STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

UNITED STATES LIFE INSURANCE COMPANY IN THE CITY OF NEW YORK

AS OF

DECEMBER 31, 2002

DATE OF REPORT:	FEBRUARY 13, 2004
EXAMINER:	DAVID HEE

REPORT ON ASSOCIATION EXAMINATION

OF

UNITED STATES LIFE INSURANCE COMPANY IN THE CITY OF NEW YORK

AS OF

DECEMBER 31, 2002

BY THE INSURANCE DEPARTMENTS OF

NEW YORK

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REPORT DATED: FEBRUARY 13, 2004

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

February 13, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 21999, dated January 21, 2003 and annexed hereto, an examination has been made into the condition and affairs of United States Life Insurance Company in the City of New York, hereinafter referred to as "the Company," at its administrative office located at 3600 Route 66, Neptune, New Jersey 07754.

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.

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

February 13, 2004

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

Honorable John Morrison
Commissioner of Insurance
State of Montana
Secretary of Western Zone
Helena, Montana

Honorable John Oxendine
Commissioner of Insurance
State of Georgia
Secretary, Southeastern Zone
Atlanta, Georgia

Dear Sirs:

In accordance with instructions and pursuant to the provisions of statute, we have made an examination into the affairs and condition of United States Life Insurance Company in the City of New York, hereinafter referred to as "the Company," at its administrative office located at 3600 Route 66, Neptune, New Jersey 07754.

The examination was conducted by the State of New York Insurance Department, hereinafter referred to as the "Department," with participation from the states of Nevada representing the Western Zone and Mississippi representing the Southeastern Zone of the National Association of Insurance Commissioners ("NAIC").

The report on examination is herewith 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, 2002 filed annual statement. (See item 5 of this report)

The Company violated Section 3201(b)(4)(A) of the New York Insurance Law for failing to implement scheduled credit insurance rate reductions approved in its policy form filings with the Department. (See item 6B of this report)

The Company violated Section 185.5(b) of Department Regulation No. 27-A by using credit insurance advertisements that inaccurately described the nature of the benefits being offered and the appropriate premium to be charged. (See item 6A of this report)

The Company violated Section 216.4(e) of Department Regulation No. 64 for not including all complaints in its central complaint log. (See item 6C of this report)

The Company violated Section 3214(c) of the New York Insurance Law by not paying interest from date of death to date of payment on certain death claims. (See item 6C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 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, 2002 to determine whether the Company's 2002 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 violations contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 in February 1850 and commenced business on March 4, 1850. Under a special permit issued pursuant to Section 4231 of the New York Insurance Law, the Company writes both participating and non-participating business in all jurisdictions in which it is authorized to do business.

On June 17, 1997, American General Corporation ("AGC") acquired control of the Company and its immediate parent, USLIFE Corporation, through the merger of USLIFE Corporation with the Texas Stars Corporation, a wholly owned subsidiary of AGC.

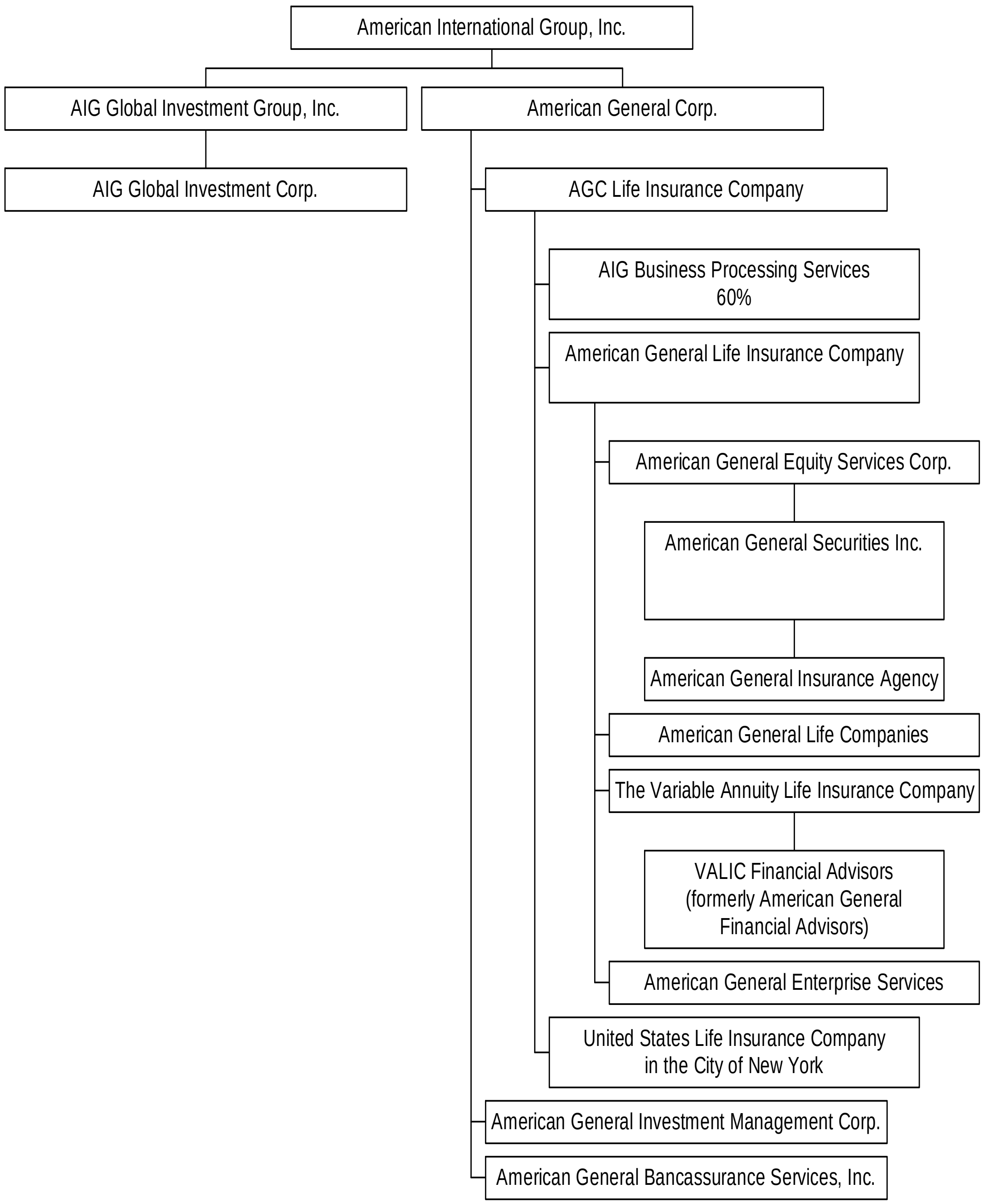
On August 29, 2001, American General Corp. was acquired by American International Group, Inc. ("AIG"), a Delaware corporation, resulting in AIG becoming the Company's ultimate parent.

On December 31, 2002, American General Life Insurance Company of New York ("AGNY"), a New York domiciled company, was merged into the Company.

B. Holding Company

The Company is a wholly owned subsidiary of AGC Life Insurance Company ("AGC Life"), domiciled and licensed in the State of Missouri. AGC Life is in turn a wholly owned subsidiary of AIG. The ultimate parent of the Company is AIG.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2002 follows:



The Company had 13 service agreements in effect during the examination period.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered
Administrative services agreement	January 1, 2002	American General Life Companies	the Company	Accounting, underwriting, actuarial, claims, policyowner, marketing, and distribution services for the Company's group life, health, and credit policies
Administrative services agreement	August 1, 2002	American General Enterprise Services	the Company	Tax, general services and administrative services
Investment services agreement	January 1, 2002	AIG Global Investment Corp.	the Company	Investment services and investment reports
Mortgage servicing agreement	June 17, 1997	American General Investment Management Corp.	the Company	Administration of mortgages held by the Company
License agreement	December 12, 1999	American International Group	the Company	License to use AIG trademark
Administrative services agreement	June 17, 1997	American General Corp.	the Company	Administration of employee benefits programs, human resources, and corporate tax services
Line of credit	August 1, 1997	American General Corp.	the Company	Line of credit
Short term investment pool participation agreement	October 16, 2000	AIG Global Investment Corp.	the Company	AIGGIC serves as manager of the pool
Selling group agreement	December 1, 2000	American General Securities Inc. and American General Equity Services Corp.	the Company	AGSI – broker dealer; AGESC - distributor

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered
Selling group agreement	January 1, 2001	American General Securities Inc., American General Financial Advisors,	the Company	AGFA – broker dealer; AGSI – distributor; AGIA – agency
Home office general agency agreement	October 1, 2000	American General Bancassurance Services, Inc.	the Company	Home office general agency
Agency agreement	November 1, 2001	American General Insurance Agency	the Company	Agent services for sale of fixed products
Administrative services agreement	December 31, 2002	AIG Business Processing Services	the Company	Policyholder services including: data entry, document indexing, updates and changes, benefits/ disbursements, and correspondence. Accounting services including: accounts payable, bank account reconciliation, and suspense accounting.

The Company is party to a tax allocation agreement with various affiliates, effective commencing the tax year ended December 31, 2001. USL and various other subsidiaries of AGC Life Insurance Company receive services including the filing of consolidated returns for the affiliated group. Under this agreement, tax liabilities and excess credits are allocated among each member of the affiliated group.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected annually on the last Thursday of April each year and hold office until the next annual meeting of stockholders. As of December 31, 2002, the board of directors consisted of 13 members. Meetings of the board are generally held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2002, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
M. Bernard Aidinoff* New York, NY	Partner Sullivan & Cromwell	2002
David J. Dietz North Chappaqua, NY	President and Chief Executive Officer United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	1997
Marion E. Fajen* Des Moines, IA	Retired	2002
Patrick J. Foley* Atlantis, FL	Director Various non-affiliated companies	2002
Cecil C. Gamwell, III* Charleston, RI	Retired	2002
Jack R. Harnes* Pawling, NY	Self-employed	2002
David L. Herzog The Woodlands, TX	Chief Operating Officer and Chief Financial Officer United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	2000

Name and Residence	Principal Business Affiliation	Year First Elected
John I .Howell* Greenwich, CT	Retired	2002
William M. Keeler Little Silver, NJ	President and Chief Executive Officer – Group Benefits/Financial Institutions United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	1998
Rodney O. Martin, Jr. Houston, TX	Chairman of the Board United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	1997
Nicholas A. O'Kulich Carmel, NY	Vice President – Life Insurance United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	2002
Gary D. Reddick Woodlands, TX	Chief Administrative Officer United States Life Insurance Company in the City of New York American International Life Assurance Company of New York	1999
Martin J. Sullivan Chappaqua, NY	Co-Chief Operating Officer and Vice Chairman AIG, Inc.	2002

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

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, 2002:

Name	Title
David J. Dietz	President and Chief Executive Officer
William M. Keeler	President and Chief Executive Officer – Group Benefits/Financial Institutions
Thomas L. Booker	President – Structured Settlements/SPIA Profit Center
David L. Herzog	Chief Operating Officer and Chief Financial Officer
Gary D. Reddick	Chief Administrative Officer
James A. Galli	Executive Vice President
Paul L. Mistretta	Executive Vice President
James W. Weakley	Executive Vice President

Sandra M. Smith, Chief Counsel, was designated the 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 all 50 states, the District of Columbia, U.S. Virgin Island and Guam. Policies are written on both a participating and non-participating basis.

The Company concentrates on the sale of individual products to affluent markets (including individuals, corporations, and other entities) where significant value added and personal service is required in the sales process. The Company's portfolio of products consists of universal life, level term, whole life, and interest sensitive whole life, as well as annuities and a diversified group insurance product portfolio. The Company's group products include life, accidental death and dismemberment, dental, vision, and disability coverage and are marketed to employers, as well as professional and affinity associations.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2002:

Life Insurance Premiums	
New York	49.1%
Subtotal	49.1%
All others	50.9
Total	100.0%

Accident and Health Insurance Premiums	
New York	21.8%
California	12.9
Subtotal	34.7%
All others	65.3
Total	100.0%

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

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with 78 companies in effect, of which 54 were authorized or accredited; this encompassed 156 reinsurance agreements in effect, with 37 agreements entered into during the examination period. The Company's life and accident and health business is reinsured on a coinsurance, a modified-coinsurance, and a yearly renewable term basis. Reinsurance is provided on both an automatic and a facultative basis.

The maximum retention limit for individual life contracts is $2,500,000. The total face amount of life insurance ceded as of December 31, 2002, was $75,986,423,172, which represents 71.3% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $599,987,859, was supported by letters of credit, trust agreements and funds withheld.

The total face amount of life insurance assumed as of December 31, 2002, was $1,994,233.

The examiner's review of a sample of 14 reinsurance agreements revealed the following:

(1) Section 127.3(a) of Department Regulation No. 102 states, in part:

> "No reinsurance agreement, . . . may be used to take reserve credit by reducing a liability or by establishing an asset in any financial statement filed with the superintendent, unless the agreement, . . . or a binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement."

The examiner noted one reinsurance agreement in which the Company took a reserve credit of $462,410 had not been signed by any of the parties to the agreement, and there was not a duly executed binding letter of intent.

The Company violated Section 127.3(a) of Department Regulation No. 102 by taking reserve credit under a reinsurance agreement wherein the agreement or a binding letter of intent had not been duly executed by both parties no later than the "as of date" of the financial statement.

(2) 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 reinsurer 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 . . ."

The examiner noted one accident and health reinsurance treaty in which the Company took credit for $3,020,243 in unearned premiums, whereby the treaty did not contain an insolvency clause.

The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by taking credit under a reinsurance agreement in which a proper insolvency clause was omitted from the agreement.

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. The amounts reported for the years prior to December 31, 2002 are a consolidation of the Company's and AGNY's annual statements so as to more accurately reflect the Company's financial growth. 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, 1998	December 31, 2002	Increase (Decrease)
Admitted assets	$3,037,701,448	$3,250,131,471	$212,430,023
Liabilities	$2,779,963,126	$2,953,034,551	$173,071,425
Common capital stock	$ 6,961,316	$ 3,961,316	$ (3,000,000)
Gross paid in and contributed surplus	52,571,178	55,571,178	3,000,000
Group contingency life reserve	32,158,202	34,076,671	1,918,469
Unassigned funds (surplus)	166,047,626	203,487,755	37,440,129
Total capital and surplus	$ 257,738,322	$ 297,096,920	$ 39,358,598
Total liabilities, capital and surplus	$3,037,701,448	$3,250,131,471	$212,430,023

The Company's invested assets as of December 31, 2002, exclusive of Separate Accounts, were mainly comprised of bonds (84.5%) and policy loans (6.2%).

The majority (85.9%) of the Company's bond portfolio, as of December 31, 2002, 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:

	1999	2000	2001	2002
Ordinary:				
Life insurance	$ 51,318,379	$59,930,365	$38,551,191	$49,801,396
Individual annuities	4,475,610	4,213,069	2,185,820	2,564,089
Supplementary contracts	1,469,750	1,933,885	789,558	1,370,591
Total ordinary	$ 57,263,739	$66,077,319	$41,526,569	$53,736,076
Credit life	$ 930,951	$ 444,078	$ 1,039,910	$ 996,948
Group:				
Life	$ 1,679,206	$ 1,340,740	$ (4,291,846)	$ 243,739
Annuities	6,723,257	4,815,086	3,037,786	2,820,233
Total group	$ 8,402,463	$ 6,155,826	$ (1,254,060)	$ 3,063,972
Accident and health:				
Group	$(14,526,079)	$ (6,369,169)	$ (2,484,893)	$ 7,460,481
Credit	829,723	721,370	663,811	515,740
Other	(49,781)	(186,094)	(12,928)	40,751
Total accident and health	$(13,746,137)	$ (5,833,893)	$ (1,834,010)	$ 8,016,972
All other lines	$ 16,621,221	$11,968,908	$ 5,638,271	$10,637,217
Total	$ 69,472,237	$78,812,238	$45,116,680	$76,451,185

The Company had a significant loss of $14,526,079 in the group accident and health line of business in 1999 which improved to a gain of $7,460,481 at the end of the examination period in 2002. The improved results were primarily attributable to a physician long term disability case which was terminated in 1999. Prior to its termination, the case accounted for losses of $22.1 million in 1999. The primary reason for the loss in 2000 was a strengthening of long term disability reserves of approximately $13 million. The loss in 2001 was due primarily to claims related to the events of September 11, 2001.

Net gain from operations in the ordinary life line of business decreased from $59.9 million in 2000 to $38.6 million in 2001 due primarily to the adverse effect of a large increase in new term sales, as well as claims from the events of September 11, 2001. Gains reported in "all other lines" during the examination consisted primarily of net investment income not directly allocated to the main lines of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 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 amounts reported for the years prior to December 31, 2002 are a consolidation of the Company's and AGNY's annual statements so to more accurately reflect the Company's financial growth. 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, 2002 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2002

Admitted Assets	
Bonds	$2,592,224,716
Stocks:	
Preferred stocks	1,693,274
Common stocks	350,991
Mortgage loans:	
First liens	131,551,963
Policy loans	190,262,209
Cash and short term investments	124,838,915
Other invested assets	24,576,710
Receivable for securities	41,479
Cash in transit	1,669,962
Miscellaneous invested assets	16,705
Reinsurance ceded:	
Amounts recoverable from reinsurers	20,822,879
Commissions and expense allowances due	9,150,880
Experience rating and other refunds due	37,213
Other amounts receivable under reinsurance contracts	1,022,057
Federal and foreign income tax recoverable and interest thereon	47,759,196
Guaranty funds receivable or on deposit	919,475
Life insurance premiums and annuity considerations deferred and uncollected on in force business	34,022,850
Accident and health premiums due and unpaid	5,568,080
Investment income due and accrued	42,721,760
Receivable from parent, subsidiaries and affiliates	15,777,431
Other amounts receivable	2,698,276
Amounts receivable on investments	410,539
From Separate Accounts statement	1,993,911
Total admitted assets	$3,250,131,471

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$2,378,303,448
Aggregate reserve for accident and health policies	72,181,018
Liability for deposit-type contracts	95,668,906
Policy and contract claims:	
Life	30,574,530
Accident and health	13,146,002
Policyholders' dividend and coupon accumulations	
Policyholders' dividends and coupons due and unpaid	51,495
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:	
Dividends apportioned for payment	4,044,824
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	1,071,375
Policy and contract liabilities:	
Provision for experience rating refunds	12,464,265
Other amounts payable on reinsurance assumed	26,887
Interest maintenance reserve	30,023,426
Commissions to agents due or accrued	13,492,651
Commissions and expense allowances payable on reinsurance assumed	1,818,716
General expenses due or accrued	5,479,034
Transfers to Separate Accounts due or accrued	(310,785)
Taxes, licenses and fees due or accrued	1,673,184
Federal and foreign income taxes	5,464,529
Unearned investment income	5,026,248
Amounts withheld or retained by company as agent or trustee	141,428,912
Amounts held for agents' account	1,986,085
Remittances and items not allocated	47,002,542
Miscellaneous liabilities:	
Asset valuation reserve	21,749,939
Reinsurance in unauthorized companies	2,588,650
Funds held under reinsurance treaties with unauthorized reinsurers	126,903
Payable to parent, subsidiaries and affiliates	10,936,495
Drafts outstanding	511,904
Payable for securities	40,382,280
Market conduct settlement liability	8,113,619
Reserve for unclaimed liabilities	2,751,374
Liability for modified coinsurance reserve adjustment	919,382
Other miscellaneous liabilities	2,342,802
From Separate Accounts statement	1,993,911
Total liabilities	$2,953,034,551

Common capital stock	$ 3,961,316
Gross paid in and contributed surplus	55,571,178
Group contingency life reserve	34,076,671
Unassigned funds (surplus)	203,487,755
Total capital, surplus and other funds	$ 297,096,920
Total liabilities, capital, surplus and other funds	$3,250,131,471

B. CONDENSED SUMMARY OF OPERATIONS

	1999	2000	2001	2002
Premiums and considerations	$377,253,676	$391,977,359	$343,660,088	$354,927,965
Investment income	225,557,151	222,213,259	214,782,435	217,055,338
Commissions and reserve adjustments on reinsurance ceded	163,764,048	160,698,175	158,101,831	164,117,037
Miscellaneous income	5,159,670	4,469,023	5,660,651	4,849,387
Total income	$771,734,545	$779,357,816	$722,205,005	$740,949,727
Benefit payments	$435,862,293	$447,444,614	$325,779,713	$286,719,162
Increase in reserves	(36,194,154)	(59,763,449)	37,364,150	89,711,980
Commissions	114,020,575	114,896,599	118,027,346	114,406,801
General expenses and taxes	156,554,623	155,268,467	155,665,343	154,315,781
Increase in loading on deferred and uncollected premiums	628,331	(610,301)	(200,445)	1,454,693
Net transfers to (from) Separate Accounts	48,156	975,871	722,926	597,970
Miscellaneous deductions	8,384,209	8,816,226	11,106,326	2,685,767
Total deductions	$679,304,033	$667,028,027	$648,465,359	$649,892,154
Net gain (loss)	$ 92,430,512	$112,329,789	$ 73,739,646	$ 91,057,573
Dividends	4,340,324	4,285,680	4,508,939	3,671,877
Federal and foreign income taxes incurred	18,617,950	29,231,871	24,114,030	10,934,511
Net gain (loss) from operations before net realized capital gains	$ 69,472,238	$ 78,812,238	$ 45,116,677	$ 76,451,185
Net realized capital gains (losses)	(1,655,804)	(4,188,099)	(10,819,309)	(18,553,868)
Net income	$ 67,816,434	$ 74,624,139	$ 34,297,368	$ 57,897,317

C. CAPITAL AND SURPLUS ACCOUNT

	1999	2000	2001	2002
Capital and surplus, December 31, prior year	$257,738,322	$189,997,259	$269,971,735	$282,212,618
Net income	$ 67,816,434	$ 74,624,139	$ 34,297,368	$ 57,897,317
Change in net unrealized capital gains (losses)	(205,701)	(1,405,100)	698,797	(2,685,697)
Change in non-admitted assets and related items	(6,554,360)	(8,805,233)	254,257	(265,352)
Change in liability for reinsurance in unauthorized companies	(6,819,402)	3,509,639	4,299,368	(1,818,764)
Change in reserve valuation basis	(92,658)	28,635,549	(1,741,000)	0
Change in asset valuation reserve	(3,915,332)	545,840	1,460,357	4,897,602
Cumulative effect of changes in accounting principles	0	0	2,977,645	47,759,196
Dividends to stockholders	(120,000,000)	(19,000,000)	(16,000,000)	(90,900,000)
Prior year reinsurance settlement	(54,918)	0	(14,005,909)	0
Prior year federal income tax adjustment	2,084,874	1,869,642	0	0
Net change in capital and surplus	$ (67,741,063)	$ 79,974,476	$ 12,240,883	$ 14,884,302
Capital and surplus, December 31, current year	$189,997,259	$269,971,735	$282,212,618	$297,096,920

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 185.5(b) of Department Regulation No. 27-A states, in part:

> " . . . It is the responsibility of each insurer to ensure that every application, notice of proposed insurance, credit disclosure form and sales material provides an accurate description of the coverage provided in the policy and certificate and does not mislead the applicant as to the nature of the benefit."

Based on a review of the Company's advertising with respect to credit life and credit accident and health insurance issued to credit card members through client banks, certain facts were noted:

1. An advertisement sent to credit card holders stated that disability coverage was being provided in New York, when in fact, such was not the case;
2. Advertisements sent to credit card holders stated that dismemberment coverage was not being provided in New York, when in fact such coverage was being provided; and
3. Advertisements sent to credit card holders stated a premium rate higher than the rate filed with and approved by the Department.

The Company violated Section 185.5(b) of Department Regulation No. 27-A by using advertisements that inaccurately described the nature of the benefit being offered and the appropriate premium to be charged.

B. Underwriting and Policy Forms

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

Section 3201(b)(4)(A) of the New York Insurance Law states, in part:

> "No credit insurance or credit unemployment insurance policy form shall be issued unless it and its premium rates have been filed with and approved by the superintendent . . ."

During the review of the credit life and credit accident and health business discussed in item 6A above, the examiner found that at some client banks, premium rate decreases that were scheduled to occur were never implemented or were implemented after the effective date called for in the Company's rate and form approval filing. This resulted in thousands of credit card holders being overcharged approximately $10 each in premiums.

The Company violated Section 3201(b)(4)(A) of the New York Insurance Law for failing to implement scheduled credit insurance rate reductions approved in its policy form filings with the Department. Upon this finding being brought to its attention, the Company implemented a plan in cooperation with its client banks to refund the excess premiums charged to the credit card holders.

C. Treatment of Policyholders

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

(1) Section 3214(c) of the New York Insurance Law states:

> "If no action has been commenced, interest upon the principal sum paid to the beneficiary or policyholder shall be computed daily at the rate of interest currently paid by the insurer on proceeds left under the interest settlement option, from the date of death of an insured or annuitant in connection with a death claim on such a policy of life insurance or contract of annuity and from the date of maturity of an endowment contract to the date of payment and shall be added to and be a part of the total sum paid."

The examiner reviewed a sample of 60 death claims. The Company did not pay interest from date of death to date of payment on a number of death claims as required by New York Insurance Law. In New York State, interest required by Section 3214(c) of the New York Insurance Law is based on the site of policy issuance and the residence of the insured at the time of issuance. The Company paid interest in some of the cases reviewed based on the state of residence of the beneficiary or the state of residence of the insured at the time of death in accordance with the laws of other states.

The Company violated Section 3214(c) of the New York Insurance Law by not paying interest from date of death to date of payment on certain death claims.

The examiner recommends that the Company pay the correct amount of interest on all of the death claims identified by the examiner during the examination, and review all death claims paid since January 1, 1999 to determine whether interest was paid correctly and to pay the correct interest to claimants in those instances where incorrect amounts were paid.

Subsequent to the completion of the examination, the Company implemented new internal procedures to ensure compliance with Section 3214(c) of the New York Insurance Law.

(2) Section 216.4(e) of Department Regulation No. 64 states:

> "As part of its complaint handling function, an insurer's consumer services department shall maintain an ongoing central log to register and monitor all complaint activity."

The examiner performed a review of the Company's complaint logs by comparing it to one maintained by the Department's Consumer Services Bureau. The examiner's review revealed that 33 complaints listed in the Department's Consumer Services Bureau's log could not be located in the Company's complaint logs. However, it is noted that the complaints that could not be located in the Company's complaint logs were handled appropriately and in a timely manner.

The Company violated Section 216.4(e) of Department Regulation No. 64 by not maintaining complete central complaint logs.

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 reported that it performed a number of tests to determine whether or not it or any of its subsidiaries have any business on the books for which race was used as a basis for premium rates, underwriting ratings, or dividends. In summary, the Company's findings were that there were no results from any of the testing that would indicate any degree of race-based rating.

A review was made into the affairs of the Company with respect to race based underwriting and the findings reported pursuant to the Supplement. The examiner determined that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. RETAINED ASSET ACCOUNT

A review of death benefit proceeds paid during the examination period revealed that the Company uses a retained asset account to settle claims in excess of $10,000. For these claims, an interest bearing Instant Access Account is established in the name of the beneficiary. The Company receives data processing services from BISYS, Inc. ("the administrator") for the administration of the interest bearing accounts. The administrator provides the policy administration system software that calculates the interest credited to account holders. In addition, the administrator establishes the account, prints withdrawal books, and produces the monthly statements mailed to all Instant Access account holders. The Company, as the custodian of the Instant Access funds, earns interest and has use of the funds until the beneficiary withdraws the funds (either partially or fully) from their Instant Access account.

A. The Company indicated that there are approximately 1,368 Instant Access account holders as of December 31, 2002. A review of the Company's retained asset (Instant Access) account holder activity as of December 31, 2002 indicated that approximately 305 Instant Access accounts have been dormant (no account holder initiated activity) for 3-5 years and approximately 20 Instant Access accounts have been dormant over 5 years. The examiner requested copies of all monthly statements mailed by the administrator to account holders and subsequently returned as "not deliverable as addressed." During the course of the examination, the administrator furnished approximately 50 statements returned in such a manner. Also, in the course of performing account confirmations, the examiner found that six confirmation requests were returned as "not deliverable."

The examiner recommends that the Company investigate all Instant Access accounts that have been dormant a minimum of three years in order to determine if any account(s) should be reported as unclaimed funds and eventually remitted to the appropriate state(s). The examiner also recommends that the Company adopt procedures to review all returned monthly statements and attempt to locate the account holder.

B. The review of death claims revealed that beneficiaries have the following payment options, as stated on the death claim settlement form:

> "1. Immediately
>
> "2. At a later date at which I decide whether I want the proceeds immediately or wish to elect a different settlement. If I do not inform you otherwise within one month, you will pay the proceeds to me immediately.
>
> "3. As a non-cash settlement option (please specify, and if necessary, refer to the actual policy for any settlement options available.)
>
> "*If your proceeds are eligible and exceed the current applicable minimum ($10,000) set by the Company, the proceeds will be placed into an interest-bearing checking account in your name. You may immediately write a check for the full amount or leave your account open and draw money only as you need it. Meanwhile, the funds will earn interest at the variable rate currently effective for United States Life Instant Access accounts payable through State Street Bank and Trust Company. The Instant Access account is not available to estates, trusts or guardianships."

There is no payment option on the Company's death claim settlement form for a settlement check for the full death benefit amount when the proceeds are $10,000 or greater. Instead, the beneficiary must request a settlement check upon receipt of the account starter kit for the full death benefit amount to be issued.

The examiner recommends that the Company include as part of its death claim settlement form, or through some other method of disclosure, the option of a settlement check for the full death benefit amount when proceeds are $10,000 or greater.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1313(f) of the New York Insurance Law by using two advertisements that contained statements of the financial condition of the Company's ultimate parent but no statements of the financial condition of the Company.
	The Company indicated that it ceased using the advertisements in question in 1997. A review of advertising revealed no repeat violation of this nature.
B	The Company violated Section 3201(b)(2) of the New York Insurance Law when it failed to file a policy application form for use outside of this state.
	The Company indicated that it no longer uses the policy application form in question. A review of policy forms used by the Company revealed no findings of this nature.

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 127.3(a) of Department Regulation No. 102 by taking reserve credit in the amount of $462,410 under a reinsurance agreement wherein the agreement or a binding letter of intent had not been duly executed by both parties no later than the "as of" date of the financial statement.	12
B	The Company violated Section 1308(a)(2)(A) of the New York Insurance Law by taking credit for unearned premiums in the amount of $3,020,243 under a reinsurance agreement in which a proper insolvency clause was omitted from the agreement.	12
C	The Company violated Section 185.5(b) of Department Regulation No. 27-A by using credit insurance advertisements that inaccurately described the nature of the benefit being offered and the appropriate premium to be charged.	21
D	The Company violated Section 3201(b)(4)(A) of the New York Insurance Law for failing to implement scheduled credit insurance rate reductions approved in its policy form filings with the Department.	22
E	The Company violated Section 3214(c) of the New York Insurance Law by not paying interest from date of death to date of payment on certain death claims.	22 – 23
F	The examiner recommends that the Company pay the correct amount of interest on all of the death claims identified by the examiner during the examination, and review all death claims paid since January 1, 1999 to determine whether interest was paid correctly and to pay the correct interest to claimants in those instances where incorrect amounts were paid.	22 – 23
G	The Company violated Section 216.4(e) of Department Regulation No. 64 by not maintaining complete central complaint logs.	23

Item	Description	Page No(s).
H	The examiner recommends that the Company investigate all Instant Access accounts that have been dormant a minimum of three years in order to determine if any account(s) should be reported as unclaimed funds and eventually remitted to the appropriate state(s). The examiner also recommends that the Company adopt procedures to review all returned monthly statements and attempt to locate the account holder.	25
I	The examiner recommends that the Company include as part of its death claim settlement form, or through some other method of disclosure, the option of a settlement check for the full death benefit amount when proceeds are $10,000 or greater.	26

Respectfully submitted,

_______/s/__________________
David Hee
Associate Insurance Examiner

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

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

_______/s/__________________
David Hee

Subscribed and sworn to before me

this__________ day of ____________________

The foregoing Report on Examination is hereby submitted:

/s/
David Hee
State of New York
Representing Eastern Zone

/s/
Richard W. Harvey, CFE, CIE
State of Nevada
Representing Southwestern Zone

The foregoing Report on Examination is hereby submitted:

/s/	/s/
David Hee	Vincent Rapacciuolo, CFE
State of New York	State of Mississippi
Representing Eastern Zone	Representing Southeastern Zone

APPOINTMENT NO. 21999

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:

DAVID HEE

as a proper person to examine into the affairs of the

UNITED STATES LIFE INSURANCE COMPANY
IN THE CITY 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 21st day of January, 2003

GREGORY V. SERIO
Superintendent of Insurance

Superintendent