STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2002

DATE OF REPORT: FEBRUARY 13, 2004

EXAMINER: DAVID HEE

REPORT ON ASSOCIATION EXAMINATION

OF

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2002

BY THE INSURANCE DEPARTMENTS OF

NEW YORK

MISSISSIPPI

NEVADA

REPORT DATED: FEBRUARY 13, 2004

TABLE OF CONTENTS

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

February 13, 2004

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

Sir:

In accordance with instructions contained in Appointment No. 21987, dated January 21, 2003 and annexed hereto, an examination has been made into the condition and affairs of American International Life Assurance Company of New York, hereinafter referred to as "the Company," at its administrative office located at 3600 Route 66, Neptune, New Jersey 07754.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

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

February 13, 2004

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

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

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

Dear Sirs:

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

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

The report on examination is herewith respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner’s review of a sample of transactions did not reveal any differences which materially affected the Company’s financial condition as presented in its financial statements contained in the December 31, 2002 filed annual statement. (See item 5 of this report)

The Company violated Section 1505(d) of the New York Insurance Law for failing to file an investment advisory agreement prior to its use. (See item 3B of this report)

The Company violated Section 91.4(c) of Department Regulation No. 33 by not utilizing one of the prescribed methods to allocate net investment income by line of business. (See item 4 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2002 to determine whether the Company's 2002 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations 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

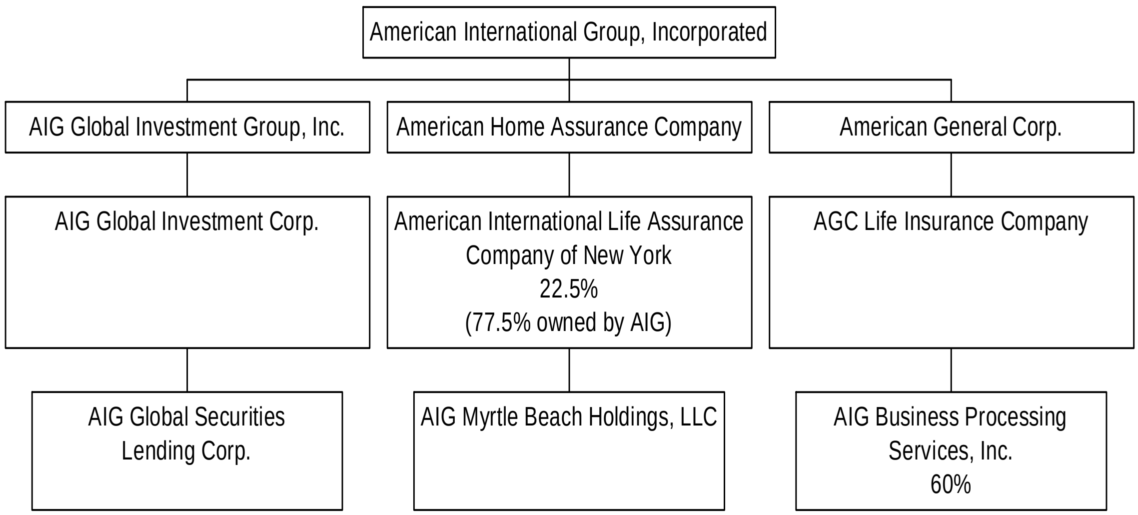
The Company was incorporated as a stock life insurance company under the laws of New York on March 16, 1962 and commenced business in April 1963. Initial resources of $2,000,000, consisting of common capital stock of $1,000,000 and paid in and contributed surplus of $1,000,000, were provided through the sale of 10,000 shares of common stock (with a par value of $100 each) for $200 per share.

In 1972, the authorized capital was increased by $250,000 as a result of a stock dividend. In 1989, the authorized capital was increased to $2,500,000, consisting of 12,500 shares of common stock with a par value of $200 per share. This reduced paid-in and contributed surplus by $1,250,000. Authorized capital was increased and paid-in and contributed surplus was decreased by $725,000 in 1991. From 1973 through 1993, the parent company, American International Group, made contributions to surplus totaling $198,000,000 bringing the paid-in and contributed surplus to $197,025,000 as of December 31, 2001. In 2002, the Company received a surplus contribution of $41,000,000. Capital and paid in and contributed surplus were $3,225,000 and $238,025,000, respectively, as of December 31, 2002.

B. Holding Company

The Company is 77.5% owned by American International Group, Incorporated (“AIG”), a Delaware corporation. The remaining 22.5% is owned by American Home Assurance Company. American Home Assurance Company is in turn 100% owned by AIG, the Company’s ultimate parent.

A condensed 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 five service agreements in effect since the beginning of the examination period until the date of this report.

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered
Administrative services agreement	December 1, 2002	AIG Business Processing Services, Inc.	the Company	Policyholder services including: data entry, document indexing, updates and changes, benefits/disbursements, and correspondence. Accounting services including: accounts payable, bank account reconciliation, and suspense accounting.
Short term investment pool participation agreement	March 6, 2003	AIG Global Investment Corp.	the Company	Investment pool management
Advisory agreement	March 14, 2003	AIG Global Investment Corp.	the Company	Investment services and investment reports

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered
Administrative services agreement	September 23, 1975	AIG or its subsidiaries	the Company	Data processing, advertising, marketing, accounting, actuarial, tax, legal, investment, claims, underwriting, and general services and human resources
Securities lending	May 31, 1999	AIG Global Securities Lending Corp.	the Company	Securities lending services

The Company is party to a tax allocation agreement, effective October 15, 1986, with AIG and various subsidiaries of AIG. The Company and these AIG subsidiaries receive services including tax return preparation and allocation of consolidated tax liability or benefit. Under this agreement, AIG agrees to pay the Company for any tax benefits which are not usable by the Company but which are used by other members of the consolidated group.

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:
>
> (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer's admitted assets at last year-end . . .
>
> (3) rendering of services on a regular or systematic basis . . . "

Under an agreement signed in March 1999, the Company received investment management services from AIG Global Investment Corp. ("AIGGIC"), an affiliate registered as an investment adviser, engaged in the business of rendering investment advisory and management services. The agreement retained AIGGIC to provide investment management services with respect to cash, securities, and other invested assets of the Company. The Company received such services under the agreement from April 1, 1999 until November 25, 2002, at which point it was submitted to the Department for approval.

The Company violated Section 1505(d)(3) of the New York Insurance Law for failing to file an investment advisory agreement prior to its use.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 25 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, 2002, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

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

Name and Residence	Principal Business Affiliation	Year First Elected
Merton B. Aidinoff* New York, NY	Partner Sullivan & Cromwell	2000
David J. Dietz North Chappaqua, NY	President and Chief Executive Officer American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	2002
Marion E. Fajen* Des Moines, IA	Retired	1989
Patrick J. Foley* Atlantis, FL	Director Various non-affiliated companies	1996
Cecil C Gamwell, III* Charleston, RI	Retired	1994
Dr. Jack R. Harnes* Pawling, NY	Self-employed	1971
David L. Herzog Woodlands, TX	Chief Operating Officer and Chief Financial Officer American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	2002

Name and Residence	Principal Business Affiliation	Year First Elected
John I. Howell* Greenwich, CT	Retired	1988
William M. Keeler Little Silver, NJ	President and Chief Executive Officer – Group Benefits and Financial Institutions Profit Center American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	2002
Rodney O. Martin, Jr. Houston, TX	Chairman of the Board American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	2002
Nicholas A. O'Kulich Carmel, NY	Vice President – Life Insurance American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	1990
Gary D. Reddick Woodlands, TX	Chief Administrative Officer American International Life Assurance Company of New York United States Life Insurance Company in the City of New York	2002
Martin J. Sullivan Chappaqua, NY	Co-Chief Operating Officer and Vice Chairman AIG, Inc.	2002

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

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

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

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

Sandra M. Smith, Chief Counsel, was designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all states, except Arizona, Connecticut, and Maryland. In addition, it is licensed in the District of Columbia, Canada, American Samoa, Guam, and the US Virgin Islands. Policies are written on a non-participating basis.

In 2002, 12.8% of life premiums, 99.4% of annuity considerations, and 33.9% of deposit-type contract funds were received from New York State and 65.8% of deposit-type contract funds were received from Colorado due to one large funding agreement.

The Company markets structured settlement annuity contracts on a standard basis, as well as variable life insurance and annuities. The Company offers a complete portfolio of ordinary life coverage on a guaranteed cost basis. The Company issues mortgage redemption life insurance, credit life, accident and health coverage, and payroll deduction life insurance. Life insurance on a group or individual basis is provided to civilians in high-risk war zones. The Company provides a full range of employee benefit programs, including group life, medical assistance, loss of income, accidental death and dismemberment, retirement income, and pension plans.

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

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with 30 companies, of which 26 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on both an automatic and facultative basis.

The maximum retention limit for individual life contracts is $2,500,000. The total face amount of life insurance ceded as of December 31, 2002, was $20,182,554,618, which represents 34.5% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $36,643,319, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2002, was $20,540,957,005. (See item 4 of this report)

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, 1998	December 31, 2002	Increase (Decrease)
Admitted assets	$6,322,973,164	$7,962,836,448	$1,639,863,284
Liabilities	$5,985,803,158	$7,521,774,376	$1,535,971,218
Common capital stock	$ 3,225,000	$ 3,225,000	$ 0
Gross paid in and contributed surplus	197,025,000	238,025,000	41,000,000
Group contingency reserve and annuitant mortality fluctuation fund	4,732,583	12,673,145	7,940,562
Unassigned funds (surplus)	132,187,423	187,138,927	54,951,504
Total capital and surplus	$ 337,170,006	$ 441,062,072	$ 103,892,066
Total liabilities, capital and surplus	$6,322,973,164	$7,962,836,448	$1,639,863,284

The Company's invested assets as of December 31, 2002, exclusive of Separate Accounts, were mainly comprised of bonds (93.5%) and mortgage loans (5.1%).

The majority (90.7%) of the Company's bond portfolio, as of December 31, 2002, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

	Individual Term		Group Life	
Year	Issued	In Force	Issued & Increases	In Force
1999	$57,598	$ 939,240	$28,180,591	$30,364,838
2000	$31,632	$26,203,719	$ 1,159,109	$32,855,733
2001	$59,559	$22,059,656	$ 150,918	$35,982,815
2002	$35,550	$21,240,758	$ 346,558	$35,903,466

Individual term life insurance in force increased from $939,240,000 in 1999 to $26,203,719,000 in 2000 due to a large assumed reinsurance agreement in 2000. The Company entered into a treaty with Metropolitan Life Insurance Company ("Met Life") wherein it assumed excess of loss coverage on Met Life's individual life business.

Group life issued in 1999 increased 3,055%, from $893 million of face amount issued in 1998 to $28.2 billion in 1999, due to a large group case issued in that year, with issues returning to normal levels in 2000, 2001, and 2002.

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

	1999	2000	2001	2002
Ordinary:				
Life insurance	$ 3,466,683	$ 545,713	$ 1,846,828	$ 1,912,286
Individual annuities	9,604,430	(1,380,332)	(4,102,075)	11,870,686
Supplementary contracts	911,795	943,461	715,214	365,871
Total ordinary	$13,982,908	$ 108,842	$ (1,540,033)	$14,148,843
Credit life	$ (194,721)	$ (104,180)	$ (183,018)	$ (25,828)
Group:				
Life	$ (953,501)	$ 1,851,646	$ 1,620,436	$ 3,264,998
Annuities	55,792,567	43,201,031	41,942,825	34,484,792
Total group	$54,839,066	$45,052,677	$43,563,261	$37,749,790
Accident and health:				
Group	$ 3,512,501	$ 314,955	$ (5,450,692)	$ 977,973
Credit	0	0	277	(52,921)
Other	(461,350)	(425,479)	(499,108)	357,698
Total accident and health	$ 3,051,151	$ (110,524)	$ (5,949,523)	$ 1,282,750
All other lines	$ 0	$ 0	$ 0	$ (1,343,339)
Total	$71,678,404	$44,946,815	$35,890,687	$51,812,217

The losses in the ordinary individual annuity line of business in 2000 and 2001 were due to a combination of unfavorable mortality experience and high expenses. The losses in all four years in the credit life line of business reflect the refund of previously reported premium combined with insignificant new premium volume. The group life line of business experienced a loss in 1999 due to increased claims and higher expenses. The loss in the group accident and health line of business in 2001 was due to high expenses and claim costs associated with corporate markets products. This loss was reduced after the Company ceded the business. The accident and health – other line of business experienced losses from 1999 through 2001 due to high commissions and expenses. In 2002, the Company reduced its expenses by migrating certain operations to Houston, Texas from Wilmington, Delaware. The loss in 2002 in “All other lines” was due to the restructuring costs associated with the migration of operations from

Wilmington to Houston. Additionally, the Company would have reported a $14 million loss in its individual annuity line of business in 2002 had it allocated net investment income in accordance with the same allocation method used in the prior four years of the examination period (see following paragraphs).

Section 91.4(c) of Department Regulation No. 33 states, in part:

> " . . . (2) Net investment income, after adjustment, if any, as permitted by the preceding paragraph shall be distributed to major annual statement lines of business either:
> (i) in proportion to the total mean policy reserves and liabilities of each of such major annual statement lines of business or
> (ii) in proportion to the total mean funds of each such major annual statement lines of business . . .
> (3) In lieu of the methods specified in the preceding paragraph, a life insurer may distribute net investment income by an investment year method if its use of such method complies with the rules stated in section 91.5."

Net investment income was distributed to major annual statement lines of business in accordance with the mean reserve method with one exception. In 2002 the Company adjusted the mean reserve method results by re-allocating $25 million of net investment income to the individual annuity line of business from the group annuity line of business. The Company did not notify the Department at the time it adjusted its allocation method.

The Company violated Section 91.4(c) of Department Regulation No. 33 by not utilizing one of the prescribed methods to allocate net investment income by line of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The 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	$7,069,495,177
Stocks:	
Preferred stocks	9,627,025
Common stocks	17,368
Mortgage loans	
First liens	385,161,699
Policy loans	10,360,021
Cash and short term investments	3,181,584
Other invested assets	76,473,512
Receivable for securities	646,523
Miscellaneous invested assets	2,195,560
Reinsurance ceded:	
Amounts recoverable from reinsurers	427,515
Commissions and expense allowances due	349,172
Experience rating and other refunds due	48,348
Federal and foreign income tax recoverable and interest thereon	80,199,215
Guaranty funds receivable or on deposit	226,775
Life insurance premiums and annuity considerations deferred and uncollected on in force business	3,925,921
Accident and health premiums due and unpaid	(1,618,643)
Investment income due and accrued	114,388,870
Receivable from parent, subsidiaries and affiliates	11,583,737
From Separate Accounts statement	196,147,069
Total admitted assets	$7,962,836,448

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$6,417,748,761
Aggregate reserve for accident and health policies	6,894,099
Liability for deposit-type contracts	681,387,506
Policy and contract claims:	
Life	25,709,832
Accident and health	775,754
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	168,314
Policy and contract liabilities:	
Provision for experience rating refunds	5,021,219
Interest maintenance reserve	55,121,132
Commissions to agents due or accrued	458,250
General expenses due or accrued	1,203,441
Transfers to Separate Accounts due or accrued	(4,692,290)
Taxes, licenses and fees due or accrued	1,625,663
Unearned investment income	13,253
Amounts withheld or retained by company as agent or trustee	2,521,598
Remittances and items not allocated	61,336,613
Miscellaneous liabilities:	
Asset valuation reserve	5,391,291
Reinsurance in unauthorized companies	16,409
Funds held under reinsurance treaties with unauthorized reinsurers	12,857
Payable to parent, subsidiaries and affiliates	22,259,539
Beneficiary amounts on deposit	41,018,371
Reserve for outstanding checks	1,635,695
From Separate Accounts statement	196,147,069
Total liabilities	$7,521,774,376
Common capital stock	$ 3,225,000
Gross paid in and contributed surplus	238,025,000
Group contingency reserve and annuitant mortality fluctuation fund	12,673,145
Unassigned funds (surplus)	187,138,927
Total capital, surplus and other funds	$ 441,062,072
Total liabilities, capital, surplus and other funds	$7,962,836,448

B. CONDENSED SUMMARY OF OPERATIONS

	1999	2000	2001	2002
Premiums and considerations	$ 523,860,962	$ 722,684,274	$1,318,195,113	$1,226,982,419
Investment income	469,654,853	457,020,666	501,551,749	546,403,919
Commissions and reserve adjustments on reinsurance ceded	1,205,768	1,263,707	1,033,498	2,478,050
Miscellaneous income	7,012,453	7,772,124	6,879,063	5,639,852
Total income	$1,001,734,036	$1,188,740,771	$1,827,659,423	$1,781,504,240
Benefit payments	$ 596,923,102	$ 975,999,899	$ 690,279,187	$ 703,649,785
Increase in reserves	173,304,942	21,943,859	943,642,680	927,780,645
Commissions	28,017,836	26,712,796	56,443,563	67,240,098
General expenses and taxes	45,397,402	52,692,376	53,405,981	24,199,936
Increase in loading on deferred and uncollected premiums	(7,005)	9,683	12,740	45,650
Net transfers to (from) Separate Accounts	64,922,997	64,069,518	33,580,391	(36,604,353)
Miscellaneous deductions	7,219,498	(18,868,494)	(2,388,485)	5,923,680
Total deductions	$ 915,778,772	$1,122,559,637	$1,774,976,057	$1,692,235,441
Net gain (loss)	$ 85,955,264	$ 66,181,134	$ 52,683,366	$ 89,268,799
Federal and foreign income taxes incurred	14,276,864	21,234,336	16,792,681	37,456,585
Net gain (loss) from operations before net realized capital gains	$ 71,678,400	$ 44,946,798	$ 35,890,685	$ 51,812,214
Net realized capital gains (losses)	(5,259,925)	(48,614,513)	(55,128,744)	(114,572,315)
Net income	$ 66,418,475	$ (3,667,715)	$ (19,238,059)	$ (62,760,101)

C. CAPITAL AND SURPLUS ACCOUNT

	1999	2000	2001	2002
Capital and surplus, December 31, prior year	$337,170,006	$387,813,504	$358,208,824	$338,699,170
Net income	$ 66,418,475	$ (3,667,715)	$ (19,238,059)	$ (62,760,101)
Change in net unrealized capital gains (losses)	(17,521,596)	6,496,724	(84,671,218)	7,849,703
Change in non-admitted assets and related items	269,926	(2,656,064)	2,351,152	(40,643,210)
Change in liability for reinsurance in unauthorized companies	334,286	(344,491)	(3,474,165)	3,804,037
Change in reserve valuation basis	0	(25,000,000)	(25,000,000)	50,000,000
Change in asset valuation reserve	3,749,304	18,518,833	50,164,241	(823,652)
Cumulative effect of changes in accounting principles	0	0	65,248,741	103,936,123
Surplus adjustments				
Paid in	0	0	0	41,000,000
Dividends to stockholders	0	(20,000,000)	0	0
Miscellaneous gains and losses in surplus	(2,606,897)	(2,951,967)	(4,890,346)	0
Net change in capital and surplus	$ 50,643,498	$ (29,604,680)	$ (19,509,654)	$102,362,900
Capital and surplus, December 31, current year	$387,813,504	$358,208,824	$338,699,170	$441,062,070

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.

Section 3214(c) of the New York Insurance Law states, in part:

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

The examiner reviewed a sample of 29 death claims. The Company did not pay interest from date of death to date of payment on five policy claims as required by New York Insurance Law. In New York State, interest required by Section 3214(c) of the New York Insurance Law is based on the site of policy issuance and the residence of the insured at the time of issuance. The Company paid interest in some of the cases reviewed based on the state of residence of the beneficiary or the state of residence of the insured at the time of death in accordance with the laws of other states.

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

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

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

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

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

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. RETAINED ASSET ACCOUNT

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

A. The Company indicated that there are approximately 1,463 Life Benefit account holders as of December 31, 2002. A review of the Company's retained asset (Life Benefit) account holder activity as of December 31, 2002 indicated that approximately 160 Life Benefit accounts have been dormant (no account holder initiated activity) for 3 to 5 years and approximately 20 Life Benefit accounts have been dormant over 5 years.

The examiner recommends that the Company investigate all Life Benefit accounts that have been dormant a minimum of three years in order to determine if any account(s) should be reported as unclaimed funds and eventually remitted to the appropriate state(s).

B. The review of death claims revealed that beneficiaries have the following payment options, as stated on the “Proof of Death – Claimant’s Statement” form:

> “1. Lump Sum
>
> If a lump sum option is elected and the proceeds are $10,000 or more, an AG/Life Benefit Fund Account will be opened. This is an interest earning money-market type of account with check-writing privileges. If the beneficiary wants all proceeds, a check may be written as soon as the account starter kit is received. If the proceeds are less than $10,000, the beneficiary will receive a lump sum check unless an optional payment plan was or is elected.
>
> 2. Settlement Option”

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

The examiner recommends that the Company include as part of its “Proof of Death – Claimant’s Statement” form, or through some other method of disclosure, the option of a settlement check for the full death benefit amount when proceeds are $10,000 or greater.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The Company violated Section 219.4(p) of Department Regulation No. 34-A by utilizing an advertisement which had a tendency to obscure the true identity of the insurer. A review of a sample of advertisements used during the examination period revealed that the Company discontinued such advertisements.
B	The Company violated Section 3214(c) of the New York Insurance Law by paying insufficient interest on death claims. A review of a sample of death claims revealed that the Company again failed to pay the correct amount on certain death claims. (See item 6C of this report)
C	The examiner recommends that the Company enhance its control procedures to assure that all Company correspondence is conducted on Company stationery. A review of a sample of Company correspondence revealed no instances in which the Company used inappropriate stationery.
D	The examiner recommends that the Company enhance its accounting document retrieval system so as to enable the Company to provide documentation supporting the Company's transactions in a timely manner. The responses to the examiner's requests for documentation supporting Company transactions revealed no instances of unreasonable delays in retrieval of such support.
E	The examiner recommended that the Company amend its method of allocating rental expenses to more accurately reflect actual costs incurred by the Company in accordance with the provisions of Section 91.4 of Department Regulation No. 33. A review of the Company's expense allocation methods revealed no reoccurrence of this problem.

Item	Description
F	The examiner recommends that the Company’s claim log be maintained independent of its affiliates. A review of the Company’s claim logs revealed no reoccurrence of this finding.
G	The Company violated Section 4216(e) of the New York Insurance Law by paying compensation to an agent in excess of its agency compensation plan on file with the Superintendent. A review of agency related matters did not reveal any reoccurrence of this finding.

9. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 1505(d)(3) of the New York Insurance Law for failing to file an investment advisory agreement prior to its use.	6 – 7
B	The Company violated Section 91.4(c) of Department Regulation No. 33 by not utilizing one of the prescribed methods to allocate net investment income by line of business.	14
C	The Company violated Section 3214(c) of the New York law by not paying interest from date of death to date of payment on certain death claims.	19 – 20
D	The examiner recommends that the Company pay the correct amount of interest on all five death claims identified by the examiner during the examination, and review all death claims paid since January 1, 1999 to determine whether interest was paid correctly and to pay the correct interest to claimants in those instances where incorrect amounts were paid.	19 – 20
E	The examiner recommends that the Company investigate all Life Benefit accounts that have been dormant a minimum of three years in order to determine if any account(s) should be reported as unclaimed funds and eventually remitted to the appropriate state(s).	21
F	The examiner recommends that the Company include as part of its “Proof of Death – Claimant’s Statement” form, or through some other method of disclosure, the option of a settlement check for the full death benefit amount when proceeds are $10,000 or greater.	22

Respectfully submitted,

_____________/s/___________
David Hee
Associate Insurance Examiner

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

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

_____________/s/___________
David Hee

Subscribed and sworn to before me

this__________ day of ____________________

The foregoing Report on Examination is hereby submitted:

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

________________/s/__________________
Vincent Rapacciuolo, CFE
State of Mississippi
Representing Southeastern Zone

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

APPOINTMENT NO. *21987*

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, ***GREGORY V. SERIO***, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

DAVID HEE

as a proper person to examine into the affairs of the

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY
OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

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

this 21st day of January, 2003

GREGORY V. SERIO
Superintendent of Insurance

Superintendent