



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

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

AUGUST 24, 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

Eric R. Dinallo  
Superintendent

November 17, 2008

Eric R. Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22565, dated October 30, 2006 and annexed hereto, an examination has been made into the condition and affairs of Standard Security Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 485 Madison Avenue, New York, New York 10022.

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

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

## 1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement. (See item 5 of this report)

The Company violated Section 4235(h) of the New York Insurance Law by not filing premium rate schedules used for its stop-loss policies with the Superintendent. (See item 6B of this report)

The Company violated Section 2108(a)(3) of the New York Insurance Law by contracting with third parties, who are not licensed adjusters, to provide claims adjudication services with regard to its stop-loss policies. (See item 6A of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not filed with and approved by the Superintendent. (See item 6B of this report)

The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to establish one or more committees comprised solely of directors who are not officers or employees of the Company to recommend the selection of independent certified public accountants, review the Company's financial condition, the scope and results of the independent audit and any internal audit and recommend to the board of directors the selection of principal officers. (See item 3C of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 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, 2006 to determine whether the Company's 2006 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
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendations and comments 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 June 28, 1957, under the name American Security Life Insurance Company of New York. It was licensed and commenced business on December 22, 1958. The present name was adopted in 1958. Initial resources of \$500,000, consisting of common capital stock of \$500,000, were provided through the sale of 250,000 shares of common stock (with a par value of \$2.00 each).

As of December 31, 2003, the Company had paid-in and contributed surplus of \$2,586,845 and \$6,156,419, respectively. The Company's paid-in surplus increased by \$16,000,000 due to a capital contribution of \$5,000,000 in 2004 and \$11,000,000 in 2006 from its parent, Madison National Life Insurance Company ("MNL").

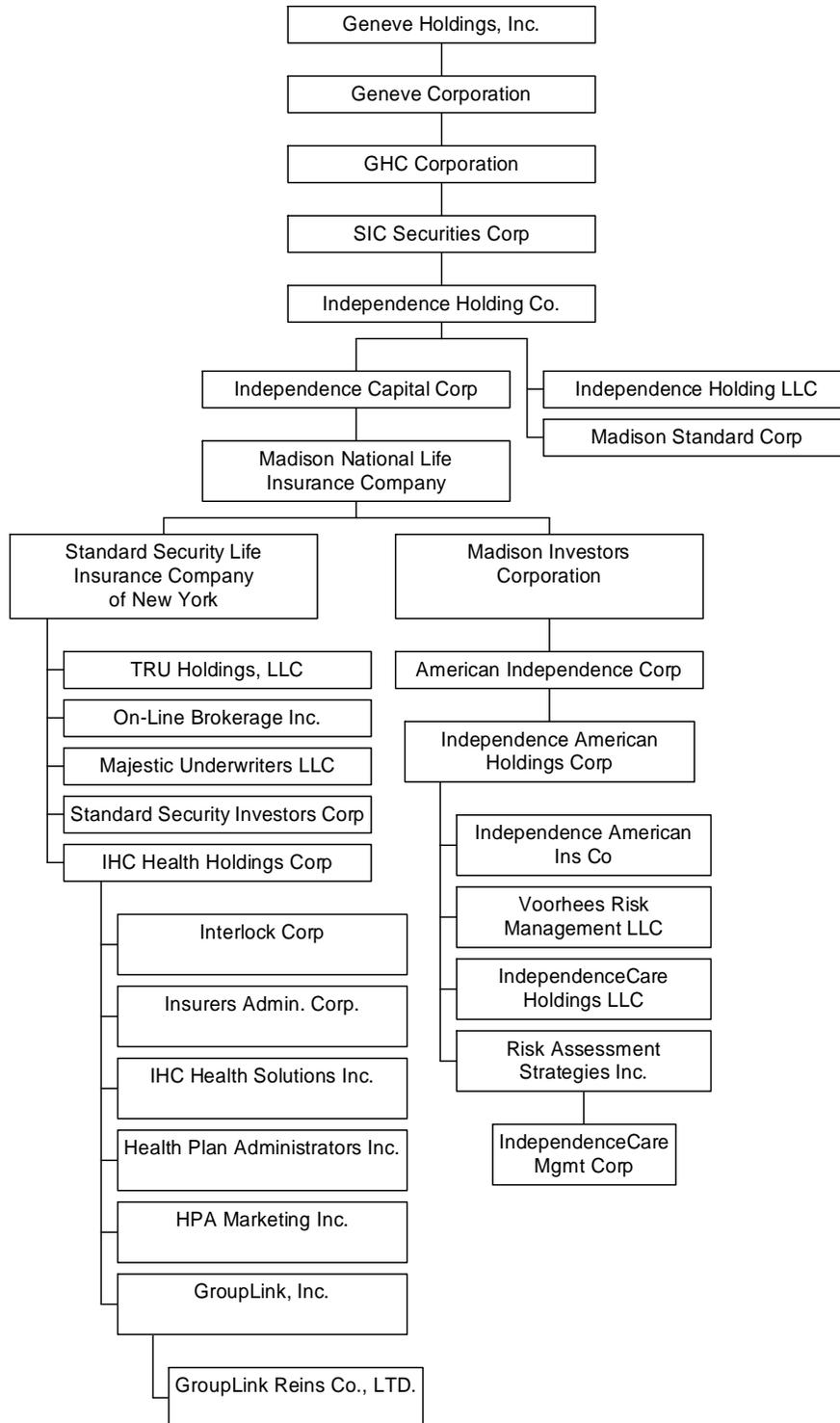
As of December 31, 2006, the Company had 1,034,738 shares of common stock authorized and outstanding with a par value of \$2.50 per share. As of the same date, capital and paid-in and contributed surplus were \$2,586,845 and \$22,156,419, respectively.

#### B. Holding Company

The Company is a wholly owned subsidiary of MNL, a Wisconsin life insurance company, which sells group long-term disability and group term life products to school districts and municipalities in the Midwest. MNL is in turn a wholly owned subsidiary of Independence Holding Company ("IHC"), a holding company domiciled in the State of Delaware, and engaged principally in the life and health insurance business. The ultimate parent of the Company is Geneve Holdings, Inc., a Connecticut holding company.

The Company had five subsidiaries, Standard Security Investors Corp., On-Line Brokerage, Inc., Majestic Underwriters LLC, TRU Holdings, LLC and IHC Health Holdings that were reported on the December 31, 2006 filed annual statement.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2006 follows:



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

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement	11/1/99	Madison Standard Corp.	the Company	Underwriting, premium collection, agent administration and claims payment	Long Term Disability 2004 \$(57,891) 2005 \$(37,961) 2006 \$(41,414)  Group Term Life 2004 \$(21,260) 2005 \$(1,307) 2006 \$ 0
Service Agreement	6/1/98	IHC, MNL Independence Care – Minneapolis LLC (“ICMN”), and the Company	IHC, MNLIC, ICMN, Independence American Insurance Company (“IAIC”), American Independence Corp. (“AMIC”), Independence Care-MidAtlantic (“ICMA”), Independence Care – Southwest (“ICSW”), Independence Care – Tennessee (“ICTN”), the Company	Accounting (IHC), Audit (MNLIC and ICMN) and Marketing, Policy Issuance and Premium Services (ICMN) provided to the Company  Legal, Tax, Financial Statement Preparation, Accounting and Actuarial (except IHC), Marketing Policy Issuance, and Premium Services (MNLIC, IAIC, ICMA, ICSW and ICTN) and Audit (except ICMN) services provided by the Company	IAIC 2004 \$223,245 2005 \$256,852 2006 \$357,153  AMIC 2004 \$ 0 2005 \$ 0 2006 \$18,050

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Amended and restated Service Agreement	11/25/03	Madison Standard Corp.	the Company	Data processing, actuarial, policy administrative services and accounting services	2004 \$ (91,758) 2005 \$(164,378) 2006 \$(143,630)
Amended and restated Investment Counsel Agreement	1/1/02	IHC	the Company	Investment counsel	2004 \$(692,019) 2005 \$(799,061) 2006 \$(895,876)

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

The Company participates in a tax allocation agreement with IHC.

### 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 13 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, 2006, the board of directors consisted of nine members. Meetings of the board are held quarterly.

The nine board members and their principal business affiliation, as of December 31, 2006, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Bernard Eichwald* Stamford, CT	President B. Eichwald & Co., Inc.	1960
Larry R. Graber Austin, TX	President Madison National Life Insurance Company	1996
John L. Lahey* Cheshiri, CT	President Quinnipiac University	2006
Steven B. Lapin Stamford, CT	Executive Vice President Independence Holding Company	1992

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert M. Leopold* Larchmont, NY	President Huguenot Associates, Inc.	1975
Rachel Lipari New York, NY	President and Chief Operating Officer Standard Security Life Insurance Company of New York	1989
Edward Netter* Greenwich, CT	Chairman Netter International, Ltd.	1973
James D. Tatum* Birmingham, AL	Sole Proprietor J. Tatum Capital, LLC	2006
Roy T.K. Thung White Plains, NY	Chairman and Chief Executive Officer Standard Security Life Insurance Company of New York	1990

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

In March, 2007, Gary J. Balzofiore was elected to 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.

The following is a listing of the principal officers of the Company as of December 31, 2006:

<u>Name</u>	<u>Title</u>
Roy T.K. Thung	Chairman and Chief Executive Officer
Rachel Lipari	President and Chief Operating Officer
Gary J. Balzofiore	Executive Vice President and Chief Financial Officer
C. Winfield Swarr	Senior Vice President – Underwriting
David T. Kettig	Senior Vice President
Scott M. Wood	Senior Vice President
Adam Christian Vandervoort	Vice President, General Counsel and Secretary

Thomas A. Gibbons, Vice President and Chief Compliance Officer, is the Company's designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

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 recommending the selection of independent certified public accountants, reviewing the company’s financial condition, the scope and results of the independent audit and any internal audit, 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 Company’s President and Chief Operating Officer was a member of the Company’s Audit Committee from November 10, 2005 through the end of the examination period (she participated in the November 10, 2005, May 8, 2006 and November 8, 2006 meetings as a member). She was a member of the Nominating Committee from August 7, 2006 through the end of the examination period (she participated in the August 8, 2006 meeting as a member) and participated in the Compensation Committee meeting on December 31, 2006. The Audit Committee’s duties as outlined in the Company’s by-laws include recommending the selection of independent certified public accountants and reviewing the Company’s financial condition, the scope and results of the independent audit and any internal audit. The Nominating Committee’s duties as outlined in the Company’s by-laws include recommending to the board of directors the selection of principal officers. The Compensation Committee’s duties as outlined in the Company’s by-laws include the approval of compensation for the Company’s officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to establish one or more committees comprised solely of directors who are not officers or employees of the Company to recommend the selection of independent certified public accountants, review the Company’s financial condition, the scope and results of the independent audit and any internal audit and recommend to the board of directors the selection of principal officers.

A review of the Company’s board of director and committee minutes failed to reveal a committee that was evaluating the performance of officers deemed by such committee to be

principal officers of the Company as required by Section 1202(b)(2) of the New York Insurance Law.

The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to evaluate the performance of officers deemed to be principal officers of the Company.

The resolution in the Company's Finance Committee minutes states that each purchase, sale or other disposition of securities presented to the Committee, be and hereby is, ratified and approved. However, the purchases and sales were not attached to the minutes. When the examiner requested evidence that each purchase, sale or other disposition of securities was approved by the board of directors or an authorized committee of the board, the Company presented a transaction report that was not attached to the minutes. The Company stated that the transaction report is the document that was presented to the Finance Committee but the examiner was unable to verify that the transaction report was presented to the Finance Committee for review and approval.

The examiner recommends that in the future the Company attach all approvals associated with purchases and sales of securities to the Finance Committee minutes.

#### 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 all 50 states, the District of Columbia, the US Virgin Islands and Puerto Rico. In 2006, 62% of life premiums, 13% of accident and health premiums, 97% of annuity considerations and 89% of deposit type funds were received from New York. Policies are written on both a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2006:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	62.31%	New York	96.65%
Arizona	7.95	Pennsylvania	3.20
Kentucky	5.50		0.0
New Jersey	3.07		0.0
Illinois	<u>2.87</u>		<u>0.0</u>
Subtotal	81.70%	Subtotal	99.85%
All others	<u>18.30</u>	All others	<u>0.15</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>
<u>Accident and Health Insurance Premiums</u>		<u>Deposit Type Funds</u>	
New York	12.95%	New York	89.11%
Texas	8.45	Connecticut	<u>8.40</u>
Indiana	7.43		
Illinois	6.93		
California	<u>5.71</u>		
Subtotal	41.47%	Subtotal	97.51%
All others	<u>58.53</u>	All others	<u>2.49</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

The Company's products include: employer medical stop-loss; small group major medical; short-term medical; vision; dental; limited medical; managed care; New York statutory disability; group life; and volunteer firefighter group life, group annuities, and blanket accident and sickness. The Company does not sell any small group major medical, short-term medical or limited medical insurance to New York State residents.

The Company also has existing business in-force in the following lines of business which are in run-off: individual accident and health; individual life; and single premium immediate annuities.

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

Employer medical stop-loss insurance is marketed through third party administrators ("TPAs"), Managing General Underwriters ("MGUs") financial planners, brokers, consultants

and Health Maintenance Organizations (“HMOs”). The Company’s stop-loss coverage is sold to employers who self-insure portions of their employees’ health benefits with 50 or more employees with deductibles greater than \$50,000.

Group major medical is sold through general agents primarily to small and medium size employers with 2 to 50 employees, and is designed to work with health reimbursement accounts and health savings accounts. Short-term medical is sold primarily through agents and brokers to meet the needs of individuals desiring medical coverage for a limited period of time.

The Company sells short-term statutory disability insurance, which is coverage that is required for employers in New York, to small employer groups (less than 50 employees) on a guaranteed issue basis and to large employer groups (with 50 or more employees) meeting the Company’s established underwriting guidelines, through brokerage general agents.

The Company also offers managed care products to all licensed HMOs, including excess loss policies to hospitals, physicians and other health care provider groups that desire to reduce their risk assumption or are required to purchase this coverage by state regulation. Also, point-of-service insurance is sold to employers who are participating in an HMO benefit plan that want to purchase a health insurance product that will give their employees a choice of providers. Vision and dental insurance is marketed to employer groups and individuals.

As of December 31, 2006, the Company had 14 MGUs and TPAs. The MGUs are non-salaried contractors who receive administrative fees for administering the Company’s stop-loss business. They underwrite policies utilizing the Company’s underwriting guidelines, and pay claims on behalf of the Company.

#### E. Reinsurance

As of December 31, 2006, the Company had 178 reinsurance treaties in effect with 81 companies, of which 65 were authorized or accredited. The Company’s life and accident and health business is reinsured on a coinsurance, modified-coinsurance, catastrophe, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The Company’s maximum retention limits are as follows: \$210,000 per life on individual life contracts and corresponding disability waiver of premium, no retention on accidental death benefits provided by rider on individual life policies; up to \$1,000,000 on any one medical stop-loss claim; \$2,500 of monthly benefits on disability income policies; \$25,000 on its special disability business; and up to \$1,000,000 on fully insured medical in a calendar year. The

Company also maintains catastrophe reinsurance in order to protect against particularly adverse mortality which might occur in its overall life business. The total face amount of life insurance ceded as of December 31, 2006, was \$37,996,000, which represents 47.1% of the ordinary life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$550,034, was supported by letters of credit.

On January 1, 2005, the Company assumed, on a 100% quota basis, a \$50 million block of small group major medical business. This business is not written in New York.

The Company increased its average retention of the first \$1 million of medical stop-loss exposure to 51.2% in 2006 from 45.3% in 2005. In 2006 and 2005, the Company and MNL also ceded, on average 22.2% and 21.9% respectively, of their medical stop-loss business to their affiliate, IAIC. The Company retained 80% of its disability (“DBL”) premium with the balance ceded to IAIC.

The total face amount of life insurance assumed as of December 31, 2006, was \$26,690,252.

Section 1308(a)(2)(A) of the New York Insurance Law states, in part:

“No credit shall be allowed, as an admitted asset or deduction from liability, to any ceding insurer for reinsurance ceded, renewed, or otherwise becoming effective after January first, nineteen hundred forty, unless:

(i) the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer . . .”

A review of the Company’s reinsurance treaties with Swiss Re Life & Health America Inc., Everest Reinsurance Company, Folksamerica Reinsurance Company and American Reinsurance Company contain the following insolvency clause language:

Swiss Re Life & Health America Inc., Everest Reinsurance Company, and Folksamerica Reinsurance Company Reinsurance Agreements

“In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator, or statutory successor **immediately upon demand, with reasonable provisions for verification**, on the basis of the liability of the Company without diminution because of the insolvency of the Company . . .” (**emphasis added**)

American Reinsurance Company Reinsurance Agreement

“In the event of the insolvency of the Company and the appointment of a conservator, liquidator or statutory successor, the reinsurance provided by this Agreement shall be payable by the Reinsurer directly to the Company or to its liquidator, receiver or statutory successor on the basis of the liability of the Company under the contract or contracts reinsured. Subject to the right of offset **and the verification of coverage**, the Reinsurer shall pay its share of the loss without diminution because of the insolvency of the Company . . . ” (**emphasis added**)

Section 1308(a)(2)(A)(i) of the New York Insurance Law does not provide for the wording “immediately upon demand with reasonable provision(s) for verification,” “and the verification of coverage” in the insolvency clause as used in the reinsurance agreements noted above. The reinsurance should be payable “on the basis of the liability of the ceding insurer under the contracts reinsured without diminution because of the insolvency of the ceding insurer” without exception.

The Company took reserve credits in 2006 for the treaties listed above as follows:

Swiss Re Life & Health America Inc.	\$ 315,777
Swiss Re Life & Health America Inc.	646
Swiss Re Life & Health America Inc.	127
Swiss Re Life & Health America Inc.	<u>16,363</u>
Total Swiss Re Life & Health America Inc.	\$ <u>332,913</u>
American Reinsurance Company	\$ 7,349,881
Everest Reinsurance Company	2,388,007
Folksamerica Reinsurance Company	<u>1,193,992</u>
Total Reserve Credits Taken	<u>\$11,264,793</u>

The examiner recommends that the Company revise the reinsurance agreements listed above so that the insolvency clause complies with Section 1308(a)(2)(A)(i) of the New York Insurance Law.

#### 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>2003</u>	December 31, <u>2006</u>	<u>Increase</u>
Admitted assets	\$ <u>248,380,652</u>	\$ <u>344,282,872</u>	\$ <u>95,902,220</u>
Liabilities	\$ <u>160,229,109</u>	\$ <u>236,364,785</u>	\$ <u>76,135,676</u>
Common capital stock	\$ 2,586,845	\$ 2,586,845	\$ 0
Gross paid in and contributed surplus	6,156,419	22,156,419	16,000,000
Group contingency life reserve	225,000	362,000	137,000
Unassigned funds (surplus)	<u>79,183,279</u>	<u>82,812,823</u>	<u>3,629,544</u>
Total capital and surplus	\$ <u>88,151,543</u>	\$ <u>107,918,087</u>	\$ <u>19,766,544</u>
Total liabilities, capital and surplus	\$ <u>248,380,652</u>	\$ <u>344,282,872</u>	\$ <u>95,902,220</u>

The Company's invested assets as of December 31, 2006 were mainly comprised of bonds (72.3%), stocks (11.5%) and cash and short-term investments (9.6%).

The majority (98.7%) of the Company's bond portfolio, as of December 31, 2006, was comprised of investment grade obligations.

Net investment income was distributed to major annual statement lines of business in accordance with the investment year method.

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

"Net investment income (receipts). (1) The cost of granting and servicing premium notes and policy loans and liens shall be allocated to investment expenses. The resulting net income on premium notes and policy loans and liens may be distributed to those lines of business which produced such income. In making such distribution, due consideration shall be given to the variation in the interest rate and incidence of expense on such notes, loans and liens. Any miscellaneous interest income arising from policy or annuity transactions may be allocated directly to the line of business producing such income.

- (2) Net investment income, after adjustment, if any, as permitted by the preceding paragraph shall be distributed to major annual statement lines of business either:
- (i) in proportion to the total mean policy reserves and liabilities of each of such major annual statement lines of business or
  - (ii) in proportion to the total mean funds of each of such major annual statement lines of business. . .
- (3) In lieu of the methods specified in the preceding paragraph, a life insurer may distribute net investment income by an investment year method if its use of such method complies with the rules stated in section 91.5.”

The Company has added income to three specific products of its group accident and health line of business. The Company made investments in operating companies that produce a specific line of business for the Company. The Company applied the operating income that these entities earned directly to the line of business that they manage. It was further noted that the Company used only reserves to allocate its investment income and not any liabilities.

The Company violated Section 91.4(c)(2) and Section 91.4(c)(3) of Department Regulation No. 33 by failing to distribute net investment income to the major annual statement lines of business: in proportion to the total mean policy reserves and liabilities of each major annual statement lines of business; in proportion to the total mean funds of each such major annual statement lines of business; or by using the investment year method.

Section 91.4(a)(1) of Department Regulation No. 33 states, in part:

“It is the responsibility of each life insurer to use only such methods of allocation as will produce a suitable and equitable distribution of income and expenses by lines of business. . . .”

The Company’s method for allocating general insurance expenses and insurance taxes, licenses and fees (lines 23 and 24 of “Analysis of Operations by Lines of Business”) contains no provision for supplementary contracts. The Company was not allocating general expenses to the supplementary contracts line of business for its Volunteer Fire District’s group annuity contracts. When a participant is entitled to benefits, they have the option of taking a lump sum benefit or a supplementary contract. If the insured takes a lump sum then the general expenses associated with it should be charged to the group annuity line. If the participant chooses the supplemental contract, then expenses should be charged to the supplementary contract line. However, the

Company was including the general expenses relating to supplementary contracts to the group annuity line.

The examiner recommends that the Company develop the proper expenses for the supplementary contracts line of business.

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>2004</u>	<u>2005</u>	<u>2006</u>
Ordinary:			
Life insurance	\$ 365,644	\$ 791,301	\$ 561,860
Individual annuities	360,956	(62,602)	(118,345)
Supplementary contracts	<u>(113,531)</u>	<u>(73,280)</u>	<u>178,809</u>
Total ordinary	<u>\$ 613,069</u>	<u>\$ 655,419</u>	<u>\$ 622,324</u>
Group:			
Life	\$ (309,564)	\$ (213,667)	\$ 202,956
Annuities	<u>1,031,663</u>	<u>231,759</u>	<u>928,747</u>
Total group	<u>\$ 722,099</u>	<u>\$ 18,092</u>	<u>\$ 1,131,703</u>
Accident and health:			
Group	\$10,860,325	\$9,251,722	\$ 8,992,686
Other	<u>(72,419)</u>	<u>(205,576)</u>	<u>(109,898)</u>
Total accident and health	<u>\$10,787,906</u>	<u>\$9,046,146</u>	<u>\$ 8,882,788</u>
Total	<u>\$12,123,074</u>	<u>\$9,719,657</u>	<u>\$10,636,815</u>

The variances in ordinary life insurance and individual annuities income were primarily the result of business assumed from American General (now United States Life Insurance Company in the City of New York). The business has dropped considerably and as a result has experienced large volatility. This business was recaptured as of July 1, 2006.

The losses incurred in the supplementary contracts line of business in 2004 and 2005 were due to the low amount of investment income this line earned. In 2006, with the large

increase in reserves, the line became more profitable due to the increase in its share of investment income.

The group life line has increased each year since the Company started to increase its retention.

The group annuity line of business decrease in 2005 was due to low investment income and higher commission strain on new business.

The other accident and health line of business is primarily the individual disability income policies issued over 20 years ago. This line of business is in runoff and has adverse selection since it has no new business and it is non-cancellable.

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>2004</u>	<u>2005</u>	<u>2006</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	62.8%	68.1%	67.8%
Commissions	7.9	12.8	13.9
Expenses	<u>17.1</u>	<u>13.7</u>	<u>13.8</u>
	<u>87.8%</u>	<u>94.6%</u>	<u>95.5%</u>
Underwriting results	<u>12.2%</u>	<u>5.4%</u>	<u>4.5%</u>

Underwriting results decreased while commissions increased as a result of increases in incurred losses on the stop-loss line of business in the past couple of years due to “softer” market conditions. This occurs when an excess product experiences several consecutive years of underwriting profitability. This can cause more competitors to enter the line, which can increase pressure on pricing.

## 5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2006, as contained in the Company's 2006 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement.

### A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2006

#### Admitted Assets

Bonds	\$212,138,717
Stocks:	
Preferred stocks	33,000,060
Common stocks	801,449
Cash, cash equivalents and short term investments	28,262,752
Contract loans	1,130,295
Other invested assets	6,117,615
Receivable for securities	11,841,572
Investment income due and accrued	2,152,429
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,939,823
Deferred premiums, agents' balances and installments booked but deferred and not yet due	515,672
Reinsurance:	
Amounts recoverable from reinsurers	255,341
Funds held by or deposited with reinsured companies	5,816,491
Other amounts receivable under reinsurance contracts	4,275,590
Net deferred tax asset	1,355,833
Electronic data processing equipment and software	143,000
Receivables from parent, subsidiaries and affiliates	3,240,130
Claim funds	23,492,946
Due from MGU settlements	<u>4,803,157</u>
 Total admitted assets	 <u>\$344,282,872</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 22,725,588
Aggregate reserve for accident and health contracts	46,123,682
Liability for deposit-type contracts	125,106,433
Contract claims:	
Life	139,097
Accident and health	5,953,625
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	21,810
Premiums and annuity considerations for life and accident and health contracts received in advance	23,666
Commissions to agents due or accrued	2,677,008
Commissions and expense allowances payable on reinsurance assumed	511,371
General expenses due or accrued	1,351,083
Taxes, licenses and fees due or accrued, excluding federal income taxes	3,101,619
Current federal and foreign income taxes	53,861
Amounts withheld or retained by company as agent or trustee	31,688
Remittances and items not allocated	3,787,334
Miscellaneous liabilities:	
Asset valuation reserve	2,635,465
Reinsurance in unauthorized companies	32,526
Payable to parent, subsidiaries and affiliates	38,500
Funds held under coinsurance	12,989,259
Reserve for unrepresented checks	189,495
Premium deposit funds	4,693
Amounts due on reinsurance recapture	<u>8,866,982</u>
 Total liabilities	 <u>\$236,364,785</u>
 Common capital stock	 \$ 2,586,845
Gross paid in and contributed surplus	22,156,419
Group contingency life reserve	362,000
Unassigned funds (surplus)	<u>82,812,823</u>
Total capital and surplus	<u>\$107,918,087</u>
 Total liabilities, capital and surplus	 <u>\$344,282,872</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$109,629,760	\$147,867,621	\$176,201,220
Investment income	12,754,488	11,178,538	15,240,259
Commissions and reserve adjustments on reinsurance ceded	28,893,916	27,394,847	23,524,052
Miscellaneous income	<u>66,113</u>	<u>3,461,697</u>	<u>712,123</u>
Total income	<u>\$151,344,277</u>	<u>\$189,902,703</u>	<u>\$215,677,654</u>
Benefit payments	\$ 77,358,656	\$ 97,790,888	\$119,460,966
Increase in reserves	(2,305,608)	9,342,670	(1,998,829)
Commissions	38,731,879	46,799,341	48,714,805
General expenses and taxes	19,868,420	21,251,491	24,903,282
Increase in loading on deferred and uncollected premium	(234,144)	(30,718)	1,334
Amount owed on reinsurance recapture	<u>0</u>	<u>0</u>	<u>9,353,791</u>
Total deductions	<u>\$133,419,203</u>	<u>\$175,153,672</u>	<u>\$200,435,349</u>
Net gain (loss)	\$ 17,925,074	\$ 14,749,031	\$ 15,242,305
Dividends	96,261	105,142	(32,444)
Federal and foreign income taxes incurred	<u>5,705,739</u>	<u>4,924,232</u>	<u>4,637,934</u>
Net gain (loss) from operations before net realized capital gains	\$ 12,123,074	\$ 9,719,657	\$ 10,636,815
Net realized capital gains (losses)	<u>0</u>	<u>815,205</u>	<u>779,180</u>
Net income	<u>\$ 12,123,074</u>	<u>\$ 10,534,862</u>	<u>\$ 11,415,995</u>

The increases in premiums and considerations during the examination period are the result of new business coupled with increased retention in core lines of business.

Miscellaneous income represents administration fees from group life, HMO and stop-loss business. However, in 2005, it also included amounts related to a loss ratio cover and the recapture of a block of stop-loss business reinsured with Everest Reinsurance Company.

On July 1, 2006, the Company and United States Life Insurance Company in the City of New York recaptured business that was previously ceded to each other. The amount due on the reinsurance recapture line represents the reserves owed for this transaction.

In 1986, the Company sold its ordinary life and annuity blocks of business to American General. Policyholders had the right to accept American General or remain with the Company. Part of the terms of the sale was that American General had to cede through quota share reinsurance to the Company a portion of the business it bought. Conversely, the policies that remained with the Company had to be ceded through quota share reinsurance to American General. In order for both parties to be equal under the terms of the sale both companies had similar reinsurance agreements. In 2006, since there was a recapture provision both companies agreed to recapture their respective business.

The increase in benefit payments and fluctuation in the increase in reserves are due to increased premium coupled with worsening experience primarily in the stop-loss line of business.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	\$ <u>88,151,543</u>	\$ <u>105,489,693</u>	\$ <u>110,593,156</u>
Net income	\$ 12,123,074	\$ 10,534,862	\$ 11,415,995
Change in net unrealized capital gains (losses)	89,562	(1,494,677)	(1,358,533)
Change in net deferred income tax	60,744	(177,270)	691,808
Change in non-admitted assets and related items	841,141	803,792	(24,997,453)
Change in liability for reinsurance in unauthorized companies	235,196	179,093	416,688
Change in reserve valuation basis	0	0	(2,200,000)
Change in asset valuation reserve	(1,011,567)	257,663	2,356,426
Surplus adjustments:			
Paid in	5,000,000	0	11,000,000
Dividends to stockholders	<u>0</u>	<u>(5,000,000)</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>17,338,150</u>	\$ <u>5,103,463</u>	\$ <u>(2,675,069)</u>
Capital and surplus, December 31, current year	\$ <u>105,489,693</u>	\$ <u>110,593,156</u>	\$ <u>107,918,087</u>

The decrease in change in net unrealized capital gains is due to the increase in distributed income from the Company's partnerships.

The 2006 increase in net deferred income tax is primarily due to the deferred acquisition costs of new subsidiary investments.

The 2006 decrease in change in non-admitted assets and related items has to do with the amount of goodwill on subsidiary investments which is non-admitted under Department regulation.

The 2006 decrease in change in reserve valuation basis is due to reserve strengthening required by the Department as a result of cash flow testing.

## 6. MARKET CONDUCT ACTIVITIES

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

### A. Advertising and Sales Activities

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

Section 2101(g)(1) of the New York Insurance Law states, in part:

"The term 'independent adjuster' means any person, firm, association or corporation who, or which, for money, commission or any other thing of value, acts in this state on behalf of an insurer in the work of investigating and adjusting claims arising under insurance contracts issued by such insurer and who performs such duties required by such insurer as are incidental to such claims . . ."

Section 2108(a)(3) of the New York Insurance Law states, in part:

"No adjuster shall act on behalf of an insurer unless licensed as an independent adjuster . . ."

The Company had management agreements in effect with two of their MGUs, ASG Risk Management (signed June 5, 2003) and Voorhees Risk Management LLC (d/b/a Marlton Risk Group) (signed August 1, 2005) that allowed the MGUs to perform stop-loss claim processing and administration services on behalf of the Company. As of December 31, 2006, ASG Risk Management administered claims on five group stop-loss cases in New York and Voorhees Risk Management LLC administered claims on six group stop-loss cases in New York. Neither is licensed as an independent adjuster.

The Company violated Section 2108(a)(3) of the New York Insurance Law by contracting with third parties, who are not licensed adjusters, to provide claims adjudication services with regard to its stop-loss policies.

## B. Underwriting and Policy Forms

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

1. 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. . . .”

The Company issued three group annuity contracts with the ‘HDA’ prefix during the examination period.

The application file for the three group annuity contracts with the HDA prefix contained a ‘Death Benefits Annuity’ policy form that described the death benefit and is signed and dated by the contractholder. This Death Benefits Annuity form contains different characteristics from the other group annuity contract (Policy Form VGA99) offered by the Company. The Death Benefits Annuity form contains a 10% partial withdrawal charge and a \$100 policy fee. None of the correspondence in the VGA99 policy form approval mentions the Death Benefits Annuity form, the 10% partial withdrawal charge or the \$100 policy fee.

The Death Benefits Annuity form also contains a statement that reads “This is a term death benefit annuity that is not applicable to any other annuities offered by Standard Security Life Insurance Company of New York.”

The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not filed with and approved by the Superintendent.

2. Section 4235(h) of the New York Insurance Law states, in part:

“(1) Each domestic insurer . . . doing business in this state shall file with the superintendent its schedules of premium rates, rules and classification of risks for use in connection with the issuance of its policies of group accident, group health or group accident and health insurance . . . whether transacted within or without the state.

(2) An insurer may revise such schedules from time to time, and shall file such revised schedules with the superintendent. . . .”

The examiner reviewed 59 group accident and health underwriting files issued during the examination period. The review revealed that none of the rates used were the rates filed with the Department.

The Company violated Section 4235(h) of the New York Insurance Law by not filing premium rate schedules used for its stop-loss policies with the Superintendent.

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

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

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

The examiner reviewed a sample of 20 application files for the Volunteer Firefighters Length of Service Award Annuity Programs.

The examiner noted the following during a review of the application files.

- (a) The initial deposit received by the agent/Company was not recorded anywhere in the application files. Also, the application file did not include a copy of the check or wire transfer from the contractholder, therefore, the examiner was unable to verify the amount of initial deposit and when it was sent to the Company.
- (b) The application was not dated and signed by the agent, therefore, the examiner was unable to confirm the agent responsible for the issuance of the contract.
- (c) There was no statement or letter sent by the Company to the contractholder that confirms the setup of plan and receipt of deposit.

The Company violated Section 243.2 (b)(8) of Department Regulation No. 152 by failing to maintain information that would allow the examiner to determine the initial deposit, the writing agent, and the date the contractholder received evidence that the contract was issued, for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.

In seven of the 20 files reviewed, the state where the application was signed was not recorded on the upper section of the application form (Form No. APPGA99). Also, one of the seven applications was not dated.

The examiner recommends that the upper section of page one of application Form No. APPGA99 be completed in the future.

In 16 cases the lower section of page one of the application (Form No. APPGA99) and the Agent's Report was not completed by the agent. In the lower section of page one the agent did not: state the amount received for the group annuity; state the application date; and sign and date this section. In the Agent's Report, the agent failed to state if any agency or agent other than those signing this Report, had any interest, either directly or indirectly, in the application.

The examiner recommends that the agent completes the lower section of page one and the Agent's Report section of Form No. APPGA99 in the future.

### 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 243.2 of Department Regulation No. 152 states, in part:

“(a) In addition to any other requirement contained in Insurance Law Section 325, any other section of the Insurance Law or other law, or any other provision of this Title, every insurer shall maintain its claims, rating, underwriting, marketing, complaint, financial, and producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provisions of this Part.

(b) 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. . . .”

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

“All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms, except as provided for in subsection (e) of this section, 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 not to exceed five thousand dollars and the stated value of the claim for each such violation.’ ”

(1) The examiner reviewed 23 Volunteer Firefighters Length of Service Award Plan (“LOSAP”) group annuity withdrawal claim records provided by the Company and noted that all 23 claim files were not date stamped. Therefore, the examiner was unable to determine the date the Company received the claim documentation.

The Company violated Section 243.2(b)(4) of Department Regulation No. 152 for failing to maintain claim files that show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received.

(2) The examiner noted among the above withdrawal claim files reviewed that three were annuity death claims. The Claimant’s Statement for annuity death benefits did not contain the fraud warning statement.

The Company violated Section 403(d) of the New York Insurance Law for failing to include the required fraud language in the annuity death claim form.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments 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 127.2 of Department Regulation No. 102 by taking reserve credits for reinsurance where the Company can be deprived of surplus or assets at the assuming insurer's option.</p> <p>The Company amended the applicable agreements per the examiner's recommendation.</p>
B	<p>The examiner comments that surplus as of December 31, 2003 is overstated by the amount of the reserve credits taken under the reinsurance agreements with Everest Reinsurance Company, Transatlantic Reinsurance Company and Partner Reinsurance Company of the U.S.; as a result, surplus should have been reported at \$71,411,574.</p> <p>The Department informed the Company that it is not required to amend or restate its 2003 financials.</p>
C	<p>The examiner recommends that the Company amend existing reinsurance agreements, where possible, to comply with the requirements of Department Regulation No. 102.</p> <p>The Company amended the applicable agreements per the examiner's recommendation.</p>
D	<p>The examiner recommends that the Company supply the Securities Valuation Office ("SVO") with two price quotes for each security that does not have a publicly available price.</p> <p>The Company no longer purchases interest only mortgage-backed securities. The Company currently does not trade in securities that have no publicly available price. However, in the event the Company trades in such securities, the Company will supply the SVO with two price quotes for each security that does not have a publicly available price.</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner recommends that the Company report interest only mortgage-backed securities' impairments in Schedule D Part 1 only, in accordance with the annual statement instructions.</p> <p>The Company changed its method and reports interest only mortgage-backed securities' impairments in Schedule D Part 1 only.</p>
F	<p>The examiner recommends that the Company comply with all applicable filing and reporting requirements of the SVO, and the annual statement instructions, in future annual statement filings.</p> <p>The Company stated that they will comply with all applicable filing and reporting requires of the SVO, and the annual statement instructions, in future annual statement filings. The examiner did not locate any discrepancies.</p>
G	<p>The examiner recommends that the Company develop both a disaster recovery plan and a business continuity plan.</p> <p>The Company filed its disaster recovery plan and a business continuity plan with the Department in accordance with the requirements of Department Circular Letter No. 4 (2006).</p>

## 8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to establish one or more committees comprised solely of directors who are not officers or employees of the Company to recommend the selection of independent certified public accountants, review the Company's financial condition, the scope and results of the independent audit and any internal audit and recommend to the board of directors the selection of principal officers.	9
B	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to evaluate the performance of officers deemed to be principal officers of the Company.	10
C	The examiner recommends that in the future the Company attach all approvals associated with purchases and sales of securities to the Finance Committee minutes.	10
D	The examiner recommends that the Company revise reinsurance agreements so that the insolvency clause complies with Section 1308(a)(2)(A)(i) of the New York Insurance Law.	14
E	The Company violated Section 91.4(c)(2) and Section 91.4(c)(3) of Department Regulation No. 33 by failing to distribute net investment income to the major annual statement lines of business: in proportion to the total mean policy reserves and liabilities of each major annual statement lines of business; in proportion to the total mean funds of each such major annual statement lines of business; or by using the investment year method.	16
F	The examiner recommends that the Company develop the proper expenses for the supplementary contracts line of business.	17
G	The Company violated Section 2108(a)(3) of the New York Insurance Law by contracting with third parties, who are not licensed adjusters, to provide claims adjudication services with regard to its stop-loss policies.	24
H	The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not filed with and approved by the Superintendent.	25

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The Company violated Section 4235(h) of the New York Insurance Law by not filing premium rate schedules used for its stop-loss policies with the Superintendent.	26
J	The Company violated Section 243.2 (b)(8) of Department Regulation No. 152 by failing to maintain information that would allow the examiner to determine the initial deposit, the writing agent, and the date the contractholder received evidence that the contract was issued, for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.	26
K	The examiner recommends that the state where the application was signed be recorded in the upper section of page one of application Form No. APPGA99 in the future.	27
L	The examiner recommends that the agent state: the amount received for the group annuity; the application date; and sign and date the lower section of page one and the Agent's Report section of Form No. APPGA99 in the future.	27
M	The Company violated Section 243.2(b)(4) of Department Regulation No. 152 for failing to maintain claim files that show clearly the inception, handling and disposition of the claim, including the dates that forms and other documents were received.	28
N	The Company violated Section 403(d) of the New York Insurance Law for failing to include the required fraud language in the annuity death claim form.	28



APPOINTMENT NO. 22565

**STATE OF NEW YORK**  
**INSURANCE DEPARTMENT**

I, HOWARD MILLS, 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*

**STANDARD SECURITY LIFE INSURANCE COMPANY OF NEW YORK**

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

**COMPANY**

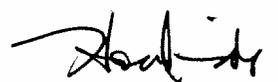
*with such other information as he shall deem requisite.*

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

*this 30th day of October, 2006*



HOWARD MILLS  
Superintendent of Insurance

  
\_\_\_\_\_  
Superintendent