STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST REHABILITATION LIFE INSURANCE COMPANY OF AMERICA

CONDITION: DECEMBER 31, 2003

DATE OF REPORT: SEPTEMBER 12, 2006

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST REHABILITATION LIFE INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2003

DATE OF REPORT:	SEPTEMBER 12, 2006
EXAMINER:	DARLENE SINGLEMANN

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Company	4
	A. History	4
	B. Holding company	4
	C. Management	5
	D. Territory and plan of operation	6
	E. Reinsurance	7
4.	Significant operating results	8
5.	Financial statements	13
	A. Assets, liabilities, capital, and surplus	13
	B. Condensed summary of operations	15
	C. Capital and surplus account	16
6.	Market conduct activities	17
	A. Advertising and sales activities	17
	B. Underwriting and policy forms	17
	C. Treatment of policyholders	17
7.	Internal audit	18
8.	Prior report summary and conclusions	19
9.	Summary and conclusions	20

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

George E. Pataki
Governor

Howard Mills
Superintendent

September 12, 2006

Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22248, dated September 2, 2004, and annexed hereto, an examination has been made into the condition and affairs of First Rehabilitation Life Insurance Company of America, hereinafter referred to as “the Company,” at its home office located at 600 Northern Boulevard, Great Neck, New York 11021.

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, 2003 filed annual statement. (See item 5 of this report)

The loss ratios for three of the Company's products did not meet the minimum loss ratio standards set forth in Section 52.45(f) of Department Regulation No. 62 for most of the examination period. In addition, the loss ratios with regard to these products did not meet the applicable minimum loss ratio standards for the two year period following the examination period. Pursuant to a plan proposed by the Company and agreed to by the Department, the Company will remediate the situation by issuing premium credits or cash refunds for the three insurance plans in question, i.e., small group disability benefits ("DBL"), excess group major medical ("XGMM") and vision, in the aggregate amount of $22,233,941. The premium credits and cash refunds have been calculated so that the loss ratios for these plans will meet the applicable Department Regulation No. 62 minimum loss ratio standards. The Company will provide the Department with interim reports for the purposes of monitoring the timely implementation of the plan.

For calendar years 2006, 2007, and 2008, any failure to meet the applicable minimum loss ratio standards in Section 52.45(f) of Department Regulation No. 62 or otherwise agreed to by the Department for the small group DBL and XGMM plans will result in the issuance of premium credits or cash refunds to the extent that is necessary for each of the plans to meet the corresponding regulatory minimum loss ratio standard. A comment regarding loss ratios appeared in the prior report on examination. (See item 4 of this report)

The Company violated Section 215.13(a) of Department Regulation No. 34 by failing to identify the applicable policy form number on all accident and health insurance advertisements. (See item 6A of this report)

The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the outside committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Company's 2003 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 8 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated in New York as a stock insurance company under the name of The First Rehabilitation Insurance Company of America on August 12, 1971. The Company was licensed on August 8, 1972 to write accident and health insurance as specified in paragraph 3 of Section 1113(a) of the New York Insurance Law and commenced business on November 1, 1972. In January 1997, the Company amended its charter to include the writing of life insurance and annuities as specified in paragraphs 1 and 2 of Section 1113(a) of the New York Insurance Law. The name of the Company was changed to The First Rehabilitation Life Insurance Company of America effective January 1, 1997. As of December 31, 2003, the Company reported common capital stock of $2,000,000, provided through the sale of 20,000 shares of common stock with a par value of $100 per share, and paid in and contributed surplus of $4,000,000. These amounts are unchanged from the prior report on examination.

B. Holding Company

The Company is a wholly owned subsidiary of Rehab Services Corporation ("Rehab Services"), a New York domiciled insurance holding company. The major stockholders of Rehab Services are Seth Goldberg (26⅓%), Bruce Goldberg (26⅓%), and the estate of Glenn Goldberg (26⅓%).

The Company has a service agreement filed with the Department in effect with Bruce Goldberg for claims consulting and review services. The Company did not use this agreement during the examination period and there were no payments made under the agreement during the examination period. However, the Company has advised that there is a need for the service agreement and may utilize the agreement in the future.

The Company and Rehab Services file a consolidated tax return. The Company has a consolidated tax allocation agreement on file with the Department in accordance with Department Circular Letter No. 33 (1979).

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. Directors are elected for a period of one year at the annual meeting of the stockholders held in November of each year. As of December 31, 2003, the board of directors consisted of 11 members. Meetings of the board are held quarterly.

The 11 board members and their principal business affiliation, as of December 31, 2003, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
John Baldwin Pleasantville, NY	President The First Rehabilitation Life Insurance Company of America	1981
Anthony Barbiero* Elmont, NY	Attorney Anthony Barbiero, P.C.	1972
Mehmet Cetin* Sarasota, FL	Retired	1972
Peter Demetriou* Hempstead, NY	Insurance Agent Davis Agency, Inc.	1977
Gerald Dolman* Brooklyn, NY	Executive Vice President Administrators of the Professions, Inc.	1998
Herbert Gerstein Manhasset Hills, NY	Treasurer The First Rehabilitation Life Insurance Company of America	1998
Bruce Goldberg East Hills, NY	Physician	1979
Seth Goldberg Roslyn, NY	Physician	1972
Alvin Lefkowitz Rockville Centre, NY	Secretary The First Rehabilitation Life Insurance Company of America	1972

Name and Residence	Principal Business Affiliation	Year First Elected
Norman Mandel* Brooklyn, NY	Retired	1995
Morton Povman* Forest Hills, NY	Attorney Morton Povman, P.C.	1972

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

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2003:

Name	Title
John Baldwin*	President
Robert Slack	Chief Financial Officer
Alvin Lefkowitz	Secretary
Herbert Gerstein	Treasurer

* 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 and is licensed to transact business in 16 states. However, in 2003 substantially all premiums were received from New York (99.8%). Policies are written on a non-participating basis.

The Company's primary product is New York State Statutory Disability Benefits ("DBL"). The Company also offers group term life and group accident and health coverages, which includes long term disability, excess group major medical reimbursement, group medical reimbursement, dental and vision plans.

The Company's agency operations are conducted on both a general agency and broker basis. Group accident and health insurance plans are sold by brokers and agents and group term life insurance is sold exclusively through agents.

E. Reinsurance

As of December 31, 2003, the Company had five reinsurance treaties in effect with four companies, all of which were authorized or accredited. DBL policies are ceded on an automatic quota share basis with the Company retaining 50% of each risk. Long term disability policies are ceded on an automatic quota share basis with the Company retaining 10% of each risk. Reinsurance for both of these coverages is currently with Employer's Reinsurance Corporation.

Excess group major medical policies are issued up to a maximum of $1,000,000, and are ceded to Trenwick America Reinsurance Corporation on an excess of loss basis whereby the Company retains the first $100,000 of loss and reinsures the next $900,000 of loss.

Group term life insurance policies, which have a maximum face amount of $100,000, are ceded on a quota share basis. The maximum retention limit for each group term life certificate is 40% of face value.

The Company is also protected by an excess loss reinsurance agreement that applies to individual life insurance policies issued in accordance with the conversion provision of its group life and accidental death and dismemberment insurance policies. The agreement limits the Company's liability to $60,000 per accident involving no fewer than three persons. This contract is with TIG Insurance Company.

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, 2000	December 31, 2003	Increase (Decrease)
Admitted assets	$58,804,079	$72,081,952	$13,277,873
Liabilities	$30,560,026	$29,140,905	$ (1,419,121)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	4,000,000	4,000,000	0
Unassigned funds (surplus)	22,244,053	36,941,047	14,696,994
Total capital and surplus	$28,244,053	$42,941,047	$14,696,994
Total liabilities, capital and surplus	$58,804,079	$72,081,952	$13,277,873

The Company's invested assets, as of December 31, 2003, were mainly comprised of bonds (96.5%). The Company's entire bond portfolio, as of December 31, 2003, was comprised of investment grade obligations.

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

	2001	2002	2003
Group life	$ 137,597	$ 107,273	$ 205,332
Group accident and health	4,560,660	5,242,316	5,321,514
Total	$4,698,257	$5,349,589	$5,526,846

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:

	2001	2002	2003
Premiums earned	100.0%	100.0%	100.0%
Incurred losses	52.9%	56.3%	58.6%
Increase in contract reserves	5.0	4.4	(1.5)
Commissions	(10.6)	8.0	0.8
Expenses	39.1	26.7	30.4
Aggregate write-ins:			
Administrative income	(0.0)	(0.5)	(0.0)
Gain on reinsurance commutation	(0.0)	(6.0)	(0.0)
	86.4%	88.9%	88.3%
Underwriting gains	13.6%	11.1%	11.7%

The following incurred loss ratios, applicable to certain products of the Company's group accident and health insurance business, have been noted for each of the indicated years:

Product Name	2001	2002	2003	Minimum Loss Ratio
DBL*	56%	53%	55%	60%
XGMM	37%	38%	38%	65%
Vision	63%	57%	56%	60%
Dental	72%	69%	72%	60%

* The DBL loss ratios reported above do not recognize the impact of policies that were subject to an annual minimum written premium and, as a result, the reported DBL loss ratio for each year is understated.

Section 52.45(f) (Minimum Loss Ratio Standards) of Department Regulation No. 62 states, in part:

> "Group and blanket insurance. The minimum loss ratio for group and blanket insurance shall be 65 percent, except that:
> (1) for insurance covering less than 50 persons at inception, excluding dependents, the minimum loss ratio shall be 60 percent . . ."

The incurred loss ratios for small group DBL, XGMM and vision did not meet the loss ratio standards set forth in Section 52.45(f) of Department Regulation No. 62 for most of the examination period and many years prior to the examination period. A violation of Section 52.45(f) of Department Regulation No. 62 appeared in the report on examination as of December 31, 1997, which noted that the loss ratios for XGMM, dental, and vision plans were below the minimum loss ratio standards. A recommendation appeared in the report on examination as of December 31, 2000, advising that the Company continue to monitor the loss ratios for DBL, XGMM, dental, and vision plans.

The Company enhanced benefits and made other changes to increase the loss ratios (see following paragraphs for details); however the loss ratios for small group DBL and XGMM have never reached the minimum standards in Department Regulation No. 62. In addition, the loss ratio for vision has frequently not met the minimum standards. It is noted that the dental business loss ratio exceeded the minimum loss ratio required by Department Regulation No. 62 during this examination period.

In an attempt to increase the vision loss ratio, the Company added benefits to its vision contracts without a corresponding increase in premium in 2000. As a result, the vision loss ratio for 2001 exceeded the loss ratio standard in Department Regulation No. 62. However, in 2002 and 2003 the ratio did not meet the loss ratio standard (60%) in Department Regulation No. 62. The Company has evaluated the decrease in the loss ratios for 2002 and 2003 and has filed and received approval for materially enhanced vision benefits.

In 2000, the Company also added benefits to its XGMM contracts without a corresponding increase in premium. The XGMM loss ratios have remained relatively stable since the prior examination period. On December 30, 2003 the Company filed two benefit enhancements; an increase in the in-hospital daily benefit and an expansion of the vision coverage. The Company also planned several rate changes for 2004 in an effort to increase the loss ratio. The Department has agreed with the Company on an appropriate allowance for stop loss coverage that is part of this contract. The loss ratios in the future are expected to recognize this new allowance.

The three year average loss ratio for small group DBL decreased slightly since the prior examination period. The Company has implemented an initiative to change the premium mode from quarterly to annual which resulted in premium discounts. The Company has also opened offices in "high loss ratio regions" in New York and has experienced increased writings from these regions.

Despite the aforementioned attempts to increase certain loss ratios, the Company did not meet the loss ratio standards set forth in Section 52.45(f) of Department Regulation No. 62 during the examination period since it did not meet for most years the loss ratio standards for small group DBL, XGMM and vision plans.

Subsequent to the examination period, the loss ratio situation with regard to small group DBL, XGMM and vision did not improve in calendar years 2004 or 2005. The small group DBL loss ratios were 43% and 40% for 2004 and 2005, respectively[1]. The XGMM loss ratios were 36% and 43% for 2004 and 2005, respectively. The vision loss ratios were 53% and 58% for 2004 and 2005, respectively.

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[1] The DBL loss ratios for 2004 and 2005 do not recognize the impact of policies that were subject to an annual minimum written premium and, as a result, the reported DBL loss ratio for each year is understated.

The loss ratios for three of the Company's products did not meet the minimum loss ratio standards set forth in Section 52.45(f) of Department Regulation No. 62. In addition, the loss ratios with regard to these products did not meet the applicable minimum loss ratio standards for the two year period following the examination period. Pursuant to a plan proposed by the Company and agreed to by the Department, the Company will remediate the situation by issuing premium credits or cash refunds for the three insurance plans in question, i.e., small group DBL, XGMM and vision, in the aggregate amount of $22,233,941. The premium credits and cash refunds have been calculated so that the loss ratios for these plans will meet the applicable Department Regulation No. 62 loss ratio standards. The Company will provide the Department with interim reports for the purposes of monitoring the timely implementation of the plan.

For calendar years 2006, 2007, and 2008, any failure to meet the applicable minimum loss ratio standards in Section 52.45(f) of Department Regulation No. 62 or otherwise agreed to by the Department for the small group DBL and XGMM plans will result in the issuance of premium credits or cash refunds to the extent that is necessary for each of the plans to meet the corresponding regulatory minimum loss ratio standard.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, and surplus as of December 31, 2003, as contained in the Company's 2003 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, 2003 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, AND SURPLUS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	$56,186,135
Stocks:	
Preferred stocks	1,004,871
Common stocks	568,572
Cash and short term investments	469,949
Reinsurance ceded:	
Amounts recoverable from reinsurers	2,223,350
Other amounts receivable under reinsurance contracts	1,351,084
Electronic data processing equipment and software	273,688
Net deferred tax asset	945,279
Premiums and considerations	
Uncollected premiums and agent's balances in the course of Collection	8,413,347
Investment income due and accrued	645,677
Total admitted assets	$72,081,952

Liabilities, Capital, and Surplus

Aggregate reserve for accident and health policies	$ 4,484,892
Policy and contract claims - Accident and Health	5,463,618
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	7,866,442
Policy and contract liabilities	
Provision for experience rating refunds	3,228,364
Commissions to agents due or accrued	2,553,947
General expenses due or accrued	1,305,320
Taxes, licenses and fees due or accrued	526,340
Federal and foreign income taxes	343,730
Amounts withheld or retained by company as agent or trustee	130,351
Miscellaneous liabilities:	
Asset valuation reserve	139,968
Payable to parent, subsidiaries and affiliates	1,282
Reinsurance premium payable	3,096,651
Total liabilities	$29,140,905
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	4,000,000
Unassigned funds (surplus)	36,941,047
Total capital and surplus	$42,941,047
Total liabilities, capital, and surplus	$72,081,952

B. CONDENSED SUMMARY OF OPERATIONS

	2001	2002	2003
Premiums and considerations	$30,464,178	$48,128,736	$44,348,206
Investment income	2,539,320	2,610,849	2,485,333
Commissions and reserve adjustments on reinsurance ceded	12,122,768	6,148,464	10,270,061
Miscellaneous income	138,308	3,114,547	196,562
Total income	$45,264,574	$60,002,596	$57,300,162
Benefit payments	$15,981,019	$26,968,089	$25,751,965
Increase in reserves	1,508,477	2,088,825	(663,412)
Commissions	8,975,085	10,027,780	10,681,592
General expenses and taxes	11,853,989	12,787,080	13,409,886
Total deductions	$38,318,570	$51,871,774	$49,180,031
Net gain	$ 6,946,004	$ 8,130,822	$ 8,120,131
Federal and foreign income taxes incurred	2,247,747	2,781,233	2,593,285
Net gain from operations before net realized capital gains	$ 4,698,257	$ 5,349,589	$ 5,526,846
Net realized capital gains (losses)	(36,399)	96,142	(2,553)
Net income	$ 4,661,858	$ 5,445,731	$ 5,524,293

C. CAPITAL AND SURPLUS ACCOUNT

	2001	2002	2003
Capital and surplus, December 31, prior year	$28,244,053	$32,945,523	$38,288,286
Net income	$ 4,661,858	$ 5,445,731	$ 5,524,293
Change in net unrealized capital gains (losses)	(83,480)	(63,646)	108,812
Change in net deferred income tax	0	197,886	61,488
Change in non-admitted assets and related items	973,219	(333,788)	41,066
Change in asset valuation reserve	118,436	45,675	(67,449)
Cumulative effect of changes in accounting Principles	(968,563)	685,905	0
Dividends to stockholders	0	(635,000)	(1,015,450)
Net change in capital and surplus	$ 4,701,470	$ 5,342,763	$ 4,652,760
Capital and surplus, December 31, current year	$32,945,523	$38,288,286	$42,941,046

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 215.13(a) of Department Regulation No. 34 states, in part:

> "The name of the actual insurer and the form number or numbers advertised shall be identified and made clear in all of its advertisements. . . ."

None of the accident and health product advertisements used by the Company during the examination period contained the applicable policy form number.

The Company violated Section 215.13(a) of Department Regulation No. 34 by failing to identify the applicable policy form number on all accident and health insurance advertisements.

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.

The Company's Group Medical Reimbursement Policy ("GMRP-1"), on page 36 under the title "Schedule of Premium Determination" and under the subtitle "Annual Retrospective Experience Calculation Period," states, in part:

> "All claims for each calendar year must be submitted to the company no later than 11:59 p.m. E.S.T. on the 30th day of September next following the close of that calendar year; the company shall then calculate the annual retrospective premium adjustment no later than 11:59 p.m. E.S.T. on the 31st day of October next following...and any amounts due the company or to be refunded to the Policyholder will be billed or paid, as the case may be by 11:59 p.m. E.S.T. on the 30th day of November next following the 30th day of September first referred to above."

It was noted that during the examination period, the Company did not comply with the time constraints applicable to the payment of annual retrospective experience refunds as specified in the GMRP-1 policy. In all instances, the Company did not bill for any amounts due the Company or pay any amounts to be refunded to the policyholder until several months after the date the annual retrospective premium adjustment should have been calculated.

The examiner recommends that the Company comply with the terms of their GMPR-1 contract, specifically with respect to the time constraints related to the payment of annual retrospective experience refunds.

7. INTERNAL AUDIT

In response to the examination planning questionnaire, the Company indicated that they do not have an internal audit department.

Internal audit is an integral part of corporate governance that also includes the audit committee (i.e., the Review Committee in the case of the Company) the board of directors, senior management and the external auditors. In particular, internal auditors and audit committees are mutually supportive. Consideration of the work of internal auditors is essential for the audit committee to gain a complete understanding of the Company's operations. Internal audit identifies strategic, operational and financial risks facing the organization and assesses controls put in place by management to mitigate those risks.

The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.

8. 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 examiner recommends that the Company file all reinsurance agreements with the Superintendent pursuant to Section 127.2(c) of Department Regulation No. 102. The Company filed all reinsurance agreements with the Superintendent in accordance with Section 127.2(c) of Department Regulation No. 102.
B	The examiner recommends that the Company show the increase in policy reserves separately from incurred losses in Schedule H of the annual statement. The Company showed the increase in policy reserves separately from incurred losses in Schedule H of the annual statement.
C	The examiner recommends that the Company continue to monitor the loss ratios for disability insurance, excess group major medical reimbursement, dental and vision plans. The Company enhanced benefits and made other changes to increase the loss ratios; however the loss ratios for small group DBL and XGMM have never reached the minimum loss ratio standards in Department Regulation No. 62. In addition, the loss ratio for vision has frequently not met the minimum loss ratio standards. It is noted that the dental business loss ratio exceeded the minimum loss ratio standards required by Department Regulation No. 62 during this examination period. (See item 4 of this report)
D	The Company violated Section 2112(a) of the New York Insurance Law when it allowed agents that were not appointed with the Company to sell policies for the Company. During the examination period the Company allowed only appointed agents to sell policies for the Company.
E	The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain agents' license records until after the filing of a report on examination in which it was subject to review. The Company maintained agents' license records in accordance with Section 243.2(b)(8) of Department Regulation No. 152.

9. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and the comment contained in this report:

Item	Description	Page No(s).
A	The Company was not in full compliance with Section 52.45(f) of Department Regulation No. 62 during the examination period since it did not meet for most years the minimum loss ratio standards for small group DBL, XGMM, and vision plans. Pursuant to a plan proposed by the Company and agreed to by the Department, the Company will issue premium credits or cash refunds for the three plans in question, i.e., small group DBL, XGMM and vision, in the aggregate amount of $22,233,941. The Company will provide the Department with interim reports for the purposes of monitoring the timely implementation of the plan.	10 – 12
B	The Company violated Section 215.13(a) of Department Regulation No. 34 by failing to identify the applicable policy form number on all accident and health insurance advertisements.	17
C	The examiner recommends that the Company comply with the terms of their GMPR-1 contract, specifically with respect to the time constraints related to the payment of annual retrospective experience refunds.	17 – 18
D	The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.	18

Respectfully submitted,

/s/
Darlene Singlemann
Senior Insurance Examiner

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

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

/s/
Darlene Singlemann

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22248

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:

DARLENE SINGLEMANN

as a proper person to examine into the affairs of the

FIRST REHABILITATION LIFE INSURANCE COMPANY OF AMERICA

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 2nd day of September, 2004

GREGORY V. SERIO
Superintendent of Insurance

Superintendent