

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
FIRST UNITED AMERICAN LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2002

DATE OF REPORT:

SEPTEMBER 19, 2003

EXAMINER:

VINCENT TARGIA

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	4
A. History	4
B. Holding company	4
C. Management	6
D. Territory and plan of operation	9
E. Reinsurance	9
4. Significant operating results	10
5. Financial statements	12
A. Assets, liabilities, capital, surplus and other funds	12
B. Condensed summary of operations	14
C. Capital and surplus account	15
6. Market conduct activities	16
A. Advertising and sales activities	16
B. Underwriting and policy forms	17
C. Treatment of policyholders	17
D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)	18
7. Prior report summary and conclusions	19
8. Summary and conclusions	23



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

September 19, 2003

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

Sir:

In accordance with instructions contained in Appointment No. 21992, dated January 21, 2003 and annexed hereto, an examination has been made into the condition and affairs of First United American Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 1020 Seventh North Street, Liverpool, New York 13088.

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, 2002 filed annual statement. (See item 5 of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent of its intention to sublease office space to an affiliate at least 30 days prior thereto. (See item 3B of this report)

The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete advertising file of all advertisements printed, published, or prepared for dissemination in New York. A similar violation appeared in the prior report on examination. (See item 6A of this report)

The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchaser of their right to receive, upon request, a buyer's guide and policy summary prior to the delivery of the policy. A similar violation appeared in the prior report on examination. (See item 6A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 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 and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

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

3. DESCRIPTION OF COMPANY

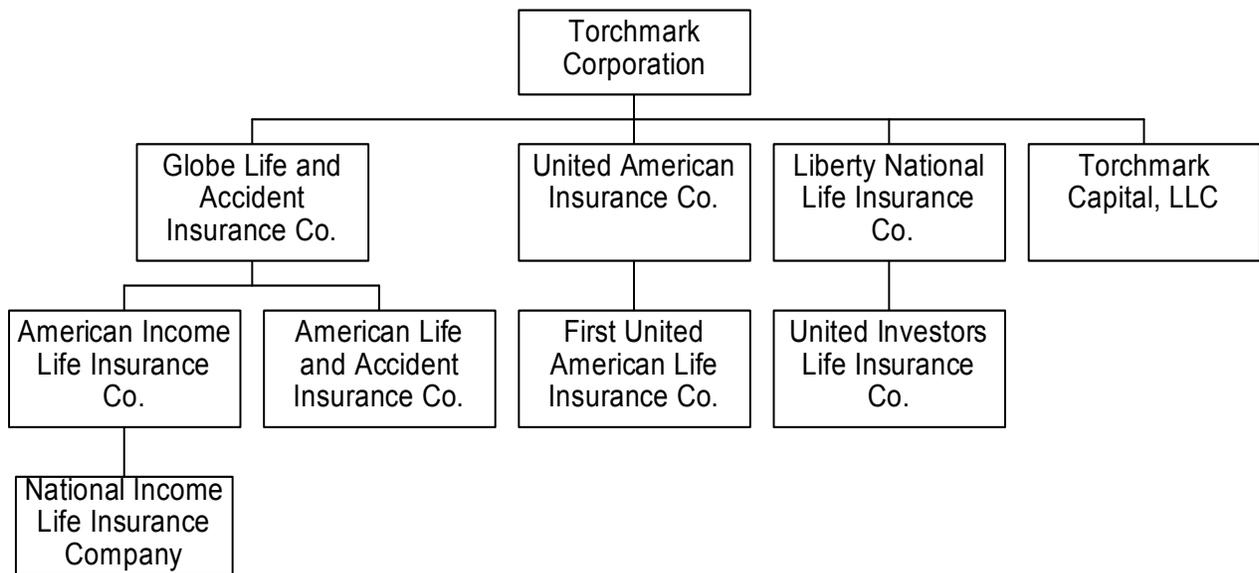
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on June 16, 1981 under the name of Globe International Life Insurance Company. The Company was licensed and commenced business on December 10, 1984. The name of the Company was changed to First United American Life Insurance Company effective October 1, 1985. Initial resources of \$6,428,480 consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,428,480 were provided through the sale of 100 shares of common stock (with a par value of \$20,000 each) for \$64,284.80 per share.

B. Holding Company

The Company is a wholly owned subsidiary of United American Insurance Company (“UAIC”), a Delaware insurance company. UAIC is in turn a wholly owned subsidiary of Torchmark Corporation (“TMK”), the ultimate parent of the Company. TMK is a publicly traded Delaware investment advisory company.

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 the following four service agreements, filed under Article 15 of the New York Insurance Law, in effect as of December 31, 2002:

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered
Administrative	5/17/2000	the Company	National Income Life Insurance Company ("NILIC")	Administrative general support services in connection with the NILIC's business and operations, supervisory, oversight, support and managerial services by making a senior officer available with expertise and experience in managing the operations of a life insurance company
Administrative	8/1/2000*	UAIC	the Company	Underwriting, claims and administrative support for the Company's Medicare Supplement, Other Health Insurance and Military business
Administrative	4/1/2001*	Globe Life and Accident Insurance Company ("Globe")	the Company	Underwriting, claims, administrative, marketing and advertising services for the Company's direct response life business, Medicare Supplement and Other health business
Investment	11/1/1994	TMK	the Company	Investment advisory services

*The above listed service agreements were revisions of prior service agreements. The agreements with UAIC and Globe were originally dated November 1, 1994. The primary changes to the UAIC and Globe Agreements called for enhanced involvement in underwriting, claims and administrative support.

The Company also has a consolidated federal tax allocation agreement in effect with its ultimate parent, Torchmark Corporation.

Section 1505(d) of the New York Insurance Law states, in part:

"The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .

(3) rendering of services on a regular or systematic basis . . ."

A review of services provided by the Company to affiliates indicated that the Company entered into a Sublease Agreement with NILIC, a New York domiciled licensed life insurer. The Sublease Agreement called for the sublease by the Company, of approximately 140 square feet

of its home office space to NILIC for a term of five years commencing on May 1, 2002. The Company never submitted the Sublease Agreement to the Superintendent.

The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent in writing of its intention to sublease office space to an affiliate at least 30 days prior thereto.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. The number of directors, however, shall be increased to not less than 13 within one year following the end of the calendar year in which the corporation exceeds \$1.5 billion in admitted assets. Directors are elected for a period of one year at the annual meeting of the shareholders held at the time and on the date determined by the board of directors. As of December 31, 2002, the board of directors consisted of eight members. Meetings of the board are held immediately following the annual meeting of the shareholders and at such intervals and on such dates as the board may designate. All meetings of the board of directors were held by means of unanimous written consent.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Tony G. Brill Plano, TX	Executive Vice President and Chief Administrative Officer Torchmark Corporation Senior Vice President, Administration First United American Life Insurance Company	1997
Gary L. Coleman Richardson, TX	Executive Vice President and Chief Financial Officer Torchmark Corporation Chief Financial Officer, Senior Vice President, and Treasurer First United American Life Insurance Company	1994
Terence P. Cummings* Montclair, NJ	Attorney at Law Ohrenstein & Brown, LLP	1989

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Gene P. Grimland McKinney, TX	President – General Agency Division United American Life Insurance Company Executive Vice President, Sales First United American Life Insurance Company	1997
Larry M. Hutchison Duncanville, TX	Executive Vice President and General Counsel Torchmark Corporation Vice President, General Counsel, and Secretary First United American Life Insurance Company	1993
Dirk Marschhausen* Garden City, NY	Attorney at Law Marschhausen & Fitzpatrick PC	1997
Rosemary J. Montgomery Parker, TX	Executive Vice President and Chief Actuary Torchmark Corporation United American Insurance Company Globe Life and Accident Insurance Company First United American Life Insurance Company	1994
James A. Savo Liverpool, NY	Vice President, Operations First United American Life Insurance Company	2001

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

In June 2002, Irwin F. Giles resigned from the board and was not replaced. In December 2002, C. B. Hudson and Mark S. McAndrew resigned from the board and were replaced by Stephen W. Still in January 2003 and Mark Green in June 2003, respectively. Mr. Still and Mr. Green are not affiliated with the Company or any other company in the holding company system.

With respect to reports on examination, Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report. . . .”

The Company’s board of director minutes failed to indicate that the prior report on examination, dated March 2, 2001, was either sent to or reviewed by each member of the board of directors.

The Company violated Section 312(b) of the New York Insurance Law by failing to furnish a copy of the report on examination to each member of its board of directors and failing to have each member sign a statement, retained by the Company, confirming that such member received and read such report.

The following is a listing of the principal officers of the Company as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Mark S. McAndrew	President and Chief Executive Officer
Gene P. Grimland	Executive Vice President, Sales
Rosemary J. Montgomery	Executive Vice President and Chief Actuary
Gary L. Coleman	Chief Financial Officer, Senior Vice President and Treasurer
Tony G. Brill	Senior Vice President, Administration
Larry M. Hutchison	Vice President, General Counsel and Secretary
James A. Savo*	Vice President, Operations
Douglas L. Gockel	Vice President
Ben Lutek	Vice President

* Designated 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 only licensed to write business in New York. In 2002, all life premiums, accident and health premiums, and annuity considerations were received from New York. Policies are written on a non-participating basis.

Prior to 1994, the Company wrote almost exclusively individual medicare supplement insurance. In 1994, the Company began writing individual life insurance. In 1995, the Company began writing group medicare supplement insurance and individual annuities.

The Company's individual medicare supplement insurance and individual annuities are solicited through the Company's agency force, which operates on a general agency basis. Approximately 98% of the ordinary life business was sold through direct response marketing; the other 2%, mostly senior life products, was sold through the Company's agency force. All life insurance sold during the examination period was written on a simplified issue basis.

The Company's group medicare supplement insurance is primarily solicited to employer and union groups through licensed brokers or agents; direct response marketing is also used but to a lesser extent. The group medicare supplement business may be issued as mandatory or voluntary coverage depending upon the group. For mandatory business, the employer or union bears the cost of the insurance and all retirees are covered. For voluntary business, the group policyholder provides a list of retirees eligible for coverage and the Company sends direct response packages with enrollment forms to the retirees.

Effective November 1998, the Company no longer accepts life and annuity business that replaces another insurer's coverage.

E. Reinsurance

As of December 31, 2002, the Company had no reinsurance treaties in effect for new business. A reinsurance treaty that was terminated on July 1, 1993 for new business related to the Company's long-term care (nursing home) product, is currently in run off.

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>1999</u>	December 31, <u>2002</u>	<u>Increase</u>
Admitted assets	<u>\$62,310,906</u>	<u>\$79,806,120</u>	<u>\$17,495,214</u>
Liabilities	<u>\$43,542,795</u>	<u>\$54,800,210</u>	<u>\$11,257,415</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,428,480	4,428,480	0
Unassigned funds (surplus)	<u>12,339,631</u>	<u>18,577,430</u>	<u>6,237,799</u>
Total capital and surplus	<u>\$18,768,111</u>	<u>\$25,005,910</u>	<u>\$ 6,237,799</u>
Total liabilities, capital and surplus	<u>\$62,310,906</u>	<u>\$79,806,120</u>	<u>\$17,495,214</u>

The Company's invested assets, as of December 31, 1999, were mainly comprised of bonds (94.7%). The majority (92.7%) 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:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Ordinary:			
Life insurance	\$1,027,859	\$ 184,224	\$1,039,176
Individual annuities	<u>153,576</u>	<u>134,931</u>	<u>324,198</u>
Total ordinary	<u>\$1,181,435</u>	<u>\$ 319,155</u>	<u>\$1,363,374</u>
Accident and health:			
Group	\$ 94,791	\$ 168,178	\$ 173,755
Other	<u>89,008</u>	<u>577,113</u>	<u>1,657,667</u>
Total accident and health	<u>\$ 183,799</u>	<u>\$ 745,291</u>	<u>\$1,831,422</u>
Total	<u>\$1,365,234</u>	<u>\$1,064,446</u>	<u>\$3,194,796</u>

The fluctuation in the Company's net gain for ordinary life operations is attributable to marketing expenses associated with the direct mail marketing of the Company's life products. In 2001, the direct marketing expenses were greater than the other two years, which resulted in a decrease in the gain on the individual life line in 2001. In 2001, direct marketing expenses were approximately \$3.1 million as compared to \$1.7 million in 2000 and approximately \$2.0 million in 2002.

The significant increase in the earnings for individual annuities in 2002 is due to the increase in annuity sales as a result of the Company's renewed marketing efforts after several years of not actively promoting its annuity products.

The fluctuation in earnings in the other accident and health line is directly related to the Company's medicare supplement business. The increase in net gain during 2001 and 2002 are attributable to increased premium revenue of approximately \$4.2 million in 2001 and \$3.4 million in 2002. The increased premium revenue was a result of a rate increase that did not take effect until late 2000. The increase in premiums coupled with only a modest increase in losses during these years resulted in improved loss ratios and net gains.

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 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	\$67,823,259
Policy loans	374,996
Cash and short term investments	1,379,342
Other invested assets	2,058,912
Federal and foreign income tax recoverable and interest thereon	3,076,000
Life insurance premiums and annuity considerations deferred and uncollected on in force business	3,309,132
Accident and health premiums due and unpaid	342,283
Investment income due and accrued	1,154,999
Receivable from parent, subsidiaries and affiliates	9,078
New York Department adjustments	<u>278,119</u>
 Total admitted assets	 <u>\$79,806,120</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$30,536,551
Aggregate reserve for accident and health policies	11,585,946
Policy and contract claims:	
Life	738,000
Accident and health	7,577,000
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	617,728
Taxes, licenses and fees due or accrued	708,267
Amounts withheld or retained by company as agent or trustee	473,169
Remittances and items not allocated	23,554
Miscellaneous liabilities:	
Asset valuation reserve	401,095
Payable to parent, subsidiaries and affiliates	2,104,864
Adjustments for nursing home business	10,373
Returned checks	<u>23,663</u>
 Total liabilities	 <u>\$54,800,210</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	4,428,480
Unassigned funds (surplus)	<u>18,577,430</u>
 Total capital, surplus and other funds	 <u>\$25,005,910</u>
 Total liabilities, capital, surplus and other funds	 <u>\$79,806,120</u>

The Company closes its books as of December 24th each year instead of December 31st. The 1990 report on examination contained a recommendation that the Company establish an accrual for the period between December 24th and December 31st in order to comply with Section 307 of the New York Insurance Law. The New York Department adjustments line in the annual statement represents an estimate of cash transactions for premiums, claims, commissions, investment income, etc., during the period between December 24th and December 31st of the current year.

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Premiums and considerations	\$39,524,076	\$43,345,334	\$49,224,438
Investment income	4,414,876	4,587,483	4,832,473
Commissions and reserve adjustments on reinsurance ceded	28,840	26,131	24,210
Miscellaneous income	<u>132,342</u>	<u>62,429</u>	<u>385,547</u>
 Total income	 <u>\$44,100,134</u>	 <u>\$48,021,377</u>	 <u>\$54,466,668</u>
Benefit payments	\$28,341,569	\$32,897,566	\$33,397,649
Increase in reserves	3,302,634	1,279,196	3,461,626
Commissions	5,655,834	6,200,277	6,806,417
General expenses and taxes	4,197,935	5,558,544	5,089,314
Increase in loading on deferred and uncollected premium	(209,580)	(332,563)	29,959
Miscellaneous deductions	<u>0</u>	<u>192,125</u>	<u>0</u>
 Total deductions	 <u>\$41,288,392</u>	 <u>\$45,795,145</u>	 <u>\$48,784,965</u>
Net gain (loss)	\$ 2,811,742	\$ 2,226,232	\$ 5,681,703
Federal and foreign income taxes incurred	<u>1,446,508</u>	<u>1,161,786</u>	<u>2,486,908</u>
Net gain (loss) from operations before net realized capital gains	\$ 1,365,234	\$ 1,064,446	\$ 3,194,795
Net realized capital gains (losses)	<u>23,272</u>	<u>(2,466)</u>	<u>(209,118)</u>
 Net income	 <u>\$ 1,388,506</u>	 <u>\$ 1,061,980</u>	 <u>\$ 2,985,677</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Capital and surplus, December 31, prior year	<u>\$18,768,111</u>	<u>\$18,421,223</u>	<u>\$20,074,610</u>
Net income	\$ 1,388,506	\$ 1,061,980	\$ 2,985,677
Change in net deferred income tax	0	75,000	491,000
Change in non-admitted assets and related items	(191,367)	(96,052)	1,543,310
Change in asset valuation reserve	(44,027)	(72,541)	(88,687)
Cumulative effect of changes in accounting principles	0	685,000	0
Dividends to stockholders	<u>(1,500,000)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	<u>\$ (346,888)</u>	<u>\$ 1,653,387</u>	<u>\$ 4,931,300</u>
Capital and surplus, December 31, current year	<u>\$18,421,223</u>	<u>\$20,074,610</u>	<u>\$25,005,910</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.

Section 219.3(a) of Department Regulation No. 34-A states, in part:

“Advertisement for the purpose of this Part shall include . . .
(1) printed and published material, audio visual material and descriptive literature of an insurer used in direct mail, newspapers, magazines . . .”

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

“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 and the form number of any policy advertised. In order to be complete, the file must contain all advertisements whether used by the company, its agents or solicitors or other persons. . . .”

The advertising file maintained at the home office and furnished to the examiner failed to include specimen copies along with the manner and extent of distribution of approximately 41 “lead generation” advertisements used in direct response advertising made on behalf of the Company by its affiliate Globe.

The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete advertising file of all advertisements printed, published, or prepared for dissemination in New York. A similar violation appeared in the prior report on examination.

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

“No policy of life insurance shall be delivered or issued for delivery in this state after the applicable effective date, as set forth in subsection (n) of this section, unless the prospective purchaser has been provided with the following:

(1) . . . When sales solicitations are made by mail . . . such solicitation must alert the prospective purchaser of the right to receive, upon request, a buyer’s guide and a policy summary prior to delivery of the policy . . . ”

Based upon a review of the direct response advertisements for life products, the Company did not alert the prospective purchaser of the right to receive, upon request, a buyer’s guide and a policy summary prior to the delivery of the policy in 18 of 52 (34.6%) of its direct response advertisements.

The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchaser of their right to receive, upon request, a buyer’s guide and policy summary prior to the delivery of the policy. A similar violation appeared in the prior report on examination.

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.

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 began selling life insurance products in 1994 and that it is not currently marketing nor does it have any in-force life insurance policies with premiums, face amounts or nonforfeiture values that reflect underwriting and premium development based on race, color, creed or national origin.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services not provided for in a filed service agreement and by not following the provisions of filed service agreements.</p> <p>A review indicated that the Company revised its service agreements to accurately reflect the services provided and followed the provisions of the filed service agreements.</p>
B	<p>The examiner recommends that the Company diversify its independent directors to avoid any appearance of impropriety. Similar recommendations were made in the two prior reports on examination.</p> <p>A review indicated that the Company elected new directors in 2003 in order to diversify its independent directors.</p>
C	<p>The Company violated Section 4211(b) of the New York Insurance Law by failing to provide written notice to the Superintendent of Mr. Savo's appointment to the board of directors.</p> <p>A review indicated that the Company provided written notice to the Superintendent for all new directors elected to its board of directors.</p>
D	<p>The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by failing to include certain policy liabilities when distributing their net investment income to major annual statement lines of business,</p> <p>A review indicated that the Company has included claim liabilities with policy reserves when distributing net investment income to major annual statement lines of business.</p>

<u>Item</u>	<u>Description</u>
E	<p>The Company violated Section 91.4(a) of Department Regulation No. 33 by failing to provide any documentation that supports the Company’s method of distributing expenses among companies and to annual statement lines of business.</p> <p>A review indicated that the Company maintained and provided documentation to support its method of distributing expenses among companies and to annual statement lines of business.</p>
F	<p>The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by failing to maintain a complete advertising file at its home office.</p> <p>A review indicated that the Company failed to take corrective action in response to this prior report violation. (See Section 6A of this report)</p>
G	<p>The Company violated Section 219.4(h) of Department Regulation No. 34-A by failing to substantiate the use of terms such as “low cost” to describe the cost of the life insurance product being advertised.</p> <p>A review indicated that the Company no longer uses terms such as “low cost” to describe the cost of the life insurance product being advertised.</p>
H	<p>The Company violated Section 219.4(o) of Department Regulation No. 34-A by failing to provide documentation to substantiate the use of the term “superior” or terms and phrases of a similar nature in six advertisements describing the Company, its’ claims service, and its’ Series 400 whole life plan.</p> <p>A review indicated that the Company no longer uses the term “superior” or terms and phrases of a similar nature in advertisements describing the Company, its’ claim service, and its’ Series 400 whole life plan.</p>
I	<p>The Company violated Section 219.4(w) of Department Regulation No. 34-A by using advertisements that failed to include an asterisk or other symbol following all references to a reduced initial premium rate that refers the reader to the full rate schedule of the policy being advertised.</p> <p>A review indicated that the Company has taken corrective action, as of the date the stipulation for the prior report was executed, in response to this prior report violation.</p>

<u>Item</u>	<u>Description</u>
J	<p>The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A by using advertisements that call attention to an unauthorized affiliated insurer, Globe, and have the tendency to mislead as to the true identity of the insurer.</p> <p>A review indicated that the Company no longer uses advertisements that call attention to any unauthorized affiliated insurers.</p>
K	<p>The Company violated Section 219.4(a)(1) of Department Regulation No. 34-A by failing to substantiate information printed in several of its direct response advertisements and its internet advertisements.</p> <p>A review indicated that the Company no longer uses information that it can not substantiate in its direct response and internet advertisements.</p>
L	<p>The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchaser of their right to receive, upon request, a buyer's guide and a policy summary prior to the delivery of the policy.</p> <p>A review indicated that the Company failed to take adequate corrective action in response to this prior report violation. (See Section 6A of this report)</p>
M	<p>The Company violated Section 3207(c) of the New York Insurance Law by issuing policies on minors in excess of the limits allowed by law.</p> <p>Section 3207 of the New York Insurance Law was amended in August 2003 to increase the limit of juvenile insurance to \$25,000. A review indicated that the Company does not issue insurance on juveniles in excess of \$10,000.</p>
N	<p>The Company violated Section 3209(g) of the New York Insurance Law and Section 53-1.4(a) of Department Regulation No. 74 by failing to maintain at its home office for each policy form, a complete file containing one specimen copy of the preliminary information form and the policy summary form authorized by the insurer.</p> <p>A review indicated that the Company has implemented measures to ensure that, for each policy form, complete files containing a specimen copy of the preliminary information form and the policy summary form authorized by the insurer are maintained at the Company's home office.</p>

<u>Item</u>	<u>Description</u>
O	<p>The Company violated Sections 53-2.3(a)(1) and (b)(2) of Department Regulation No. 74 by failing to provide evidence that the applications, the preliminary information documents provided to applicants, and the policy summary documents provided to policyholders for policies issued under the Company's Series 400 plan, contained the required disclosure notices regarding minimal or no medical underwriting.</p> <p>A review indicated that applications, the preliminary information documents provided to applicants, and the policy summary documents provided to policyholders for policies issued under the Company's Series 400 plan contained the required disclosure notices regarding minimal or no medical underwriting.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent in writing of its intention to sublease office space to an affiliate at least 30 days prior thereto.	5 – 6
B	The Company violated Section 312(b) of the New York Insurance Law by failing to furnish a copy of the report on examination to each member of its board of directors and failing to have each member sign a statement, retained by the Company, confirming that such member received and read such report.	8
C	The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete advertising file of all advertisements printed, published, or prepared for dissemination in New York.	16
D	The Company violated Section 3209(b)(1) of the New York Insurance law by failing to include language in its direct response advertisements that alerts the prospective purchaser of their right to receive, upon request, a buyer's guide and policy summary prior to the delivery of the policy.	17

Respectfully submitted,

_____/s/_____
Vincent Targia
Associate Insurance 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. 21992

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:

VINCENT TARGIA

as a proper person to examine into the affairs of the

FIRST UNITED AMERICAN LIFE INSURANCE COMPANY

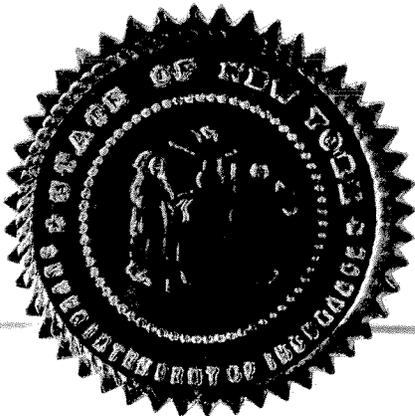
and to make a report to me in writing of the condition of the said

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 21st day of January, 2003



GREGORY V. SERIO
Superintendent of Insurance

[Handwritten Signature]
Superintendent