536
Net deferred tax liability	256,531
Unearned investment income	334
Amounts withheld or retained by company as agent or trustee	37,313
Remittances and items not allocated	933,876
Miscellaneous liabilities:	
Asset valuation reserve	733,254
Reinsurance in unauthorized companies	4,394
Funds held under reinsurance treaties with unauthorized reinsurers	250,000
Payable to parent, subsidiaries and affiliates	1,431,930
Funds held under coinsurance	119,997
Other accounts payable	7,719
From Separate Accounts	<u>381,768,061</u>
Total liabilities	<u>\$500,304,570</u>
Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	15,500,000
Unassigned funds (surplus)	<u>36,366,615</u>
Total capital and surplus	<u>\$ 53,866,615</u>
Total liabilities, capital and surplus	<u>\$554,171,185</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premiums and considerations	\$18,092,666	\$103,320,129	\$100,358,806
Investment income	4,687,200	6,802,057	8,550,151
Commissions and reserve adjustments on reinsurance ceded	1,000,827	1,569,452	1,340,381
Miscellaneous income	<u>4,413,715</u>	<u>4,195,583</u>	<u>5,508,950</u>
 Total income	 <u>\$28,194,407</u>	 <u>\$115,887,222</u>	 <u>\$115,758,288</u>
Benefit payments	\$60,641,089	\$ 56,308,827	\$ 49,296,407
Increase in reserves	12,433,419	67,102,354	10,672,833
Commissions	2,221,904	6,787,537	6,391,955
General expenses and taxes	5,827,848	10,280,164	6,904,814
Net transfers to (from) Separate Accounts	(57,139,724)	(22,414,801)	34,886,212
Miscellaneous deductions	<u>39,586</u>	<u>(11,448)</u>	<u>1,637,535</u>
 Total deductions	 <u>\$24,024,123</u>	 <u>\$118,052,633</u>	 <u>\$109,789,756</u>
Net gain (loss)	\$ 4,170,284	\$ (2,165,411)	\$ 5,968,532
Federal and foreign income taxes incurred	<u>847,316</u>	<u>(907,116)</u>	<u>1,689,275</u>
Net gain (loss) from operations before net realized capital gains	\$ 3,322,968	\$ (1,258,294)	\$ 4,279,257
Net realized capital gains (losses)	<u>(435,922)</u>	<u>(55,792)</u>	<u>160,647</u>
 Net income	 <u>\$ 2,887,046</u>	 <u>\$ (1,314,087)</u>	 <u>\$ 4,439,904</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Capital and surplus, December 31, prior year	\$ <u>47,940,091</u>	\$ <u>50,558,465</u>	\$ <u>49,438,197</u>
Net income	\$ 2,887,046	\$(1,314,087)	\$ 4,439,904
Change in net unrealized capital gains (losses)	(222,452)	267,588	73,901
Change in net deferred income tax	372,503	(219,883)	(5,380)
Change in non-admitted assets and related items	(1,328,809)	191,666	(4,791)
Change in liability for reinsurance in unauthorized companies	(464,791)	408,895	203,592
Change in asset valuation reserve	187,378	(454,446)	(278,808)
Cumulative effect of changes in accounting principles	1,187,500	0	0
Net change in capital and surplus for the year	\$ <u>2,618,374</u>	\$ <u>(1,120,267)</u>	\$ <u>4,428,418</u>
Capital and surplus, December 31, current year	\$ <u>50,558,465</u>	\$ <u>49,438,197</u>	\$ <u>53,866,615</u>

D. RESERVES

The Department conducted a review of the Company's reserves as of December 31, 2004. During the review, reserves for some variable annuity contracts were found to be understated due to annuitization benefits not properly recognized in the reserve methodology. The Company corrected this error with the September 30, 2005 quarterly statement, which increased reserves by approximately \$3.5 million.

The examiner recommends that the Company calculate the variable annuity reserves using appropriate assumptions for annuitization benefits.

6. ANNUAL STATEMENT REPORTING ERRORS

The Company's annual statements, as filed with the Department during the examination period, were found to contain numerous reporting errors and misclassifications of accounts. The following reporting errors were among those identified during the review:

- ❑ The Company reported funds in Schedule E of its 2004 annual statement that were actually funds of its parent. Due to the immateriality of the amounts reported (\$4,687.88), no examination change was made to the financial statements disclosed herein.
- ❑ In its 2004 annual statement, the Company reported as surrenders three ordinary life policies that were lapsed in the Exhibit of Life Insurance. Further, in 2002, the Company reclassified certain group life claims to surrenders in the Exhibit of Life Insurance. These were yearly renewable policies and should not have been reported as lapses.
- ❑ The Company explained to the examiners that some of the policies and contracts reported as "Issued during Year" in the 2002 Exhibit of Life Insurance and the Exhibit of Number of Policies/Contracts were actually either terminated policies or adjustments.
- ❑ In its 2002 and 2003 Exhibit of Life Insurance, the Company inadvertently reported its ordinary business as part of its group business.
- ❑ Prior to 2005, the fee income received from conversion policies was reported in Exhibit 1, Part 1, Column 8 of the annual statement as group insurance premiums. This income should have been reported as miscellaneous income.
- ❑ The Company did not report its transactions with PIMCO and DVFS, both of whom are affiliates, in Schedule Y.

The examiner recommends that the Company exercise greater care in the compilation of its data for reporting purposes and comply with the annual statement instructions when preparing its filings with the Department.

7. 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.

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. In order to be complete, the file must contain all advertisements whether used by the company, its agents or solicitors or other persons....”

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

“Advertising file. Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other state . . . with a notation attached to each such advertisement which shall indicate the manner and extent of distribution and the form number of any policy advertised.”

The examination review revealed that the Company does not maintain an advertising file at its home office. Instead, the file is maintained at its parent's office in Minnesota.

A copy of the advertising file maintained at the parent's location in Minnesota was furnished. A review of this file revealed that it was incomplete because it failed to contain a notation indicating the manner and extent of distribution of the advertising pieces.

The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by not maintaining a complete advertising file, and not maintaining such file at its home office.

Replacements

The examiner reviewed a sample of 47 individual annuity replacement files (32 variable annuities and 15 fixed annuities) out of a total population of 348 (249 variable annuities and 99 fixed annuities). Based on the examiner's review, a significant number of Regulation No. 60 violations were found. The types of Regulation 60 violations noted by the examiner were as follows:

- a) In two replacement files, the Company failed to document how it verified the accuracy of the information contained in the Disclosure Statement (such as maintaining receipt of correspondence from the replaced insurer verifying information about the replaced policy).

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:...(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;

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 when it failed to verify the accuracy of the information contained in the Disclosure Statement given to the contract applicant.

The examiner recommends that the Company immediately implement procedures to verify the accuracy of the information contained in the Disclosure Statement given to the applicant.

- b) In fifteen replacement files either the Disclosure Statement was incomplete (11 files), the "Important Notice" was not prepared (1 file), or the Disclosure Statement was given to the applicant after the application date (3 files).

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

The Company violated Section 51.6(b)(7) of Department Regulation No. 60 when it issued contracts without receiving the required Regulation 60 forms, and when it issued policies without correcting the deficiencies in the forms that did not meet Regulation 60 requirements.

c) In six replacement files the agent gave potentially deceptive or misleading information in the Disclosure Statement that, in the opinion of the Department, may influence the sale of the Company’s contracts. The agent gave statements, such as, stating that the initial principal investment on the variable annuity contract was guaranteed, statements that the contract had a better investment return although the performance comparisons in the Disclosure Statement showed the opposite, and by failing to use the correct information about the replaced contract in the Disclosure Statement comparisons.

Section 51.7 of Department Regulation No. 60 states, in part:

“...(a) No insurer or agent shall: (1) make or give any deceptive or misleading information in the “Disclosure Statement” or in any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract....”

The Company violated Section 51.7(a)(1) of Department Regulation No.60 by accepting from its agents Disclosure Statements that contained potentially deceptive or misleading information.

d) There were no sales materials in the files for six annuity replacements where the Company indicated in the Disclosure Statement that sales material was used in the transaction. In addition, there was no indication in the files of whether the replaced insurer was furnished any sales materials used in the replacement transaction.

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

“...(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 51.6(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:... (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;”

The Company violated Section 51.6(b)(6) of Department Regulation No. 60 when it did not maintain copies of the sales material used in the sale of the proposed annuity contract.

The Company violated Section 51.6(b)(4) of Department Regulation No. 60 when it failed to furnish any sales material used in the replacement transaction to the insurer whose coverage was replaced.

The error rate is 48.94% (23 occurrences in a sample of 47) for violations of Sections 51.6(b)(3), 51.7(a)(1) and 51.6(b)(7) of Department Regulation No. 60. Based on the number of replacement violations contained in this examination report, it appears that the Company is engaging in practices that prevent the orderly working of Department Regulation No. 60. Therefore, the Company violated Section 51.7(b) of Department Regulation No. 60 when it failed to implement procedures to ensure compliance with the requirements of Department Regulation No. 60.

The examiner recommends that the Company implement a remediation plan acceptable to the Department to mitigate the deficiencies noted above and provide relief to all contractholders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing annuity contracts. The Company has agreed and will implement a plan.

The examiner also recommends 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 and its audit committee. Also, the results of audits performed should be reviewed by the board of directors and the audit committee.

B. Underwriting and Policy Forms

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

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law...”

During the review of surrendered policies it was revealed that, prior to the examination period, the Company issued group policies to members of the Veterans of Foreign War (“VFW”), using forms GSC-1310 PL, GSC-1321-PL and GSC-1385 PL. Such policy forms provided the insureds with the opportunity to convert from a group policy to an individual policy. However, the policy forms were used without receiving prior approval from the Superintendent.

Further, the Department conducted a subsequent review of these unapproved forms and determined that such forms, had they been filed with the superintendent, contained language that precluded them from being approved without first undergoing revisions.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not approved by the Superintendent.

The examiner notes that the Company discontinued using these forms in 1991.

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.

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

“...To enable department personnel to reconstruct an insurer's activities, all insurers subject to the provisions of this Part must maintain within each claim file all communications, transactions, notes and work papers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer...”

Section 243.2(b)(4) of Department Regulation No. 152 states in part:

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

(4) A claim file for six calendar years after all elements of the claim are resolved and the file is closed or until after the filing of the report on examination in which the claim file was subject to review, whichever is longer. A claim file shall show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received.

During the examination, it was revealed that members of the group, VFW, were allowed to convert to individual life insurance policies through a provision in their group policy. A total of 90 of the converted policies were surrendered during the examination period. A sample of 10 surrenders were selected from that group.

The Company was unable to provide any of the policy surrender files sampled. In addition, the Company stated that they would not be able to provide files for any of the 90 surrendered policies in the population.

The Company violated Section 243.2(b)(4) of Department Regulation No. 152 and Section 216.11 of Department Regulation No. 64 when it did not maintain any of the policy surrender files.

2. The examiner reviewed a sample of denied individual medical claim files. The examiner found that there were instances where CISI (a third party administrator) did not maintain all

documentation relating to the claims in the file. The examiner was told that it is the procedure of the TPA not to retain all documentation.

The Company violated Section 243.2(b)(4) of Department Regulation No. 152 and Section 216.11 of Department Regulation No. 64 when it failed to maintain all documentation relating to the denied claims in its files.

3. Section 219.4(p) of Department Regulation No.34A states, in part:

“...An advertisement shall not use a trade name, an insurance group designation, name of the parent company or affiliate of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device or reference if such use would have the tendency to mislead or deceive as to the true identity of the insurer, or create the impression that someone other than the insurer would have any responsibility for the financial obligation under a policy...”

During the review of denied accident and health claims, specifically stop loss insurance, it was revealed that four of the five claim files sampled contained correspondence incorrectly indicating that Allianz, the Company’s unauthorized parent, was the insurer.

The Company violated Section 219.4(p) of Department Regulation No. 34A when it used the name of the parent company (Allianz) on correspondence in connection with settling claims. This practice has the tendency to mislead or deceive the insured as to the true identity of the insurer.

4. Department Circular Letter No. 15 (2001) states, in part:

“ . . . it is the intent of Article 24 and Section 2601 of the Insurance Law that, upon notification of death, insurers conduct a search for other policies on the decedent’s life. Where such other policies exist, the insurer should notify the policy owner (if different than the insured) and/or the beneficiary and arrange for payment pursuant to such policy or policies.”

Section 2601(a) of the New York Insurance Law states, in part:

“No insurer doing business in this state shall engage in unfair claim settlement practices. Any of the following acts by an insurer, if committed without just cause and performed with such frequency as to indicate a general business practice, shall constitute unfair claim settlement practices . . .

(3) failing to adopt and implement reasonable standards for the prompt investigation of claims arising under its policies . . .”

Section 2402 of the New York Insurance Law states, in part:

“In this article: (a) ‘Person’ means any individual and any legal entity subject to any provision of this chapter, engaged in the business of insurance in this state . . . (b) ‘Defined violation’ means the commission by a person of an act prohibited by: section . . . two thousand six hundred one . . .”

Section 2403 of the New York Insurance Law states, in part:

“No person shall engage in this state in any trade practice constituting a defined violation . . .”

The examiner reviewed a sample of 11 variable annuity death claims and noted that in 3 cases (27%) the Company did not perform a search for multiple policies as instructed in Department Circular Letter No. 15 (2001).

The Company failed to comply with Department Circular Letter No. 15 (2001) and also violated Sections 2601(a)(3) and 2403 of the New York Insurance Law by failing to search for additional coverage on a decedent’s life upon notification of death.

The examiner recommends that the Company immediately implement procedures to ensure that multiple policy searches are conducted upon receipt of a death claim.

D. Medical Conversions

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law...”

Section 2117(a) of the New York Insurance Law states, in part:

“No person, firm, association or corporation shall in this state act as agent for any insurer ... which is not licensed or authorized to do an insurance ... business in this state, in the doing of any insurance ... business in this state or in soliciting, negotiating or effectuating any insurance, ... in this state act as insurance broker in soliciting, negotiating or in any way effectuating any insurance, ..., or in placing risks with, any such insurer ... or shall in this state in any way or manner aid any such insurer ... in effecting any insurance,”

Section 215.5(a) of Department Regulation No. 34 states:

“The format and content of an advertisement of an accident and health insurance policy shall be sufficiently complete and clear to avoid deception or the capacity or tendency to mislead or deceive. Whether an advertisement has a capacity or tendency to mislead or deceive shall be determined by the superintendent from the overall impression that the advertisement may be reasonably expected to create upon a person of average education and intelligence, unique to the particular type of audience to which the advertisement is directed, and whether it may be reasonably comprehended by the segment of the public to which it is directed.”

During the examination period the Company sold group stop loss insurance, an accident and health insurance product. In conjunction with the sale of this product, the Company used the forms EXCESS-SAOPTION-01, DISCLOSURE STATEMENT and EXCESS-COPTION-01. Such forms were used as follows: EXCESS-SAOPTION-01 was used to allow advancement of funds under the stop loss policy prior to claim payment by the group policyholder’s self funded plan. Any portion not used to pay a provider within 5 days must be returned to the Company; the DISCLOSURE STATEMENT was used for gathering medical information on the group’s membership in order to preliminarily assess the underlying risk associated with the contract; and EXCESS-COPTION-01 offered the group policyholder the ability to purchase an option that allows the individual member exiting the group to convert the group coverage to individual medical insurance. These forms were not approved by the Superintendent.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used forms that were not approved by the Superintendent in the sale of individual medical insurance.

Although the Company had an individual medical conversion product available during the examination period, in 2002 it entered into an agreement, Medical Expense Conversion Program (“Agreement”), with Celtic Insurance Company (“Celtic”), an unauthorized insurer, to arrange individual medical coverage for non New York policyholders under the aforementioned conversion option (i.e., EXCESS-COPTION-01). According to the Agreement, the individual coverage for New York policyholders is underwritten by Union Labor Life Insurance Company (“Union Labor”), a licensed company, although the Company does not have a separate agreement with Union Labor. Under the terms of the Agreement, the Company pays a subscription fee directly to Celtic for every group that elects the conversion coverage, regardless of whether the conversion option is exercised. Additionally, it appears that Union Labor reinsures the New York conversions with Celtic.

The Company has advised that prior to 2002, the Company did issue several medical conversion policies directly in conjunction with its stop loss product. However, the Company has also advised that since the Agreement went into effect there have been no conversion policies issued by Celtic or Union Labor. The Company has further advised that the Agreement will terminate within the next year as it is exiting the stop loss business and the existing policies will either run-off its books and/or be rewritten by another carrier.

The Company is hereby advised that the Agreement with Celtic can be considered an attempt to assist an unauthorized insurer to do an insurance business in this State, and act as an agent by effectuating insurance for the unauthorized insurer in violation of Section 2117(a) of the New York Insurance Law. The examiner recommends that the Company avoid entering into such agreements in the future.

8. AGENCY OPERATIONS

Section 2112 of the New York Insurance Law, states in part:

“(a) Every insurer, fraternal benefit society or health maintenance organization doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer, fraternal benefit society or health maintenance organization...

(d) Every insurer, fraternal benefit society or health maintenance organization doing business in this state shall, upon termination of the certificate of appointment of any insurance agent licensed in this state, forthwith file with the superintendent a statement, in such form as the superintendent may prescribe, of the facts relative to such termination and the cause thereof...”

A review of commission statements revealed that eight licensed agents, referred to as Registered Representatives, were paid commissions through the Broker/Dealer without ever being appointed with the Company.

The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company.

The examiner reviewed the list of terminated and appointed agents to determine whether the Company was notifying the Superintendent of all terminations. The review of agent

terminations revealed that the Company terminated 18 agents without notifying the superintendent.

The Company violated Section 2112(d) of the New York Insurance Law when it failed to notify the Superintendent that agents had been terminated.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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 examiner recommends that the Company include all unauthorized reinsurance as a liability in future years.</p> <p>The review of unauthorized reinsurance revealed that the Company is reporting the liability properly.</p>
B	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved application form.</p> <p>A similar violation appears in this report. (See Item 7B of this report)</p>
C	<p>The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See Item 8 of this report)</p>
D	<p>The Company violated Section 2108(a)(4) of the New York Insurance Law when it paid compensation to two unlicensed third party administrators for adjusting and paying claims.</p> <p>The review of third party administrators revealed that they are licensed entities.</p>

10. 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 1505(d)(3) of the New York Insurance Law when it failed to notify the Superintendent in writing of its intention to enter into agreements with affiliates for the rendering of services on a regular or systematic basis at least thirty days prior to rendering such services.	7
B	The examiner recommends that the Company develop, and the board adopt a streamlined version of the Allianz investment plan that is more suited to the Company's investment strategy.	10
C	The Company violated Section 1202(b)(2) of the New York Insurance Law when its Audit and Evaluation Committee failed to properly evaluate the performance and approve the salaries of its principal officers.	11
D	The examiner recommends that the minutes correctly reflect the portion of the meetings that such non-independent persons are present, and clearly identify when such persons withdraw from continued participation in the meetings.	11
E	The Company violated Section 91.4(f)(5) of Department Regulation No. 33 when it used earned premium as basis to allocate expenses by line of business and among companies.	14
F	The Company's reserves were found to be understated in a review conducted by the Department. The examiner recommends that the Company calculate the variable annuity reserves using appropriate assumptions for annuitization benefits.	19
G	The examiner recommends that the Company exercise greater care in the compilation of its data for reporting purposes and comply with the annual statement instructions when preparing its filings with the Department.	20
H	The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by not maintaining a complete advertising file, and not maintaining such file at its home office.	22

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 when it failed to verify the accuracy of the information contained in the Disclosure Statement given to the contract applicant.	22
J	The examiner recommends that the Company immediately implement procedures to verify the accuracy of the information contained in the Disclosure Statement given to the applicant.	22
K	The Company violated Section 51.6(b)(7) of Department Regulation No. 60 when it issued contracts without receiving the required Regulation 60 forms, and when it issued contracts without correcting the deficiencies in the forms that did not meet Regulation 60 requirements.	23
L	The Company violated Section 51.7(a)(1) of Department Regulation No.60 by accepting from its agents Disclosure Statements that contained potentially deceptive or misleading information.	23
M	The Company violated Section 51.6(b)(6) of Department Regulation No. 60 when it did not maintain copies of the sales material used in the sale of the proposed annuity contract.	24
N	The Company violated Section 51.6(b)(4) of Department Regulation No. 60 when it failed to furnish any sales material used in the replacement transaction to the insurer whose coverage was replaced.	23
O	The Company violated Section 51.7(b) of Department Regulation No. 60 when it failed to implement procedures to ensure compliance with the requirements of Department Regulation No. 60.	24
P	The examiner recommends that the Company implement a remediation plan acceptable to the Department to mitigate the deficiencies noted and provide relief to all contractholders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing annuity contracts.	24
Q	The examiner recommends 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 and its audit committee and the results of audits performed should also be reviewed by the board of directors and audit committee.	25

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
R	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used policy forms that were not approved by the Superintendent.	25
S	The Company violated Section 243.2(b)(4) of Department Regulation No. 152 and Section 216.11 of Department Regulation No. 64 when it did not maintain surrender files.	26
T	The Company violated Section 243.2(b)(4) of Department Regulation No. 152 and Section 216.11 of Department Regulation No. 64 when it failed to maintain all documentation relating to the denied claims in its files.	27
U	The Company violated Section 219.4(p) of Department Regulation No. 34A when it used the name of the parent company (Allianz) on correspondence in connection with settling claims. This practice has the tendency to mislead or deceive the insured as to the true identity of the insurer.	27
V	The Company failed to comply with Department Circular Letter No. 15 (2001) and also violated Sections 2601(a)(3) and 2403 of the New York Insurance Law by failing to search for additional coverage on a decedent's life upon notification of death.	28
W	The examiner recommends that the Company immediately implement procedures to ensure that multiple policy searches are conducted upon receipt of a death claim.	28
X	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used forms that were not approved by the Superintendent in the sale of individual medical insurance.	29
Y	Comment that the Company is advised that its Agreement with Celtic can be considered an attempt to assist an unauthorized insurer in doing an insurance business in this State, and acting as an agent by effectuating insurance for the unauthorized insurer in violation of Section 2117(a) of the New York Insurance Law. The examiner recommends that the Company avoid entering into such agreements in the future.	30

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
Z	The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents who sold insurance for the Company.	30
AA	The Company violated Section 2112(d) of the New York Insurance Law when it failed to notify the Superintendent that agents had been terminated.	31

APPOINTMENT NO. 22336

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

PHARES CATON

as a proper person to examine into the affairs of the

ALLIANZ LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

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

this 7th day of March, 2005



HOWARD MILLS
Acting Superintendent of Insurance

Howard Mills
Acting Superintendent