



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

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

JULY 27, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT  
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OF THE  
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AS OF  
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EXAMINER:

SHARON REYNOLDS

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

Eliot Spitzer  
Governor

Eric R. Dinallo  
Superintendent

July 27, 2007

Honorable Howard Mills  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22558, dated October, 30, 2006 and annexed hereto, an examination has been made into the condition and affairs of First Reliance Standard Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 590 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 examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 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 prior report on examination which did not contain any violations, recommendations or comments.

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 accident and health insurance company under the laws of New York on June 16, 1983, under the name Dresser Insurance Company, was licensed on September 24, 1984 and commenced business on October 1, 1984. Initial resources of \$3,000,000, consisting of common capital stock of \$300,000 and paid in and contributed surplus of \$2,700,000, were provided through the sale of 3,000 shares of common stock (with a par value of \$100 each) for \$1,000 per share.

In 1987 the Company changed its name to Reliance Standard Insurance Company. On September 26, 1989 the Company was licensed to write life insurance in New York and changed its name to its present name, First Reliance Standard Life Insurance Company. In connection with the license to sell life insurance, the Company's common capital stock was increased to \$2,000,000 and paid in and contributed surplus was increased to \$4,000,000.

An additional contribution of \$1,749,758 to gross paid in and contributed surplus was made by the parent in 1997.

As of December 31, 2003, the Company had gross paid in and contributed surplus of \$5,749,758.

#### B. Holding Company

The Company is a wholly-owned subsidiary of Reliance Standard Life Insurance Company ("RSL"), a life insurance company domiciled in Illinois. The parent of RSL is Reliance Standard Life Insurance Company of Texas ("RSLT"), which is a wholly-owned subsidiary of Delphi Financial Group, Inc. ("Delphi"), a holding company organized as a Delaware corporation. The ultimate parent of the Company is Rosenkranz & Company, a New York financial services corporation.

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

Robert Rosenkranz

R & Co. Capital Management L.L.C.

Rosenkranz & Company L.P.

Rosenkranz Asset Managers, L.L.C.

Delphi Financial Group, Inc.

Delphi Capital Management, Inc.

Reliance Standard Life Insurance Company of Texas

Reliance Standard Life Insurance Company

First Reliance Standard Life Insurance Company

TER I, L.L.C.

SIG Holdings, Inc.

Safety National Casualty Corporation

Safety First Insurance Company

Safety National Re SPC

Matrix Absence Management, Inc.

Chestnut Investors III, Inc.

Acorn Income Partners, L.P.

Greenbrook L.L.C.

RSL Marketing, Inc.

Delphi Financial Statutory Trust

Delphi Funding L.L.C.

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

Type of Agreement and Department File Number	Effective Date	Provider of Service	Recipient of Service	Specific Services Covered	Income/ (Expense)* For Each Year of the Examination
Cost Sharing Approved 7/15/98 (no file #)	12/16/97	FRSL <sup>(1)</sup>	SNCC <sup>(2)</sup>	Office space, Furniture & Equipment, office supplies	2004 \$101,629 2005 \$107,664 2006 \$ 95,440
Cost Sharing Dept File #26603	5/11/99	DCM <sup>(3)</sup>	FRSL <sup>(1)</sup>	Office Space, telephone equipment	2004 (\$234,535) 2005 (\$274,336) 2006 (\$355,296)
Cost Sharing Dept File #26658	10/8/99	Matrix <sup>(4)</sup>	FRSL <sup>(1)</sup>	Office space, Office equipment, clerical & support staff	2004 (\$ 66,503) 2005 (\$133,687) 2006 (\$121,710)
Cost Sharing Dept File #27284	2/1/2000	RSL <sup>(5)</sup>	FRSL <sup>(1)</sup>	Claims, legal, compliance, administration, actuarial, Human Resources, financial, purchasing, data processing	2004 (\$2,688,009) 2005 (\$2,921,235) 2006 (\$3,146,946)
Cost Sharing Dept. File #27299	2/8/2000	FRSL <sup>(1)</sup>	RSL <sup>(5)</sup>	Sales, underwriting	2004 \$1,267,260 2005 \$1,332,740 2006 \$1,103,658

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

- (1) First Reliance Standard Life Insurance Company
- (2) Safety National Casualty Corporation
- (3) Delphi Capital Management, Inc.
- (4) Matrix Absence Management, Inc.
- (5) Reliance Standard Life Insurance Company

The Company maintains a consolidated federal tax allocation agreement with the Delphi Financial Group, Inc.

### C. Management

The Company's by-laws were amended on October 30, 2003 to provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held each March. As of December 31, 2003, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 2006, the board of directors consisted of 12 members. Meetings of the board are held quarterly.

The 12 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>
Thomas W. Burghart Media, PA	Vice President and Treasurer Reliance Standard Life Insurance Company First Reliance Standard Life Insurance Company	2000
Lawrence E. Daurelle Lafayette Hill, PA	President and Chief Executive Officer First Reliance Standard Life Insurance Company Reliance Standard Life Insurance Company	1998
Steven A. Hirsh* Highland Park, IL	President and Chairman Astro Communication	1988
Harold F. Ilg Naples, FL	Chairman of the Board Safety National Casualty Corporation	2002
Bernard J. Kilkelly Lynbrook, NY	Vice President, Investor Relations Delphi Capital Management, Inc.	2002
James M. Litvack* Princeton, NJ	Lecturer	1990
James N. Meehan* Arlington Heights, IL	Retired, Sr. Managing Director Bank of America National Trust and Savings Association	1993

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert Rosenkranz New York, NY	Chairman of the Board, President and Chief Executive Officer Delphi Financial Group, Inc.	1987
Nita I. Savage New York, NY	Vice President Finance Delphi Capital Management, Inc.	2006
Donald Sherman New York, NY	President and Chief Operating Officer Delphi Financial Group, Inc.	2006
Robert M. Smith, Jr. Warren, NJ	Executive Vice President Delphi Capital Management, Inc.	1994
Robert F. Wright* Jersey City, NJ	President Robert F. Wright Association, Inc.	1989

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

In 2006, Chad W. Coulter, Devon Cross and Aaron M. Fisher resigned from the board and were replaced by Nita I. Savage and Donald Sherman.

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>
Lawrence E. Daurelle	President and Chief Executive Officer
Christopher A. Fazzini	Senior Vice President
Thomas W. Burghart	Vice President and Treasurer
Rosemary T. Barton, ASA	Actuary
Francis W. Newdeck	Vice President
Warren M. Cohen	Vice President
Charles T. Denaro*	Vice President and Secretary
Danny R. Green	Vice President
Debra G. Staples	Vice President
Chad William Coulter	Vice President and General Counsel

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

In December, 2004, Rosemary T. Barton, ASA replaced Mark Freedman as Actuary.

#### 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 New York and the District of Columbia. In 2006, all life and accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company primarily writes group insurance. The Company's group products include: short-term and long-term disability; accidental death and dismemberment; life insurance; and dental insurance, which are directed at the employee benefits market. In 2006, the Company's premiums were split between life insurance (44%) and accident and health insurance (56%). The Company did not sell any individual insurance during the examination period except as a result of group conversions.

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

E. Reinsurance

As of December 31, 2006, the Company had reinsurance treaties in effect with 14 companies, of which 12 were authorized or accredited. The Company's group life and group accident and health insurance are reinsured on a coinsurance basis or excess of loss basis. 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, 2006, was \$1,671,436,667, which represents 16% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$91,632 was supported by letters of credit.

#### 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>\$90,846,088</u>	<u>\$120,025,504</u>	<u>\$29,179,416</u>
Liabilities	<u>\$64,031,192</u>	<u>\$ 82,701,227</u>	<u>\$18,670,035</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	5,749,758	5,749,758	0
Unassigned funds (surplus)	<u>19,065,138</u>	<u>29,574,519</u>	<u>10,509,381</u>
Total capital and surplus	<u>\$26,814,896</u>	<u>\$ 37,324,277</u>	<u>\$10,509,381</u>
Total liabilities, capital and surplus	<u>\$90,846,088</u>	<u>\$120,025,504</u>	<u>\$29,179,416</u>

The Company's invested assets as of December 31, 2006, were mainly comprised of bonds (84%) and cash and short-term investments (10%).

The Company's entire bond portfolio, as of December 31, 2006, was comprised of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Ordinary:			
Life insurance	\$ <u>(68,712)</u>	\$ <u>67,088</u>	\$ <u>(75,953)</u>
Group:			
Life	\$ 306,890	\$1,800,000	\$1,650,832
Annuities	<u>231,739</u>	<u>215,887</u>	<u>172,442</u>
Total group	\$ <u>538,629</u>	\$ <u>2,015,887</u>	\$ <u>1,823,274</u>
Accident and health:			
Group	\$2,736,586	\$3,039,616	\$5,131,093
Other	<u>4,018</u>	<u>3,416</u>	<u>3,384</u>
Total accident and health	\$ <u>2,740,604</u>	\$ <u>3,043,032</u>	\$ <u>5,134,477</u>
Total	\$ <u>3,210,521</u>	\$ <u>5,126,007</u>	\$ <u>6,881,798</u>

The only ordinary life policies are group conversions. This block of business is directly impacted by the number of claims paid.

In 2004, the group life income was negatively impacted by losses on a few large accounts and an increase in the Incurred But Not Reported ("IBNR") of \$1 million. In 2005 business developed favorably as renewal activity improved the operating gain and there were no additions to the IBNR.

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	68.5%	71.1%	63.9%
Commissions	11.3	10.7	9.6
Expenses	<u>16.7</u>	<u>15.0</u>	<u>15.6</u>
Total	<u>96.5%</u>	<u>96.8%</u>	<u>89.1%</u>
Underwriting results	<u>3.5%</u>	<u>3.2%</u>	<u>10.9%</u>

## 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	\$100,851,367
Cash, cash equivalents and short term investments	12,121,287
Contract loans	25,351
Investment income due and accrued	1,064,250
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	3,713,372
Deferred premiums, agents' balances and installments booked but deferred and not yet due	24,237
Reinsurance	
Amounts recoverable from reinsurers	1,507,090
Net deferred tax asset	429,602
Receivables from parent, subsidiaries and affiliates	<u>288,948</u>
 Total admitted assets	 <u>\$120,025,504</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 7,209,441
Aggregate reserve for accident and health contracts	44,037,047
Liability for deposit-type contracts	274,415
Contract claims:	
Life	3,844,000
Accident and health	14,360,101
Premiums and annuity considerations for life and accident and health contracts received in advance	1,131
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	24,792
Interest maintenance reserve	1,082,514
General expenses due or accrued	1,041,021
Taxes, licenses and fees due or accrued, excluding federal income taxes	175,078
Current federal and foreign income taxes	439,779
Amounts withheld or retained by company as agent or trustee	529,482
Amounts held for agents' account	22,522
Remittances and items not allocated	3,232,062
Miscellaneous liabilities:	
Asset valuation reserve	440,747
Reinsurance in unauthorized companies	50,000
Payable to parent, subsidiaries and affiliates	6,500
Drafts outstanding	2,027,980
Retained asset program liability to claimant and miscellaneous accounts payable	3,848,436
Minimum pension liability adjustment	<u>54,179</u>
 Total liabilities	 <u>\$ 82,701,227</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	5,749,758
Unassigned funds (surplus)	<u>29,574,519</u>
Total capital and surplus	<u>\$ 37,324,277</u>
 Total liabilities, capital and surplus	 <u>\$120,025,504</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$42,445,026	\$52,469,832	\$55,149,426
Investment income	3,642,802	4,254,217	4,770,002
Commissions and reserve adjustments on reinsurance ceded	<u>72,980</u>	<u>61,583</u>	<u>44,805</u>
Total income	<u>\$46,160,808</u>	<u>\$56,785,632</u>	<u>\$59,964,233</u>
Benefit payments	\$25,882,768	\$30,894,874	\$32,952,297
Increase in reserves	4,392,267	5,466,241	3,581,054
Commissions	4,655,729	5,533,571	5,558,401
General expenses and taxes	7,120,367	7,847,961	8,323,180
Increase in loading on deferred and uncollected premium	<u>26,240</u>	<u>27,972</u>	<u>21,816</u>
Total deductions	<u>\$42,077,371</u>	<u>\$49,770,619</u>	<u>\$50,436,748</u>
Net gain (loss)	\$ 4,083,437	\$ 7,015,013	\$ 9,527,485
Federal and foreign income taxes incurred	<u>872,916</u>	<u>1,889,006</u>	<u>2,645,687</u>
Net income	<u>\$3,210,521</u>	<u>\$5,126,007</u>	<u>\$6,881,798</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	\$ <u>26,814,896</u>	\$ <u>29,906,426</u>	\$ <u>32,345,335</u>
Net income	\$ 3,210,521	\$ 5,126,007	\$ 6,881,798
Change in net deferred income tax	110,367	145,268	(31,760)
Change in non-admitted assets and related items	(100,325)	(240,994)	124,384
Change in liability for reinsurance in unauthorized companies	0	0	(50,000)
Change in asset valuation reserve	(111,190)	(82,555)	(35,780)
Dividends to stockholders	0	(2,500,000)	(2,00,000)
Minimum pension liability adjustment	<u>(17,843)</u>	<u>(8,817)</u>	<u>90,300</u>
Net change in capital and surplus for the year	\$ <u>3,091,530</u>	\$ <u>2,438,909</u>	\$ <u>4,978,942</u>
Capital and surplus, December 31, current year	\$ <u>29,906,426</u>	\$ <u>32,345,335</u>	\$ <u>37,324,277</u>

## 6. MARKET CONDUCT ACTIVITIES

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

### A. Advertising and Sales Activities

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

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

### B. Underwriting and Policy Forms

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

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

### 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.

Respectfully submitted,

\_\_\_\_\_/s/  
Sharon Reynolds  
Senior Examiner

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

Sharon Reynolds, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/  
Sharon Reynolds

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_

APPOINTMENT NO. 22558

**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:

**SHARON REYNOLDS**

*as a proper person to examine into the affairs of the*

**FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY**

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

**COMPANY**

*with such other information as she 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

*Howard Mills*

Superintendent