STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

UNITY MUTUAL LIFE INSURANCE COMPANY

CONDITION:	DECEMBER 31, 2005
DATE OF REPORT:	FEBRUARY 16, 2007

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EXAMINER: VINCENT TARGIA

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

Eliot Spitzer
Governor

Eric Dinallo
Acting Superintendent

February 16, 2007

Honorable Eric Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22527, dated June 29, 2006 and annexed hereto, an examination has been made into the condition and affairs of Unity Mutual Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 507 Plum Street, Syracuse, New York 13204.

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, 2005 filed annual statement. (See item 5 of this report)

The Company violated Section 4228(d)(1) and Section 4228(d)(5)(A) of the New York Insurance Law by paying 140 personal producing general agents a total of $84,936 in first year commission payments in excess of 55%, and first year commission and expense allowance payments that together exceeded 91%, during the three year examination period. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2005 to determine whether the Company's 2005 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 and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 9 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was organized as a fraternal benefit society in 1903 under the name of the Imperial Order of Tycoons and commenced business in 1905. The name of the Society was changed in 1908 to the Unity Insurance Society, in 1918 to The Unity Protective Insurance Association and in 1928 to The Unity Life and Accident Insurance Association.

Effective January 1, 1957, the Society was converted to a mutual life insurance company, pursuant to the provisions of Section 487 (now Section 7304) of the New York Insurance Law. At the time of conversion, the name of the Company was changed to The Unity Mutual Life Insurance Company of New York. The present name, Unity Mutual Life Insurance Company was adopted in September 1972.

Effective December 1983, Guarantee Mutual Life Insurance Company was merged with and into the Company.

Effective December 31, 1985, Empire State Mutual Life Insurance Company was merged with and into the Company.

Effective September 30, 1987, Volunteer Firemen’s Mutual Life Insurance Company was merged with and into the Company.

Effective November 30, 1989, Progressive Life Insurance Company was merged with and into the Company.

Effective May 31, 1993, Eastern Mutual Life Insurance Company of New Jersey was merged with and into the Company.

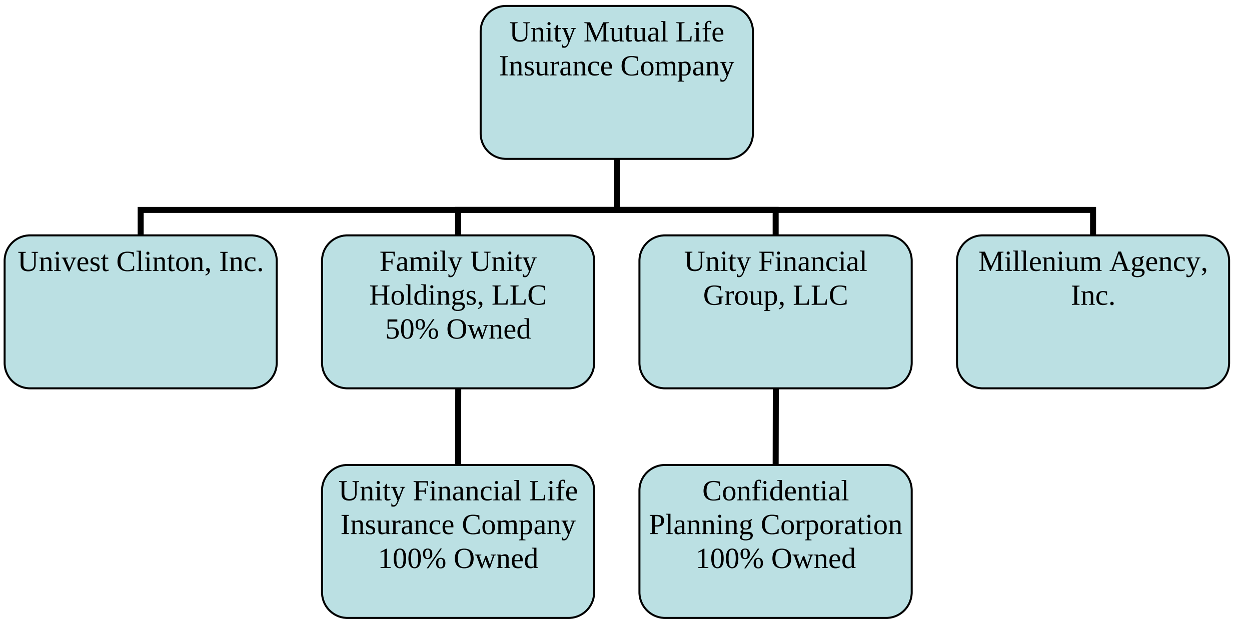
Effective December 30, 1993, Empire State Life Insurance Company, a subsidiary of the Company, was merged with and into the Company.

On May 15, 2001, the Company issued a 15-year surplus note, dated May 15, 2001, with a face amount of $5,000,000 and bearing interest at 11% payable to Scottish Annuity & Life Insurance Company (Cayman) Limited. The surplus note is scheduled to mature on May 16, 2016. Each accrual and payment of interest on the note may be made only with the prior approval of the Superintendent under the provisions of Section 1307 of the New York Insurance Law.

In May 2006, the Company repaid $1,000,000 of its $5,000,000 Surplus Note to Scottish Annuity and Life Insurance Company and the interest rate on the outstanding balance of the note dropped from 11% fixed to 8.25% fixed.

B. Subsidiaries

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2005 follows:



Following are descriptions of the significant subsidiaries of the Company:

1. Family Unity Holdings, LLC ("FUH") was formed in December 2001 by the Company and a partner, each with a 50% ownership interest and an initial investment of $5,000. Subsequent to the establishment of FUH, the Company sold a 50% interest in its wholly owned Pennsylvania domiciled stock life insurance subsidiary, Unity Financial Life Insurance Company ("UFLIC"), to its partner in FUH. Immediately following the sale, each of the partners in FUH contributed their 50% interest in UFLIC to FUH. UFLIC is a life insurer authorized to write life insurance, annuities and accident and health insurance in 40 states, but not New York. As of December 31, 2005, UFLIC had assets of $36,827,982 and capital and surplus of $5,938,720. As of December 31, 2005 Unity's investment in the stockholder equity of FUH was valued at $2,971,000.

2. Unity Financial Group, LLC ("UFGLLC") was formed on October 28, 1998 as a limited liability company for the purpose of purchases and acquisitions. UFGLLC purchased Confidential Planning Corporation ("CPC"), a financial services company, on October 31, 1998. As of December 31, 2005, UFGLLC had assets of $1,178,727 and stockholder equity of $1,177,258.

The Company had 6 service agreements in effect with affiliates during the examination period.

Type of Agreement and Dept. File No.	**Effective Date**	**Provider(s) of Service(s)**	**Recipient(s) of Service(s)**	**Specific Service(s) Covered**	**Income For Each Year of the Examination**
Administrative Services	12/18/01 amended: 1/1/03, 10/1/03, 11/1/03, 6/16/04, 11/1/04, and 1/1/06	The Company	UFLIC	Policy administration services for pre-need and final expense production in addition of the use of facilities, equipment, and services of personnel.	2003 $277,598 2004 $236,498 2005 $213,811
Administrative Services	1/1/02	The Company	FUH	Use of facilities, equipment and services of personnel including, but not limited to: accounting; regulatory compliance; and legal	2003 $1,809 2004 $1,341 2005 $989
Administrative Services	12/4/88	The Company	Univest	Use of facilities, equipment and services of personnel including, but not limited to: agency reporting; accounting; actuarial; underwriting; claims; agent licensing and administration	2003 $3,781 2004 $4,502 2005 $1,206
Administrative Services	10/30/98	The Company	CPC	Use of facilities, equipment and services of personnel including, but not limited to: agency reporting; accounting; actuarial; underwriting; claims; agent licensing and administration	2003 $37,295 2004 $5,684 2005 $2,613
Administrative Services	1/28/98	The Company	Millenium	Use of facilities, equipment and services of personnel including, but not limited to: agency reporting; accounting; actuarial; underwriting; claims; agent licensing and administration	2003 $2,231 2004 $1,426 2005 $1,126
Administrative Services	12/27/02	The Company	UFG	Use of facilities, equipment and services of personnel including, but not limited to: agency reporting; accounting; actuarial; underwriting; claims; agent licensing and administration	2003 $1,151 2004 $1,646 2005 $936

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 divided into three classes and one class is elected for a period of three years at each annual meeting of the policyholders held in April of each year. As of December 31, 2005, the board of directors consisted of 15 members. Meetings of the board are held in February, May, September, and November.

The 15 board members and their principal business affiliation, as of December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Steven F. Aiello* Fayetteville, NY	President COR Development Company, LLC	2005
Patricia T. Civil* Marcellus, NY	Retired	2002
Frank T. Crohn* Rhinebeck, NY	Retired	1983
Arnold G. Gough, Jr.* Chicago, IL	Partner Winston & Strawn, LLP	1998
George R. Hornig* New York, NY	Managing Director and Chief Operating Officer Credit Suisse First Boston	1995
John F.X. Mannion Syracuse, NY	Chairman of the Board Unity Mutual Life Insurance Company	1974
Patrick A. Mannion Fayetteville, NY	President and Chief Executive Officer Unity Mutual Life Insurance Company	1991
Terence A. J. Mannion* Syracuse, NY	Partner Mannion & Copani	1998
Joseph Masella Syracuse, NY	Executive Vice President Unity Mutual Life Insurance Company	1987
William J. O'Halloran, S.J.* Worcester, MA	Vice President Emeritus College of the Holy Cross	1983

Name and Residence	Principal Business Affiliation	Year First Elected
Robert D. Pietrafesa* Cazenovia, NY	Retired	1977
Elaine M. Ryan* Washington, DC	Deputy Executive Policy and Government Affairs American Public Human Service Association	1998
Kenneth A. Shaw* Skaneateles, NY	Retired; Chancellor Emeritus Syracuse University	1992
Edward J. Slaby Manlius, NY	Senior Vice President, Investments and Actuarial Unity Mutual Life Insurance Company	1987
Phillip A. Turberg* Newtown Square, PA	Retired	1988

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

In April 2006, Frank T. Crohn and Phillip A. Turberg resigned (retired) from the board and have not been replaced as of the date of this report.

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, 2005:

Name	Title
Patrick A. Mannion*	President and Chief Executive Officer
Joseph Masella	Executive Vice President
Joyce H. Kopcik	Senior Vice President and Chief Financial Officer
Jeffrey S. Shaw	Senior Vice President and Chief Marketing Officer
Edward J. Slaby	Senior Vice President, Investments and Actuarial
Jay W. Wason, Jr.	Senior Vice President, General Counsel and Secretary
Jeanne M. Clarke	Senior Vice President, Management Information Systems

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

In January 2007, Jeffrey S. Shaw resigned from the Company and has not been replaced as of the date of this report.

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 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. In 2005, 73.9% of life premiums were received from New York (48.5%) and New Jersey (25.4%). Similarly, 87.5% of annuity considerations and 95.3% of deposit-type contract funds were received from New York.

The Company's products and marketing strategies are aimed at the low and middle-income market. The low-income market is serviced through the Home Service Division, which targets young to middle-aged prospects in urban areas that have been historically under served. The low-income market also includes senior citizens outside of urban areas, where pre-need products are sold to satisfy the desires of this group to pre-arrange their funerals.

During 2002, the Company completed the conversion of its career home service field agents to independent agents. The home service segment is not expected to have the same prominence it once had, reflecting the shift towards a lower cost distribution structure. In addition, efforts are underway to migrate home service sales to final expense products.

During 2003, the Company began marketing its final expense products in New York State and is now the Company's primary product. As of 2005, final expense products represented approximately 90% of the Company's new sales. Final expense products are sold by personal producing general agents, independent general agencies and managing general agencies. Outside of New York the Company's pre-need market continues to be served exclusively by UFLIC.

While the Company had previously increased its activities in the individual annuity market, current market conditions have resulted in a suspension of new annuity sales, which occurred in the first quarter 2003. Crediting rates on its annuity products have also been lowered throughout the portfolio to meet spread targets. The Company's products include both qualified and non-qualified annuity contracts. The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

Ceded

As of December 31, 2005, the Company reported both ceded and assumed reinsurance activities. The Company had reinsurance treaties in effect with 17 companies, of which 10 were authorized or accredited. The treaties are for various types of reinsurance including coinsurance, modified-coinsurance, yearly renewable term, accidental death, group and disability. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $150,000. The total face amount of life insurance ceded as of December 31, 2005, was $422,827,951, which represents 41.4% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $189,813,048 was supported by letters of credit and trust agreements.

Assumed

As of December 31, 2005, the Company assumed individual life business from one affiliated insurer, UFLIC. The total amount of life insurance assumed as of December 31, 2005, was $96,781,755 or 9.4% of the total face amount of life insurance in force.

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 (decline) during the period under review:

	December 31, 2002	December 31, 2005	Increase (Decrease)
Admitted assets	$412,952,312	$357,905,742	$(55,046,570)
Liabilities	$391,696,914	$336,517,210	$(55,179,704)
Surplus notes	5,000,000	5,000,000	0
Unassigned funds (surplus)	16,255,398	16,388,532	133,134
Total surplus	$ 21,255,398	$ 21,388,532	$ 133,134
Total liabilities and surplus	$412,952,312	$357,905,742	$(55,046,570)

The decrease in admitted assets is directly attributed to the Company's decision, effective May 2003, to cease writing new annuity contracts and begin lowering the crediting rate below the bailout rate on existing contracts allowing annuity contract holders to withdraw their funds without incurring a surrender charge during the first sixty days after the change. Also during this period, the Company's single premium index deferred annuities began renewing with a 0% participation rate. Due to surrenders, the asset value of this block of business decreased by 85% during 2005. The decrease in liabilities is directly attributed to the decline in individual annuity reserves during this period.

The Company's invested assets as of December 31, 2005, were mainly comprised of bonds (92.3%). The majority (99.5%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations, with 73.6% and 25.9% in Class 1 and Class 2, respectively. The remainder of the portfolio totaled $1.6 million and consisted of only Class 3 securities.

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:

	2003	2004	2005
Industrial Life	$1,416,536	$2,258,622	$1,743,034
Ordinary:			
Life insurance	$ 232,138	$2,773,745	$ (767,091)
Individual annuities	953,458	1,820,170	2,208,361
Supplementary contracts	151,922	189,685	328,081
Total ordinary	$1,337,518	$4,783,600	$1,769,351
Credit life	$ (2,307)	$ 27	$ (27)
Group:			
Life	$ (142,233)	$ (191,693)	$ (165,876)
Annuities	(62,172)	(41,733)	(23,871)
Total group	$ (204,405)	$ (233,426)	$ (189,747)
Accident and health:			
Group	$ (143,938)	$ (193,985)	$ (162,768)
Other	(80,853)	170,994	33,634
Total accident and health	$ (224,791)	$ (22,991)	$ (129,134)
Total	$2,322,551	$6,785,832	$3,193,477

The increase in net gain for industrial and ordinary life insurance during 2004 as compared to 2003 was primarily due to the Company receiving $4.8 million in dividends from subsidiaries. The amount allocable to industrial life and ordinary life was $1.1 million and $3.5 million, respectively.

The net loss in ordinary life realized in 2005 was mainly due to a $1.8 million decrease in dividends from subsidiaries, an increase of approximately $750,000 of allocated general insurance expenses and taxes, licenses and fees, as well as a $1.0 million increase in death claims attributable to the Company's final expense product.

The significant increase in net gains for individual annuities in 2004 as compared to 2003 was due to approximately $270,000 of income derived from investments supporting the Company’s single premium indexed deferred annuity product, reduced expenses and taxes, licenses and fees totaling $420,000, and emerging profits from a mature block of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities and surplus as of December 31, 2005, as contained in the Company's 2005 filed annual statement, a condensed summary of operations and a reconciliation of the 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, 2005 filed annual statement.

A. ASSETS, LIABILITIES AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	$317,706,462
Stocks:	
Preferred stocks	1,030,000
Common stocks	7,097,188
Real estate:	
Properties held for sale	140,430
Cash, cash equivalents and short term investments	2,688,625
Contract loans	14,893,078
Other invested assets	831,607
Investment income due and accrued	4,660,147
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	201,177
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,531,537
Reinsurance:	
Amounts recoverable from reinsurers	91,264
Other amounts receivable under reinsurance contracts	3,640,546
Current federal and foreign income tax recoverable and interest thereon	42,782
Net deferred tax asset	603,076
Electronic data processing equipment and software	116,462
Receivables from parent, subsidiaries and affiliates	63,732
Reserve adjustments due reinsurers	(432,371)
Total admitted assets	$357,905,742

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$306,539,625
Aggregate reserve for accident and health contracts	558,999
Liability for deposit-type contracts	14,596,624
Contract claims:	
Life	1,872,442
Accident and health	74,175
Policyholders' dividends and coupons due and unpaid	2,878
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	455,051
Premiums and annuity considerations for life and accident and health contracts received in advance	79,249
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	22,399
Interest maintenance reserve	1,171,508
Commissions to agents due or accrued	24,330
General expenses due or accrued	1,233,438
Taxes, licenses and fees due or accrued, excluding federal income taxes	288,622
Current federal and foreign income taxes	86,123
Unearned investment income	40,243
Amounts withheld or retained by company as agent or trustee	29,313
Amounts held for agents' account	23,818
Remittances and items not allocated	855,605
Miscellaneous liabilities:	
Asset valuation reserve	448,024
Reinsurance in unauthorized companies	25,706
Drafts outstanding	1,412,652
Deferred compensation fund minimum pension liability & other	5,880,258
Accrued interest on policy and contract funds and other liabilities	57,353
Restructuring and other contingent liabilities	738,775
Total liabilities	$336,517,210
Surplus notes	$5,000,000
Unassigned funds (surplus)	16,388,532
Total capital and surplus	$ 21,388,532
Total liabilities, surplus and other funds	$357,905,742

B. CONDENSED SUMMARY OF OPERATIONS

	2003	2004	2005
Premiums and considerations	$23,563,498	$22,839,582	$24,140,419
Investment income	22,764,572	27,054,684	22,058,402
Commissions and reserve adjustments on reinsurance ceded	1,995,350	2,497,430	2,173,374
Miscellaneous income	577,057	80,037	9,261
Total income	$48,900,477	$52,471,733	$48,381,456
Benefit payments	$41,906,573	$46,511,651	$48,618,125
Increase in reserves	(13,211,828)	(19,880,648)	(22,547,976)
Commissions	5,132,753	6,487,691	6,950,571
General expenses and taxes	11,764,242	11,144,337	11,652,966
Increase in loading on deferred and uncollected premium	(28,099)	11,317	(16,242)
Miscellaneous deductions	629,766	793,244	36,110
Total deductions	$46,193,407	$45,067,592	$44,693,554
Net gain (loss)	$ 2,707,070	$ 7,404,141	$ 3,687,902
Dividends	520,303	568,801	479,882
Federal and foreign income taxes incurred	(135,783)	49,506	14,545
Net gain (loss) from operations before net realized capital gains	$2,322,550	$6,785,834	$3,193,475
Net realized capital gains (losses)	(3,128,216)	258,621	(1,018,673)
Net income	$(805,666)	$7,044,455	$2,174,802

C. SURPLUS ACCOUNT

	2003	2004	2005
Surplus, December 31, prior year	$21,255,398	$18,397,313	$21,908,308
Net income	$ (805,666)	$ 7,044,455	$ 2,174,802
Change in net unrealized capital gains (losses)	972,288	(958,082)	(2,498,223)
Change in net deferred income tax	(284,812)	(87,461)	(85,022)
Change in non-admitted assets and related items	(1,470,846)	(644,164)	(183,345)
Change in liability for reinsurance in unauthorized companies	(2,043)	8,315	(1,188)
Change in asset valuation reserve	581,574	(536,395)	117,907
Surplus adjustments:			
Change in surplus as a result of reinsurance	(271,188)	(71,778)	0
Minimum pension liability	(1,577,392)	(1,243,895)	(44,707)
Net change in capital and surplus for the year	$ (2,858,085)	$ 3,510,995	$ (519,776)
Capital and surplus, December 31, current year	$18,397,313	$21,908,308	$21,388,532

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.

1. Advertising

Section 219.5(a) of Department Regulation No. 34-A states, in part:

> "(a) Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state, with a notation indicating the manner and extent of distribution …"

A review of the Company's advertising files covering the three year examination period revealed that the Company failed to indicate the extent of distribution (quantity mailed and/or distributed) of any of its advertisements either in its advertising log or as part of its advertisement review record (advertisement cover sheet).

The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to indicate the extent of distribution of its advertisements.

2. Replacements

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

> "Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .
> (3) Examine any proposal used, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the "Disclosure Statement," and ascertain that they are accurate and meet the requirements of the Insurance Law and this Part; . . ."

A review was made of all ten incoming replacement transactions that the Company processed during the three year examination period. 8 of the cases involved one agent replacing policies issued by a single company. In all 8 of the aforementioned cases, good faith approximations were used by the agent to complete the Disclosure Statements. However, the replacement files maintained by the Company failed to contain any documentation that supports the good faith approximations used by the agent to complete the required Disclosure Statement or that the Company examined the Disclosure Statement to ascertain that it was accurate and met the requirements of the Insurance Law and as required by Section 51.6 of Department Regulation No. 60.

The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to maintain documentation that supports the good faith approximation used by its agent to complete the required disclosure statement or that the Company examined and ascertained that such Disclosure Statements completed by its agents and submitted with applications were accurate and complete.

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

> “Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .
> (5) Submit quarterly reports within thirty days of the end of each quarter . . . to the Superintendent of Insurance, indicating which insurers, if any, have failed to provide the information as required in Section 51.6(c)(2) herein. . . .”

Section 51.6(c)(2) of Department Regulation No. 60 states:

> “Within twenty days of receipt of a request from a licensee of the Department. For information necessary for completion of the “Disclosure Statement” with respect to the life insurance policy or annuity contract proposed to be replaced, together with proper authorization from the applicant, furnish the required information simultaneously to the agent or broker of record of the existing life insurance policy or annuity contract being replaced and the agent or broker and insurer replacing the life insurance policy or annuity contract. This information shall include the insurer’s customer service telephone number, the current status of the existing life insurance policy or annuity contract and the currently illustrated dividends/interest and other non-guaranteed costs and benefits.”

A review of the quarterly reports made in compliance with Section 51.6(b)(5) of Department Regulation No. 60 indicated that the Company failed to include the name of an insurer that did not provide the information as required in Section 51.6(c)(2) of Department Regulation No. 60 in all eight replacements involving that company's policies.

The Company violated Section 51.6(b)(5) of Department Regulation No. 60 by failing to include the name of an insurer that did not provide the information required in Section 51.6(c)(2) of Department Regulation No. 60 in its quarterly reports submitted to the Department.

B. Underwriting and Policy Forms

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

A review of interest credited on annuity policies indicated that the Company has been paying interest for the first policy year by crediting 364 days using the first year guarantee rate and 1 day using the renewal rate. The Company paid interest in subsequent years in a similar manner, consisting of 364 days at the current renewal rate and 1 day using the new renewal rate.

The following language as written in the Company's annuity policy form filing resulted in the Department determining that interest should have been credited for 365 days in the first policy year at the guaranteed rate:

- On page 3, to pay account interest for the "first policy year;"
- On page 5, that " 'Policy years' are measured from the date of issue;"
- On page 6, that "This policy takes effect on its issue date;"
- On page 8, that "We declare an Account Interest Rate on the Issue Date. It is guaranteed for the first Policy Year;"

It is recommended that the Company undertake steps to identify the policies affected as a result of failing to pay interest at the guaranteed rate for the first policy year and that it modify its administrative system programs that control interest crediting methods and apply a payment to each policy to adjust for the change in the interest crediting method.

As a result of the examination finding, the Company performed a study and identified 9,748 annuity policies that have been affected by the problem. The amount of the underpayments is expected to total approximately $20,000.

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.

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

7. AGENT COMPENSATION

Section 4228(d)(1) and (5) of the New York Insurance Law states in part:

> "(1) No company shall pay or permit to be paid to an agent or broker a commission in excess of the sum of (A) fifty-five percent of any qualifying first year premium and (B) seven percent of any excess premium; or to a general agent with respect to business not personally produced by such general agent, a commission in excess of the sum of (C) sixty-three percent of any qualifying first year premium and (D) eight percent of any excess premium…
>
> (5) With respect to premiums and considerations recorded within a period of twelve consecutive months on business written by any agent or broker, no company shall pay or permit to be paid to an agent or broker expenses allowance greater than the excess, if any, of the sum of:
>
> (A) ninety-one percent of all qualifying first year premiums; …"

Section 4228(f)(5) of the New York Insurance Law states in part:

> "(5) Any company making one or more payments that exceed any limit in subsection (d) of this section that is unable to recover such excess payments shall notify the superintendent within thirty days of the date that it learns or realizes that it exceeded the limit; … At that time, the company shall report the reason the company exceeded the limit, the number of agents to whom payments in excess of the limits were made, and the amount of money paid in excess of the limit, and shall describe the actions the company will take promptly to prevent any further instances of its exceeding this limit."

The examiner reviewed commissions paid on policies that were written by personally producing general agents during the examination period. The review indicated that the Company paid a 55% base commission and a 5% override commission on first year premium on personally produced business while the limit on such personally produced business is 55%. Including expense allowance, such business has a limit of 91%. However, the Company paid a commission and expense allowance totaling 96% on policies that were written by personally producing general agents during the examination period.

The Company violated Section 4228(d)(1) and Section 4228(d)(5)(A) of the New York Insurance Law by paying 140 personal producing general agents a total of $84,936 in first year commission payments in excess of 55%, and first year commission and expense allowance payments that together exceeded 91%, during the three year examination period.

The examiner recommends that the Company seek reimbursement of all excess commission and expense allowance payments made to personally producing general agents and provide formal written notification to the Department as required by Section 4228(f)(5) of the New York Insurance Law.

8. ANTI-MONEY LAUNDERING PROGRAM

The Company has established an anti-money laundering program that consists of the following four different written procedures:

- Patriot Act monthly report
- Patriot Act Requests
- Patriot Act of 2001 Underwriting/Issue
- Suspicious Activity and Form 8300 Report

The above procedures have been approved by the Company's Procedure Review Committee with the exception of the Suspicious Activity and Form 8300 Report which is still in progress.

The Company indicated that two members of its Senior Management Team conducted a significant amount of analysis to determine the risk of money-laundering within the Company. However, the Company never submitted its anti-money laundering program to its Senior Management or its board of directors for review.

The examiner recommends that the Company submit its Anti-money Laundering Program to Senior Management and its Board of Directors for review.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The Company violated Section 1712 of the New York Insurance Law by providing an interest free loan to its subsidiary in the amount of $175,000. A review indicated that the Company instituted procedures that call for interest to be paid on amounts due from the month the expense was incurred to the final payment date.
B	The Company violated Section 2108(a)(3) of the New York Insurance Law by contracting with a third party, who is not a licensed adjuster, to provide claims adjudication services with regard to accident and health policies. A review indicated that the Company contracts with a third party who now has an employee who has taken and passed the examination to be a licensed adjuster.
C	The Company violated Section 91.4(a)(2) of Department Regulation No. 33 by failing to maintain records with sufficient detail to show fully: (i) the system actually used for allocation of income and expenses; (ii) the actual bases of allocation; and (iii) the actual monetary distribution of the respective items of income and salaries to lines of business and companies. A review indicated that the Company maintains records with sufficient detail to show fully; (i) the system actually used for allocation of income and expenses; (ii) the actual bases of allocation; and (iii) the actual monetary distribution of the respective items of income and salaries to lines of business and companies.
D	The examiner recommends that the Company report the value of all of its subsidiaries to the Securities Valuation Office as called for in the Purposes and Procedures Manual of the NAIC Securities Valuation Office in a timely manner. A review indicated that the Company reported the value of all of its subsidiaries to the Securities Valuation Office as called for in the Purposes and Procedures Manual of the NAIC Securities Valuation Office in a timely manner.
E	The Company violated Section 420.5(a)(1) of Department Regulation No. 169 by failing to provide privacy notices to a number of customers at least once in any period of 12 consecutive months since July 1, 2001. A review indicated that the Company provided privacy notices to its customers at least once in any period of 12 consecutive months.

Item	Description
F	The Company violated Section 421.2 and Section 421.3 of Department Regulation No. 173 by not developing a formal training program to adequately train its employees and sales force to protect and safeguard its customers’ nonpublic financial and personal information against unauthorized uses. A review indicated that the Company developed a formal training program to adequately train its employees and sales force to protect and safeguard its customers’ nonpublic financial and personal information against unauthorized uses.
G	The examiner recommends that the Company maintain minutes for its IRC meetings that clearly document the final decision of the Committee regarding whether or not an other than temporary write down of an impaired security is required and the evidentiary material used as a basis for that decision. A review indicated that the Company maintained the minutes for its IRC meetings that document the final decisions of the Committee regarding whether or not an other than temporary write down of an impaired security is required and the evidentiary material used as a basis for that decision.
H	The Company violated Section 4228(f)(1)(B) of the New York Insurance Law by failing to file an agent compensation arrangement with the Department. A review indicated that the Company filed its latest amended agent compensation arrangement with the Department.

10. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to indicate the extent of distribution of its advertisements.	18
B	The Company violated Section 51.6(b)(3) of Department Regulation No. 60 by failing to maintain documentation that supports the good faith approximation used by its agent to complete the required disclosure statement or that the Company examined and ascertained that Disclosure Statements completed by its agents and submitted with applications were accurate and complete.	18-19
C	The Company violated Section 51.6(b)(5) of Department Regulation No. 60 by failing to include the name of an insurer that did not provide the information required in Section 51.6(c)(2) of Department Regulation No. 60 in its quarterly reports submitted to the Department.	19
D	It is recommended that the Company undertake steps to identify the policies affected as a result of failing to pay interest at the guaranteed rate for the first policy year and that it modify its administrative system programs that control interest crediting methods and apply a payment to each policy to adjust for the change in the interest crediting method.	20
E	The Company violated Section 4228(d)(1) and Section 4228(d)(5) of the New York Insurance Law by paying 140 personal producing general agents a total of $84,936 in first year commission payments in excess of 55%, and first year commission and expense allowance payments that together exceeded 91%, during the three year examination period.	22-23
F	The examiner recommends that the Company seek reimbursement of all excess commission payments made to personally producing general agents and notify the Department in writing of any instances in which it is unable to recover such excess payments as required by Section 4228(f)(5) of the New York Insurance Law.	23
G	The examiner recommends that the Company submit its Anti-money Laundering Program to Senior Management and its Board of Directors for review.	23

Respectfully submitted,

/s/
Vincent Targia
Associate Examiner

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

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

/s/
Vincent Targia

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 22527

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:

VINCENT TARGIA

as a proper person to examine into the affairs of the

UNITY MUTUAL LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 29th day of June, 2006

HOWARD MILLS
Superintendent of Insurance

Superintendent