STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

SECURITY MUTUAL LIFE INSURANCE COMPANY OF NEW YORK

CONDITION: DECEMBER 31, 2005

DATE OF REPORT: FEBRUARY 16, 2007

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EXAMINER: MARK MCLEOD

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

November 1, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30358, dated June 18, 2009 and annexed hereto, an examination has been made into the condition and affairs of the Security Mutual Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 100 Court House Square, Binghamton, New York 13902.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

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

1. EXECUTIVE SUMMARY

The material violations contained in this report are summarized below.

- The Company violated Section 3209(d)(7) of the New York Insurance Law by failing to disclose to applicants in writing that when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid. (See Section 4B of this report)
- The Company violated Section 2611(a) of the New York Insurance Law by requiring an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the written informed consent of such individual prior to such testing. (See Section 4B of this report)
- The Company violated Section 2108(a)(4) of the New York Insurance Law by paying fees to an unlicensed independent adjuster. (See Section 4A of this report)

2. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2001 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

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

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

3. DESCRIPTION OF THE COMPANY

A. History

The Company was originally incorporated as a mutual assessment association under the name Security Mutual Life Association on November 6, 1886 and commenced business on January 3, 1887. The Company was re-incorporated as Security Mutual Life Insurance Company, a stipulated premium company, on May 31, 1898. The Company reorganized on December 28, 1899 as a legal reserve mutual company. The Company changed its name to Security Mutual Life Insurance Company of New York in 1960. The Company is a mutual life insurance company owned by its policyholders, and operates primarily in the Northeast.

In February 2004, the Company announced the signing of a Stock Purchase Agreement ("Agreement") dated February 9, 2004 with the Ohio National Life Insurance Company. Such Agreement called for Ohio National to acquire the Company through a sponsored demutualization. Under the terms of the Agreement, the Company was to convert to a stock company and then sell all of its stock to Ohio National. The Department officially disapproved the Agreement on December 30, 2004.

B. Territory and Plan of Operation

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

The Company is licensed to transact business in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. In 2005, 62% of life premiums, 31% of accident and health premiums, 74% of annuity considerations and 57% of deposit type funds were received from New York.

The Company primarily markets traditional whole life products, universal life and fixed annuities with emphasis on the personal and estate planning needs of business owners and professional individuals. The Company also markets group life and group disability products. In addition, the Company is expanding its sales of products and services at the worksite, with an emphasis on marketing its individual life and annuity products through the traditional employer channel and providing specialized deposit fund investment and administration services to qualified retirement plans.

Ancillary product lines include variable life and annuity products sold through National Security Life and Annuity Company ("NSLAC"). Policies are written on a participating basis.

The Company's agency operations are conducted on a general agency basis which includes career agents and brokers and specialized group and worksite insurance agents.

4. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

1. Section 2108(a) of the New York Insurance Law states, in part:

> "(3) No adjuster shall act on behalf of an insurer unless licensed as an independent adjuster, and no adjuster shall act on behalf of an insured unless licensed as a public adjuster.
> (4) No insurer, agent or other representative of an insurer shall pay any fees or other compensation to any person, firm, association or corporation for acting as an independent adjuster except to a licensed independent adjuster . . . "

The Company paid $16,520 in fees to SIEBA Ltd. ("SIEBA") during the examination period for administrating the Company's old block of individual health claims on behalf of the Company. In performing its duties SIEBA adjusted claims without having first obtained an independent adjuster's license.

The Company violated 2108(a)(3) of the New York Insurance Law by having an unlicensed independent adjuster administer its individual health claims.

The Company violated Section 2108(a)(4) of the New York Insurance Law by paying fees to an unlicensed independent adjuster.

B. Underwriting and Policy Forms

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

Section 3209(d) of the New York Insurance Law states, in part:

> "The preliminary information shall be in writing and include, to the extent applicable, the following . . .
> (7) . . . the applicant shall be advised that, when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid . . . "

According to the Company, the Statement of Policy Cost and Benefit Information serves as both the preliminary information (at or prior to the time the application is taken) and as the policy summary (prior to the delivery of the policy). The examiner reviewed the format and content of the Statement of Policy Cost and Benefit Information for compliance with preliminary information requirements. The review revealed that the Statement of Policy Cost and Benefit Information failed to disclose that when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid.

The Company violated Section 3209(d)(7) of the New York Insurance Law by failing to disclose to applicants in writing that when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid.

Section 2611(a) of the New York Insurance Law states, in part:

> "No insurer or its designee shall request or require an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the written informed consent of such individual prior to such testing . . . "

The examiner reviewed a sample of 10 joint survivorship policies, which required the two individuals proposed for insurance coverage in each policy, to be the subject of HIV testing. The review revealed that in 8 of the 20 cases (40%) the Company did not obtain the required written informed consent from the individual prior to performing the HIV testing.

The Company violated Section 2611(a) of the New York Insurance Law by requiring an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the required written informed consent of such individual prior to such testing.

C. Treatment of Policyholders

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

Section 216.6(c) of Department Regulation No. 64 states, in part:

> " . . . In any case where the claim is rejected, the insurer shall notify the claimant, or the claimant's authorized representative, in writing, of any applicable policy provision limiting the claimant's right to sue the insurer."

During the review of a sample of seven denied long-term disability claims the examiner noted that all seven denial claim letters failed to contain the applicable policy provision limiting the claimant's right to sue the Company. The applicable long-term disability policy (Policy Form GLTD1987) contains a three-year statute of limitation under which the insured is allowed to bring legal action against the Company.

The Company violated Section 216.6(c) of Department Regulation No. 64 by failing to include in the respective denial letters the applicable long-term disability policy provision limiting the claimant's right to sue the Company.

5. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

Item	Description	Page No(s).
A	The Company violated 2108(a)(3) of the New York Insurance Law by having an unlicensed independent adjuster adjust its individual health claims.	6
B	The Company violated Section 2108(a)(4) of the New York Insurance Law by paying fees to an unlicensed independent adjuster.	6
C	The Company violated Section 3209(d)(7) of the New York Insurance Law by failing to disclose to applicants in writing that when the policy is issued, a complete policy summary, including cost data, based on the benefits, premiums and dividends of the policy as issued, will be furnished; and that, following the receipt of the policy and policy summary, there will be a period of not less than ten days within which the applicant may return the policy for an unconditional refund of the premiums paid.	7
D	The Company violated Section 2611(a) of the New York Insurance Law by requiring an individual proposed for insurance coverage to be the subject of an HIV related test without receiving the written informed consent of such individual prior to such testing.	8
E	The Company violated Section 216.6(c) of Department Regulation No. 64 by failing to include in the respective denial letters the applicable long-term disability policy provision limiting the claimants' right to sue the Company.	8

Respectfully submitted,

_____/s/_____
Mark McLeod
Associate Insurance Examiner

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

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

_____/s/_____
Mark McLeod

Subscribed and sworn to before me

this_____ day of _____

APPOINTMENT NO. 30358

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

MARK MCLEOD

as a proper person to examine into the affairs of the

SECURITY MUTUAL 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 18th day of June, 2009

ERIC R. DINALLO
Superintendent of Insurance

Superintendent