

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST UNUM LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

DECEMBER 10, 2004

EXAMINER:

EDWARD J. TASKER

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

March 8, 2002

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21758, dated August 1, 2001 and annexed hereto, an examination has been made into the condition and affairs of First Unum Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 99 Park Avenue, 6th floor, New York, New York 10016.

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

In June 1999, Unum Corporation and Provident Companies, Inc. merged to form UnumProvident Corporation (“UnumProvident”) the ultimate parent of the Company. (See item 3A of this report)

The individual disability and long term disability claims practices of the Company were covered by the Targeted Multi-State Market Conduct Examination (“Multi-State”) of Unum Life Insurance Company of America, The Paul Revere Life Insurance Company and Provident Life and Accident Insurance Company (collectively referred to as the “Unum Provident Companies”), with a report dated November 18, 2004, of which New York was a participating jurisdiction. As a result, this examination was temporarily suspended for a period of time until the Multi-State examination was completed. The Multi-State examination resulted in a Regulatory Settlement Agreement with the Company and an overall fine in the amount of \$15,000,000 that was levied on the Unum Provident Companies. (See item 6C of this report)

The Department has raised concerns relating to the potential lack of conservatism in certain assumptions regarding the Company’s group disability income claim reserves. The Company has been strengthening the underlying reserve basis since 2000 and has agreed to accelerate the reserve strengthening in a manner acceptable to the Department. The examiner recommends that the Company continue to accelerate its reserve strengthening as agreed upon with the Department. (See item 5D of this report)

The Company violated Section 1505(c) of the New York Insurance Law when it failed to obtain the Superintendent’s prior approval for a capital contribution in the amount of \$70 million made by its parent, Unum Holding Company (“Unum Holding”), in 1999. (See item 3B of this report)

The Company violated Section 1505(d)(3) of the Insurance Law when it failed to notify the Superintendent of a new general services agreement with its ultimate parent at least 30 days prior to the agreement’s effective date. (See item 3B of this report)

The Company violated Section 1505(d)(2) of the New York Insurance Law when it failed to notify the Superintendent at least 30 days prior to entering into reinsurance agreements with its parent and affiliates. (See item 3E of this report)

The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement and the amendments to it with the Department in accordance with Department Circular Letter No. 33 (1979). (See item 3B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 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, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Company history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- 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 7 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 16, 1959 under the name Hamilton Life Insurance Company of New York (“Hamilton Life”). The Company was licensed and commenced business on January 22, 1960. Initial resources of \$400,000, of common capital stock, were provided through the sale of 4,000 shares of common stock with a par value of \$100 each.

In March 1968, due to surplus problems, the New York State Supreme Court gave the Department permission to take over Hamilton Life and attempt to rehabilitate it. This action was taken as a result of a special report by the Department that indicated that Hamilton Life was insolvent.

In May 1970, an agreement was executed for the recapitalization of Hamilton Life among: the Superintendent of Insurance, as court appointed rehabilitator of Hamilton Life; Unum Life Insurance Company, formerly known as Union Mutual Life Insurance Company, Portland, Maine; Unum Holding, formerly known as Unionmutual Corporation, a Delaware Corporation; and the Life Insurance Guaranty Corporation. The agreement called for Unum Holding, which was a wholly owned subsidiary of Unum Life Insurance Company, to contribute \$1,000,000 in cash and \$575,000 in securities to Hamilton Life’s capital and surplus. One million dollars was allocated to the capital account, consisting of 1,000,000 shares of common stock (with a par value of \$1), and \$578,519 was contributed to surplus. This transaction was completed on September 30, 1970, and the Company’s name was changed to Unionmutual Stock Life Insurance Company of New York.

In November of 1986, Union Mutual Life Insurance Company demutualized and changed its name to Unum Life Insurance Company of America (“Unum Life”). In addition, the Unionmutual Corporation changed its name to Unum Holding Company and Unionmutual Stock Life Insurance Company of New York changed its name to First Unum Life Insurance Company. At the same time, a new corporation, Unum Corporation, was formed which owned 100% of Unum Life.

On July 25, 1990, the Department approved the acquisition of First Commercial Life Insurance Company by the Unum Corporation from the Continental Corporation. On July 31, 1990, First Commercial Life Insurance Company was merged into the Company.

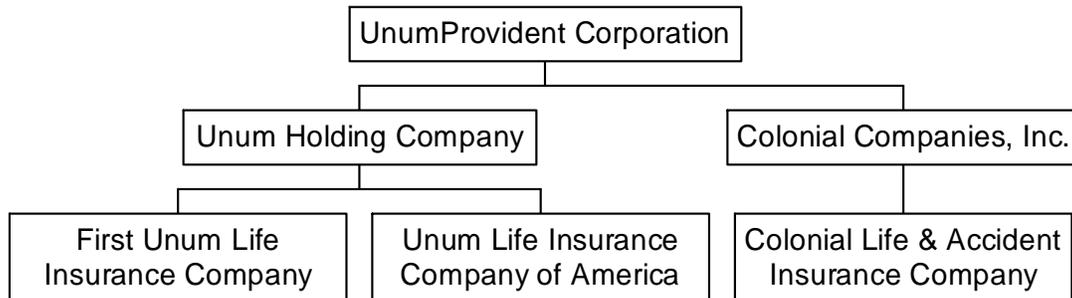
On June 30, 1999, Unum Corporation merged with and into Provident Companies, Inc. under the name UnumProvident.

In 1999, Unum Holding made a \$70 million capital contribution to the Company. As of December 31, 2000, the Company had \$2,000,000 of common capital stock consisting of 2,000,000 shares with a par value of \$1 each and gross paid in and contributed surplus of \$83,435,244.

B. Holding Company

The Company is a wholly owned subsidiary of Unum Holding, which in turn is a wholly owned subsidiary of UnumProvident, a publicly traded holding company incorporated in Delaware. UnumProvident is the ultimate parent of the Company and the largest writer of individual and group disability insurance in the world.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had three service agreements in effect as of December 31, 2000.

The Company had an administrative services agreement with Colonial Life & Accident Insurance Company ("Colonial"), whereby Colonial supplied accounting, data processing, tax and auditing, functional support, policyholder services, premium collection, underwriting and claims support, claims assistance, public relations, advertising, and sales and marketing support services to the Company.

The Company had two service agreements with affiliates to provide facilities and services outside the State of New York: one agreement was with Unum Life and the other was with Colonial. Pursuant to the agreements, the affiliates provided policyholder service, underwriting, accounting services, and claims review and adjustments.

The Company is also party to a tax allocation agreement, effective July 1, 1999, with its parent and many of its affiliates.

Section 1505(c) of the New York Insurance Law states:

“The superintendent’s prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer’s admitted assets at last year-end.”

In 1999, the Company’s parent, Unum Holding, made an investment in the Company through a capital contribution of \$70 million. The capital contribution equaled 9.53% of the Company’s admitted assets as of December 31, 1998. The Company failed to obtain the Superintendent’s prior approval for the capital contribution.

The Company violated Section 1505(c) of the New York Insurance Law when it failed to obtain the Superintendent’s prior approval for the \$70 million capital contribution.

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

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, 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 . . .”

On June 14 2001, the Company submitted to the Department a new general services agreement. The new agreement is between the Company and its ultimate parent, UnumProvident, and is intended to replace the service agreements in effect during the examination period. However, the effective date of the agreement was January 1, 2001, nearly six months prior to the date it was submitted to the Department.

The Company violated Section 1505(d)(3) of the Insurance Law when it failed to notify the Superintendent of the aforementioned service agreement at least 30 days prior to its effective date.

Section 308(a) of the New York Insurance Law states, in part:

“The superintendent may also address to any . . . authorized insurer or its officers any inquiry in relation to its transactions or condition or any matter connected therewith. Every corporation or person so addressed shall reply in writing to such inquiry promptly . . . ”

Department Circular Letter No. 33 (1979) advises, in part:

“Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so. Furthermore, notification to this Department should be given within 30 days of any amendment to or termination of a tax allocation agreement. . . . ”

A tax allocation agreement was submitted to the Department on January 5, 2002. Amendments to the agreement were submitted on March 1 and March 8, 2002, respectively. The tax allocation agreement and the amendments were filed subsequent to the period for which the Company filed consolidated tax returns.

The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement and the amendments to it with the Department in accordance with Department Circular Letter No. 33 (1979).

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 11 directors except that the number of directors shall be increased to not less than 13 and not more than 15 within one year following the end of the calendar year in which the Company's admitted assets exceed one and one-half billion dollars. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2000, the board of directors consisted of ten members. Meetings of the board are held in February, May, August and November of each year.

The Company listed only eight directors on the jurat page of its 2000 filed annual statement, omitting directors F. Dean Copeland and Edith Weiner. The examiner recommends that the Company list all directors on the jurat pages of all filed annual statements.

The ten board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert E. Cash* Cape Elizabeth, ME	Retired President First Unum Life Insurance Company	1995
J. Harold Chandler Lookout Mountain, TN	Chairman, President and Chief Executive Officer First Unum Life Insurance Company	1999
F. Dean Copeland Atlanta, GA	Executive Vice President and General Counsel First Unum Life Insurance Company	1999
Edward R. Hillman* Yarmouth, ME	Retired Vice President and Chief Administrative Officer First Unum Life Insurance Company	1995
Robert G. Ostrander* Fairfield, CT	Retired President First Unum Life Insurance Company	1995
Elaine D. Rosen Falmouth, ME	Special Adviser to President UnumProvident Corporation	1998
Thomas R. Watjen Lookout Mountain, TN	Executive Vice President, Finance and Risk Management First Unum Life Insurance Company	1999

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Edith Weiner* New York, NY	President Weiner, Edrich, Brown, Inc.	1994
Henry M. White, Jr.* Mendham, NJ	Retired Regional Vice President Midlantic National Bank	1991
David M. Whitney Pleasantville, NY	Senior Vice President First Unum Life Insurance Company	2000

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

In June 2001, Robert G. Ostrander resigned from the board and was replaced by JoAnne Bille. In addition, Edith Weiner did not stand for re-election and was replaced by John Ollis. Elaine D. Rosen resigned from the board effective August 21, 2001.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended, except that Edith Weiner missed three board meetings in 2000.

Section 1201(a)(5)(B) of the New York Insurance Law states, in part:

“The corporation's proposed charter shall contain . . .
(vi) the times and manner of electing directors and officers . . . and provision that . . . at all times a majority shall be citizens and residents of the United States, and that not less than three shall be residents of this state . . .”

As indicated on the list of board members, the Company had only two directors that were residents of New York State. The Company violated Section 1201(a)(5)(B)(vi) of the New York Insurance Law by failing to have at least three members of the board of directors who are residents of New York State.

The Company failed to obtain completed conflict of interest questionnaires from six of its directors.

The examiner recommends that the Company obtain completed conflict of interest questionnaires from all of its directors annually.

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
J. Harold Chandler	Chairman, President and Chief Executive Officer
Thomas R. Watjen	Executive Vice President, Finance and Risk Management
John Iwanicki	Vice President and Treasurer
F. Dean Copeland	Executive Vice President and General Counsel

Debra J. Jewett, Manager of Customer Relations, is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in one state, namely New York. Approximately 81.8% of premiums received during 2000 were for accident and health insurance, and 88.1% of all premiums were received from New York. Policies are written on a non-participating basis.

The Company principally markets group and individual disability income insurance, group life insurance and specialty accident and health insurance. The Company targets the sale of its disability products to executive, administrative and management personnel, and other professionals such as educators, consultants, health care providers, accountants and engineers.

The Company markets its products through sales personnel, independent contractors, brokers and independent agents.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with 18 companies, of which 17 were authorized or accredited. The Company's life and accidental death and dismemberment policies are ceded on a yearly renewable term and coinsurance basis. Reinsurance is provided on an automatic and facultative basis. The Company also participated

in several catastrophic reinsurance agreements, whereby the Company obtained catastrophic excess of loss coverage from its parent and affiliates.

The maximum retention limit for individual life contracts is \$250,000. The total face amount of life insurance ceded as of December 31, 2000, was \$282,007,249, which represents 1.18% of the total face amount of life insurance in force.

Reserve credit taken for reinsurance ceded to the unauthorized company and reinsurance recoverable from the unauthorized company, totaling \$422,935, was supported by a trust agreement.

The Company assumed certain individual whole life and universal life policies on a coinsurance basis from William Penn Life Insurance Company of New York as of September 30, 1998. The total face amount of life insurance assumed as of December 31, 2000, was \$521,088,831.

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

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

(2) reinsurance treaties or agreements . . .”

The Company entered into catastrophic excess of loss reinsurance agreements with its parent, Unum Holding, and affiliates without notifying the Superintendent.

The Company violated Section 1505(d)(2) of the New York Insurance Law when it failed to notify the Superintendent at least 30 days prior to entering into reinsurance agreements with its parent, Unum Holding, and affiliates.

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>1997</u>	December 31, <u>2000</u>	Increase (Decrease)
Admitted assets	<u>\$658,244,888</u>	<u>\$948,379,126</u>	<u>\$290,134,238</u>
Liabilities	<u>\$548,495,543</u>	<u>\$801,610,289</u>	<u>\$253,114,746</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	13,435,244	83,435,244	70,000,000
Group life contingency reserve	4,967,439	7,210,679	2,243,240
Deferred gain on reinsurance	8,519,725	6,350,000	(2,169,725)
Unassigned funds (surplus)	<u>80,826,937</u>	<u>47,772,914</u>	<u>(33,054,023)</u>
Total capital and surplus	<u>\$109,749,345</u>	<u>\$146,768,837</u>	<u>\$ 37,019,492</u>
Total liabilities, capital and surplus	<u>\$658,244,888</u>	<u>\$948,379,126</u>	<u>\$290,134,238</u>

The Company's invested assets as of December 31, 2000, exclusive of Separate Accounts, were mainly comprised of bonds (90%) and mortgage loans (6.9%).

The majority (90.2%) of the Company's bond portfolio, as of December 31, 2000, 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>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:			
Life insurance	\$ (839,689)	\$ 1,935,967	\$ 1,179,973
Individual annuities	283,382	0	0
Supplementary contracts	<u>(887,291)</u>	<u>217,220</u>	<u>(334,309)</u>
Total ordinary	\$ <u>(1,443,598)</u>	\$ <u>2,153,187</u>	\$ <u>845,664</u>
Group:			
Life	\$ 4,811,944	\$ 2,437,031	\$ 8,640,967
Annuities	<u>1,414,387</u>	<u>272,890</u>	<u>(3,055)</u>
Total group	\$ <u>6,226,331</u>	\$ <u>2,709,921</u>	\$ <u>8,637,912</u>
Accident and health:			
Group	\$ 8,520,622	\$(32,454,013)	\$19,721,901
Other	<u>(7,940,108)</u>	<u>(12,868,346)</u>	<u>(6,417,245)</u>
Total accident and health	\$ <u>580,514</u>	\$ <u>(45,322,359)</u>	\$ <u>13,304,656</u>
All other lines	\$ <u>(3,556,215)</u>	\$ <u>0</u>	\$ <u>0</u>
Total	\$ <u>1,807,032</u>	\$ <u>(40,459,251)</u>	\$ <u>22,788,232</u>

The Company experienced a sharp decline in operating profits in 1999. This was largely the result of expenses related to the UnumProvident merger, including severance and early retirement packages. In addition, the Company integrated its claim operations with Provident as a result of the merger, causing a temporary increase in claim processing costs. Reserve strengthening in the Company's individual disability segment also contributed to operating losses in 1999.

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>1998</u>	<u>1999</u>	<u>2000</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	93.9%	111.1%	87.6%
Commissions	9.6	10.3	9.4
Expenses	<u>20.3</u>	<u>19.4</u>	<u>19.9</u>
	<u>123.8%</u>	<u>140.8%</u>	<u>116.9</u>
Underwriting results	(<u>23.8</u>)%	(<u>40.8</u>)%	(<u>16.9</u>)%

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 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, 2000

Admitted Assets

Bonds	\$796,180,441
Mortgage loans	
First liens	60,669,885
Real estate:	
Properties acquired in satisfaction of debt	498,912
Investment real estate	2,009,899
Policy loans	13,103,728
Cash and short term investments	11,751,601
Receivable for securities	615,610
Reinsurance ceded:	
Amounts recoverable from reinsurers	758,285
Commissions and expense allowances due	103,398
Other amounts receivable under reinsurance contracts	80,510
Electronic data processing equipment	1,717
Federal income tax recoverable and interest thereon	4,188,192
Guaranty funds receivable and on deposit	473
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	6,029,172
Accident and health premiums due and unpaid	29,020,988
Investment income due and accrued	13,894,239
Receivable from parent, subsidiaries and affiliates	4,586,636
Amounts receivable relating to uninsured accident and health plans	359,740
Other assets	308,757
From Separate Accounts statement	<u>4,216,943</u>
 Total admitted assets	 <u>\$948,379,126</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 59,104,845
Aggregate reserve for accident and health policies	597,631,533
Supplementary contracts without life contingencies	14,361,643
Policy and contract claims:	
Life	13,219,522
Accident and health	70,963,687
Premiums and annuity considerations received in advance	1,216,612
Liability for premium and other deposit funds	
Policyholder premiums	107,909
Policy and contract liabilities:	
Provision for experience rating refunds	1,214,277
Other amounts payable on reinsurance assumed	1,406,485
Commissions to agents due or accrued	4,669,470
Commissions and expense allowances payable on reinsurance assumed	33
General expenses due or accrued	606,546
Taxes, licenses and fees due or accrued	2,579,133
Unearned investment income	447,566
Amounts withheld or retained by company as agent or trustee	451,061
Remittances and items not allocated	4,242,003
Miscellaneous liabilities:	
Asset valuation reserve	5,976,905
Payable to parent, subsidiaries and affiliates	10,443,644
Drafts outstanding	6,924,293
Missing claimants liability	260,158
Accounts payable for operating expenses	1,058,290
Amounts payable to third party administrators	507,731
From Separate Accounts statement	<u>4,216,943</u>
 Total liabilities	 <u>\$801,610,289</u>
 Common capital stock	 \$ 2,000,000
Deferred gain on reinsurance	6,350,000
Gross paid in and contributed surplus	83,435,244
Group life contingency reserve	7,210,679
Unassigned funds (surplus)	<u>47,772,914</u>
 Total capital, surplus and other funds	 <u>\$146,768,837</u>
 Total liabilities, capital, surplus and other funds	 <u>\$948,379,126</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$233,081,535	\$309,060,157	\$350,088,343
Investment income	47,695,033	50,369,547	66,258,688
Commissions and reserve adjustments on reinsurance ceded	5,728,183	5,708,979	6,634,942
Miscellaneous income	<u>38,065,383</u>	<u>946,068</u>	<u>456,924</u>
Total income	<u>\$324,570,134</u>	<u>\$366,084,751</u>	<u>\$423,438,897</u>
Benefit payments	\$186,369,592	\$230,965,880	\$253,542,014
Increase in reserves	62,761,198	94,845,839	52,052,973
Commissions	29,368,535	33,389,598	35,425,623
General expenses and taxes	44,647,603	53,599,446	61,066,861
Increase in loading and cost of collection	(33,610)	(5,106)	7,298
Net transfers to (from) Separate Accounts	(187,190)	(564,788)	(2,019,248)
Miscellaneous deductions	<u>220,667</u>	<u>(311,310)</u>	<u>71,146</u>
Total deductions	<u>\$323,146,795</u>	<u>\$411,919,559</u>	<u>\$400,146,667</u>
Net gain (loss)	\$ 1,423,339	\$ (45,834,808)	\$ 23,292,230
Dividends	3,769	0	28,503
Federal income taxes	<u>(387,463)</u>	<u>(5,375,557)</u>	<u>475,495</u>
Net gain (loss) from operations before net realized capital gains	\$ 1,807,033	\$ (40,459,251)	\$ 22,788,232
Net realized capital gains (losses)	<u>303,010</u>	<u>54,935</u>	<u>(3,528,900)</u>
Net income	<u>\$ 2,110,043</u>	<u>\$ (40,404,316)</u>	<u>\$ 19,259,332</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	\$ <u>109,749,345</u>	\$ <u>111,531,216</u>	\$ <u>127,524,880</u>
Net income	\$ 2,110,043	\$ (40,404,316)	\$ 19,259,332
Change in net unrealized capital gains (losses)	41,894	55,526	(1,235,459)
Change in nonadmitted assets and related items	121,497	(2,797,333)	(1,399,520)
Change in liability for reinsurance in unauthorized companies	(12,200)	185,937	20,250
Change in reserve valuation basis	(210,196)	(9,027,518)	0
Change in asset valuation reserve	215,697	(1,533,770)	569,886
Surplus adjustments			
Paid in	0	70,000,000	0
Dividends to stockholders	0		
Deferred gain from reinsurance transaction	(484,864)	(484,862)	(1,199,998)
Utilization of tax loss carryforwards by affiliated group members	<u>0</u>	<u>0</u>	<u>3,229,466</u>
Net change in capital and surplus	\$ <u>1,781,871</u>	\$ <u>15,993,664</u>	\$ <u>19,243,957</u>
Capital and surplus, December 31, current year	\$ <u>111,531,216</u>	\$ <u>127,524,880</u>	\$ <u>146,768,837</u>

D. RESERVES

The Department conducted a review of reserves as of December 31, 2000 and as of December 31, 2001. This review included an examination of the supporting asset adequacy analyses in accordance with Department Regulation No. 126. During the review, concerns were raised relating to the potential lack of conservatism in certain assumptions regarding the Company's group disability income claim reserves. The Company has been strengthening the underlying reserve basis since 2000 and has agreed to accelerate the reserve strengthening in a manner acceptable to the Department.

The examiner recommends that the Company continue to accelerate its reserve strengthening as agreed upon with the Department.

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

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

B. Underwriting and Policy Forms

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

Section 403(d) of the New York Insurance Law states, in part:

“All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms . . . shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty . . .’ ”

The Company's claim form did not include all of the required language in its fraud warning. Specifically, the form failed to mention that the person attempting to defraud an insurance company has committed a crime and is subject to a civil penalty in addition to the value of the claim for each violation.

The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language in its claim forms.

C. Treatment of Policyholders

The individual disability and long term disability claims practices of the Company were covered by the Targeted Multi-State Market Conduct Examination (“Multi-State”) of the Unum Provident Companies, with a report dated November 18, 2004, of which New York was a participating jurisdiction. As a result, this examination was temporarily suspended for a period of time until the Multi-State examination was completed. The Multi-State examination resulted in a Regulatory Settlement Agreement with the Company and an overall fine in the amount of \$15,000,000 that was levied on the Unum Provident Companies.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company’s review included underwriting manuals, rate books and manuals, systems, policy files, agent records and commission schedules, rate filings and interviews with long time employees in the underwriting department. In summary, the Company reported that it found no indication that race was ever a factor in its underwriting practices.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

7. 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 Company violated Section 2 of its service agreement with Unum Life Insurance Company of America by allowing its affiliate to communicate with policyholders and beneficiaries in the name of Unum Life Insurance Company of America. A similar comment was contained in the immediately preceding filed report on examination.</p> <p>The Company now has procedures in place that require all communications with New York policyholders and beneficiaries to identify First Unum Life Insurance Company as the insuring entity. The Company distributed sample communications to the workforce emphasizing the requirement of clearly identifying the Company as the insurer.</p>
B	<p>The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer.</p> <p>The Company has created an advertising compliance department to focus on the review of marketing and advertising material for compliance. A review indicated that the Company is in compliance with Section 2122(a)(2) of the New York Insurance Law.</p>
C	<p>The Company violated Section 1505(d) of the New York Insurance Law by entering into a service agreement with Colonial Life & Accident Insurance Company, an affiliate, without submitting such agreement to the Department for its review.</p> <p>An administrative agreement between Colonial Life & Accident Insurance Company and the Company was approved on March 5, 1999.</p>
D	<p>The examiner recommends that the Company prepare Schedule Q more carefully. A similar comment was contained in the immediately preceding filed report on examination.</p> <p>A review indicated that there were no discrepancies in Schedule Q.</p>

<u>Item</u>	<u>Description</u>
E	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law by issuing endorsements, which added benefit coverages or made changes to its group travel and group accident policies, which were not filed with or approved by the Department. A similar comment was contained in the immediately preceding report on examination.</p> <p>The Company filed its group travel and group accident riders and endorsements with the Department and they were approved on April 26, 1999.</p>
F	<p>The Company violated Section 52.40(f)(5) of Department Regulation No. 62 by using retrospective rating formulas, in some of its group accident and health policies, that were not filed with the Department. A similar violation was noted in the two preceding filed reports on examination.</p> <p>The Company placed on file a variety of experience rating factors as a corrective measure.</p>
G	<p>The examiner recommends that the Company pay interest at the same rate on both individual and group death claims.</p> <p>The Company pays the same rate of interest on all New York death claims pursuant to Section 3214 of the New York Insurance Law.</p>
H	<p>The Company violated Section 310(a)(2) and (3) by not providing convenient access to its books and records.</p> <p>The Company provided the examiner with convenient access to its books and records.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(c) of the New York Insurance Law when it failed to obtain the Superintendent's prior approval for the \$70 million capital contribution made by its parent in 1999.	7
B	The Company violated Section 1505(d)(3) of the Insurance Law when it failed to notify the Superintendent of its new general services agreement at least 30 days prior to its effective date.	7 – 8
C	The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement and the amendments to it with the Department in accordance with Department Circular Letter No. 33 (1979).	8
D	The examiner recommends that the Company list all directors on the jurat pages of all filed annual statements.	9
E	The Company violated Section 1201(a)(5)(B)(vi) of the New York Insurance Law by failing to have at least three members of its board of directors who are residents of New York State.	10
F	The examiner recommends that the Company obtain completed conflict of interest questionnaires from all of its directors annually.	10
G	The Company violated Section 1505(d)(2) of the New York Insurance Law when it failed to notify the Superintendent at least 30 days prior to entering into reinsurance agreements with its parent and affiliates.	12
H	The examiner recommends that the Company continue to accelerate its reserve strengthening as agreed upon with the Department.	19
I	The Company violated Section 403(d) of the New York Insurance Law by failing to use the required fraud warning language in its claim forms.	20
J	The disability income claim review was covered by the "Multi-State" examination of the Unum Provident Companies which resulted in a Regulatory Settlement Agreement with the Company and an overall fine in the amount of \$15,000,000 that was levied on the Unum Provident Companies.	21

APPOINTMENT NO. 21758

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:

EDWARD TASKER

as a proper person to examine into the affairs of the

FIRST UNUM LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 1st day of August, 2001



GREGORY V. SERIO

Superintendent of Insurance

A handwritten signature in black ink, appearing to read "Gregory V. Serio".

Superintendent