



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2003

DATE OF REPORT:

AUGUST 26, 2006

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EXAMINER:

MARC A. TSE

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

George E. Pataki
Governor

Howard Mills
Superintendent

August 26, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22258, dated September 29th, 2004 and annexed hereto, an examination has been made into the condition and affairs of Allstate Life Insurance Company of New York, hereinafter referred to as "the Company" or "ALNY" at its home office located at 100 Motor Parkway, Hauppauge, New York 11788.

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 6 of this report)

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state. (See item 8 of this report)

Based on the examiner's review of the Company's replacements and compliance with Department Regulation No. 60, it is apparent that there was a break-down of controls and procedures. The Company violated multiple sections of Department Regulation No. 60 by not having as part of each application: a completed "Definition of Replacement", a completed and accurate Disclosure Statement, and proof of receipt by the applicant of the "IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts". (See item 7A of this report)

The Company has agreed to a remediation plan acceptable to the Department to mitigate the deficiencies noted for all policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts. The Company has begun to implement the remediation plan. The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee. (See item 7A of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by entering into transactions with its affiliates without first notifying the Superintendent of its intention to do so. (See item 3D of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to file with the Superintendent its electronic application process for annuities. The Company also violated Section 5-701 of the New York General Obligations Law by not having its annuity applications signed. (See item 7B of this report)

The Company violated Section 4221(a)(5-a) of the New York Insurance Law by issuing universal life policies under policy form NYLU591 with surrender charges in excess of the amount allowed. (See item 7C of this report)

2. Scope of Examination

The examination was called as of December 31, 2003 on a group basis involving the Illinois Department of Insurance and the other states in which The Allstate Corporation (“Allstate”) has domiciled one or more insurers. The group approach recognizes that a substantial portion of the financial risks of the various insurance subsidiaries (the “Companies”) is ultimately borne by the Illinois-domiciled parent companies within the Allstate group. The Companies benefit to a large degree from common management, systems and processes, and certain internal control and risk management functions that are administered at the consolidated or business unit level. One domestic state “opted out” of the group examination. Florida will perform a separate examination as of December 31, 2002 of American Heritage Life Insurance Company (“AHL”). Florida will also perform a separate examination of First Colonial Insurance Company as of December 31, 2003 and will leverage the investment related aspects of the group examination for this examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Examiners Handbook, and utilized the audit work performed by Allstate’s independent external auditor, Deloitte & Touche (D&T).

The group examination applied procedures sufficient to comprise a full scope financial examination of each of the Companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where the Companies are domiciled. The objective is to enable each domestic state to report on their respective Companies’ financial condition and to summarize key results of examination procedures. With respect to ALNY, the Department also performed a market conduct and corporate compliance review. The objective of this review is to determine compliance with applicable statutes and regulations and the operating rules of the Company.

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 examiners 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 examiners reviewed the Company's corporate and accounting records necessary to accomplish such verification and utilized the NAIC 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
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and Records
- Financial statements

An actuary representing the Company certified as accurate the actuarially determined estimates of certain reserve liabilities in the filed annual statements.

The examiners reviewed the corrective actions taken by the Company with respect to the violations, recommendation and comment contained in the prior report on examination. (See item 10 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 the State of New York on January 25, 1967 under the name Financial Life Insurance Company and commenced business on December 15, 1967. Initial resources of \$3,000,000, consisting of \$1,000,000 paid in capital and \$2,000,000 paid in surplus, was provided through the sale of 40,000 shares of common stock, (with a par value of \$25 each) for \$75 per share.

As of December 31, 2003, the Company had \$2,500,000 of common capital stock and gross paid in and contributed surplus of \$46,511,449.

In March 1978, Pacific Mutual Life Insurance of Newport Beach, California, purchased the Company from Minnesota Mutual Life Insurance Company and changed the name to PM Life Insurance Company (“PM Life”).

Allstate Insurance Company (“AIC”) purchased the Company on December 16, 1983. At that time, the name of the Company was changed to Allstate Life Insurance Company of New York, its present name. Effective January 1, 1984, ownership of the Company was transferred from AIC to Allstate Life Insurance Company (“ALIC”) through a transfer of all of the Company’s capital stock shares.

B. Holding Company

The Company is a wholly owned subsidiary of ALIC, an Illinois domiciled life insurance company. ALIC is a wholly owned subsidiary of AIC, an Illinois domiciled property/casualty insurance company. The ultimate parent of the Company is Allstate.

Allstate is the largest publicly held personal lines insurer in the United States. Allstate provides insurance products to more than 16 million households and has approximately 12,900 exclusive agents and exclusive financial specialists in the United States and Canada. Allstate’s major product lines include: auto insurance (standard and

nonstandard) homeowners insurance, life insurance and investment products including, retirement planning, annuities and mutual funds.

Allstate's goal is to be a leading provider of personal property and casualty insurance and personal life insurance, retirement and investment products by focusing attention on the following priorities:

- Meeting customers needs
- Helping middle America achieve financial security
- Improving relationships with agencies
- Deepening relationships with financial partners
- Simplifying doing business with Allstate
- Achieving profitable growth
- Maintaining financial strength

In pursuit of this goal, Allstate may engage in selective acquisitions and alliances. However, Allstate intends to maintain discipline in capital and expense management in order to create long-term shareholder value.

C. Organizational Chart

The following is an abridged organizational chart as of December 31, 2003:

The Allstate Corporation

Allstate Insurance Company

Allstate Life Insurance Company

Allstate Life Insurance Company of New York

Intramerica Life Insurance Company

As of December 31, 2003, there were 48 business entities included within the insurance holding company system, 34 of which were insurance companies. Two of the 48 business entities have been added in the last year.

D. Service Agreements

The Company had 12 major service agreements in effect as of December 31, 2003:

1. Service agreement between AIC and the Company executed February 27, 1990 and effective July 1, 1989 for the provision of certain services by AIC to the Company. Investment advisory agreement and amendment to service and expense agreement between AIC and the Company effective January 1, 2002 wherein the provision of investment management services by AIC pursuant to the 1990 agreement is terminated and further provides that Allstate Investments, LLC (“AILLC”) will render investment management services to the Company (see 8 below).
2. Service agreement between ALIC and the Company executed February 27, 1990 and effective July 1, 1989 for provision of certain services by ALIC to the Company.
3. An underwriting agreement between the Company and ALFS, Inc. (“ALFS”), an affiliated company, dated October 1, 1996, that calls for ALFS to provide marketing and distribution services regarding variable life and variable annuity insurance products.
4. Business operations and service agreement between the Company and ALIC effective October 1, 1997.
5. An expense allocation agreement between the Company and Intramerica Life Insurance Company (“Intramerica”) effective July 1, 1999, pursuant to which the Company will make available to Intramerica clerical services of its personnel and also provide office space and use of equipment, at the office located in Farmingville, New York.
6. The Company entered into a principal underwriting agreement effective May 1, 2000 with Allstate Distributors, LLC (“Allstate Distributors”), a broker dealer. Allstate Distributors agreed to serve as principal underwriter for the sale of certain variable insurance contracts issued by the Company.
7. On March 21, 2002, the Company entered into an administrative service agreement, effective November 27, 2001, with AHL whereby AHL would perform certain administrative and special services for the Company in connection with certain insurance operations and make use of day to day operations of certain AHL’s property, equipment and facilities.
8. Effective January 1, 2002, the Company entered into an agreement with AILLC, whereby AILLC would provide investment management services.
9. On July 25, 2002, the Company entered into an administrative service agreement with ALFS, effective January 1, 2002, whereby the Company appointed ALFS, as the principal underwriter and exclusive representative for distribution of certain variable insurance contracts.

10. Depository agreement between the Company and Allstate Bank (“Bank”) effective November 14, 2002 wherein the Bank will serve as a depository of the assets and any other settlement funds to be paid to insurance policy beneficiaries so that beneficiaries will own insured accounts, and the Bank will act as a depository for the Company and establish accounts as part of its normal banking services.
11. A supplemental intercompany tax sharing agreement between ALIC and the Company was approved as of December 2, 2003 by the Company's Board of Directors. The existing tax sharing agreement to which all participants in the Allstate consolidated tax return group are parties to, is being supplemented to include recent reinsurance agreements between the Company and ALIC, covering guaranteed income and death benefits. The tax article (Article VII) is a standard tax reimbursement section included in the reinsurance agreements between ALIC and its life insurance subsidiaries that are included in the consolidated federal income tax return of Allstate. In conjunction with the tax sharing agreement between these companies, this section provides that the reimbursement for federal income tax costs that are incurred because of the reinsurance agreement shall be included as part of the periodic tax settlement required by the tax sharing agreement. This agreement was approved by the directors of ALIC on December 12, 2003.
12. The Company entered into an administrative services agreement with Allstate Distributors effective May 1, 2000, pursuant to which the Company would provide legal services, financial management services, sales support services and certain administrative services to Allstate Distributors.

The following chart displays the income/(expense) for certain service agreements of the Company over the past three years:

<u>Effective Date</u>	<u>Provider of Service</u>	<u>Recipient of Service</u>	<u>Income/(Expense)* for Year</u>		
			<u>2003</u>	<u>2002</u>	<u>2001</u>
7/1/1989	AIC	The Company	(826,685)	(1,066,675)	(1,455,120)
7/1/1989	ALIC	The Company	(26,078,544)	(27,002,672)	(23,904,536)
3/1/1999	Lincoln Benefit Life Company	The Company	(403,466)	(14,009)	(979)
	The Company	Allstate Financial Services	0	1,029,719	749,249
	AFDW Inc.	The Company	(171,477)	(4,500,498)	(2,083,976)
	Glenbrook Life and Annuity Company	The Company	(117,324)	0	0
7/1/1999	The Company	Intramerica	2,499	2,053	17,825
1/1/2002	AILLC	The Company	(4,216,346)	(3,416,980)	0
5/1/2000	Allstate Distributors	The Company	(5,514,711)	0	0

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

Section 1505(d)(3) 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 systematic basis . . .”

The Company has service agreements with affiliates AFDW Inc., Lincoln Benefit Life Company and Glenbrook Life and Annuity Company. The Company incurred expenses under these agreements during the examination period. The Company could not provide evidence that these agreements were ever filed with the Department before entering into the transactions.

The Company violated Section 1505(d)(3) of the New York Insurance Law by entering into transactions with its affiliates without first notifying the Superintendent of its intention to do so.

E. Capital Stock

The Company had 100,000 shares of common stock authorized, issued and outstanding with a par value of \$25 per share. Gross paid-in and contributed surplus totaled \$46,511,449 at December 31, 2003. There were no changes made to the Company’s capital stock during the period under review.

F. Dividends

The ability of the company to pay dividends is dependent on business conditions, income cash requirements of the Company, receipt of dividends, and other relevant factors. The payment of shareholder dividends by the Company without the prior approval of the Superintendent is limited to formula amounts based on net income and capital and surplus as specified under New York insurance law. The maximum amount of dividends the Company could distribute in 2004 without prior approval of the Superintendent is \$29,464,275. Dividends are not cumulative.

G. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 15 directors. Directors are elected annually at the annual meeting of the stockholders held on the fourth Tuesday of February. Meetings of the board are held annually immediately after the annual meeting of the stockholders. The 14 board members and principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Marcia D. Alazraki* Slingerlands, NY	Attorney Manatt, Phelps & Phillips, LLP	1993
Margaret G. Dyer Winnetka, IL	Vice President Allstate Life Insurance Company	2000
Marla G. Friedman Northbrook, IL	Vice President Allstate Life Insurance Company	1997
Vincent A. Fusco Dix Hills, NY	Field Vice President Allstate Insurance Company	1997
Cleveland Johnson, Jr.* Bay Shore, NY	Retired Mariga Communications Corporation	1983
John C. Lounds Long Grove, IL	Vice President Allstate Life Insurance Company	2000
J. Kevin McCarthy North Barrington, IL	Vice President Allstate Life Insurance Company	2000
Kenneth R. O'Brien* Merrick, NY	CEO O'Brien Asset Management, Inc.	1998
John R. Raben, Jr.* Riverside, CT	Vice President Bank One Capital Markets	1988
Steven E. Shebik Wheaton, IL	Vice President Allstate Life Insurance Company	2001

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Phyllis H. Slater* Floral Park, NY	CEO Hill Slater, Inc.	2002
Casey J. Sylla Barrington, IL	Chairman and President Allstate Life Insurance Company of New York	2002
	Chairman and President Allstate Life Insurance Company	
Michael J. Velotta Libertyville, IL	Secretary Allstate Life Insurance Company of New York	1992
	Vice President, Secretary -and General Counsel Allstate Life Insurance Company	
Patricia W. Wilson Nothbrook, IL	Assistant Vice President Allstate Insurance Company	1997

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

Marla Friedman, Margaret Dyer and J. Kevin McCarthy resigned from the board in January, February and September of 2004 respectively. Kevin Slawin and John Pintozzi were appointed to the board in January and September of 2004, respectively.

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

<u>Name</u>	<u>Title</u>
Casey Joseph Sylla	President
James Philip Zils	Treasurer
Michael Joseph Velotta	Secretary
Scott Edward Wright	Actuary

Effective September 30, 2004, Kevin Tiernan became the designated consumer service officer per Section 216.4(c) of Department Regulation No. 64.

H. Employee Benefits

Defined benefit pension plans cover most domestic full-time and certain part-time employees, and certain employee agents. Benefits under the pension plans are based upon the employee's length of service and eligible annual compensation. Upon adoption of Statement of Statutory Accounting Principles (SSAP) No. 89-Accounting for Pensions, AIC elected, with regard to its incremental liability, to amortize it as a component of net periodic pension cost, and with regard to its incremental asset, to offset future periodic pension expense. AIC's funding policy for the pension plans is to make annual contributions in accordance with accepted actuarial cost methods.

AIC also provides certain health care and life insurance subsidies for certain employees when they retire. Qualified employees may become eligible for these benefits if they retire in accordance with AIC's established retirement policy and are continuously covered under AIC's group plans or other approved plans in accordance with the plan's participation requirements. Benefits similar to those available for active employees are available to pre-Medicare retirees who pay the required contributions. A post-Medicare plan supplementing Medicare is also available upon payment of required contributions. AIC shares the cost of the retiree medical benefits with qualified employees based on their years of service, with AIC's share being subject to a 5% limit on annual medical cost inflation after retirement. AIC's postretirement plans currently are not funded. AIC has the right to modify or terminate these plans.

AIC calculates benefit obligations based upon actuarial methodologies using the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement plans.

The change in benefit obligations for all plans for the year ended December 31, were as follows:

	Pension Benefits		Postretirement Benefits	
(in millions of \$)	2003	2002	2003	2002
Benefit obligation, beginning of year	3,543	3,078	786	722
Service cost	138	134	22	20
Interest cost	243	222	53	51
Contributions by plan participants	0	0	33	0
Actuarial losses	437	403	(11)	36
Benefits paid	(239)	(260)	(82)	(43)
Plan amendments	0	(28)	0	0
Other	(7)	(6)	0	0
Benefit obligation, end of year	4,115	3,543	801	786

There was no pension benefit obligation for non-vested employees at December 31, 2003 and 2002. The postretirement benefit obligation for non-vested employees was \$317 million and \$212 million at December 31, 2003 and 2002, respectively.

Pension plan assets at December 31, 2003 and 2002 comprise primarily equity securities and long-term corporate and United States government obligations. AIC's other postretirement benefit plans currently are not funded.

The change in pension plan assets for the years ended December 31, 2003 and 2002 was as follows:

(in millions of \$)	2003	2002
Fair value of plan assets, beginning of year	2,236	2,444
Contributions	851	263
Benefits paid	(239)	(260)
Actual return on plan assets	461	(205)
Other	(7)	(6)
Fair value of plan assets, end of year	3,302	2,236

The plans' funded status, which was calculated as the difference between the projected benefit obligation and plan assets for pension benefits, and the difference between the accumulated benefit obligation and plan assets for other postretirement benefits was as follows:

(in millions of \$)	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Funded status	(813)	(1,306)	(801)	(786)
Unamortized prior service cost	(29)	(32)	(12)	(13)
Unrecognized net loss	2,180	2,150	116	129
Unamortized transition (asset)/obligation	(232)	(528)	158	175
Minimum liability adjustment	(309)	(973)	0	0
Accrued benefit cost	797	(689)	(539)	(495)

AIC did not make any contributions between the measurement date and the end of the year in 2002. In addition, as of December 31, 2003 and 2002 an admitted intangible of \$68 million and \$81 million, respectively, was recorded related to the benefit plans.

The components of net periodic cost/(benefit) for all plans for the year ended December 31, were as follows:

(in millions of \$)	Pension Benefits		Postretirement Benefits	
	2003	2002	2003	2002
Service cost	139	134	21	20
Interest cost	243	222	53	51
Expected return on plan assets	(208)	(286)	0	0
Amortization of unrecognized transition (asset)/obligation	(273)	(120)	18	17
Prior service cost recognized	(3)	4	(1)	(1)
Unrecognized prior period (gain) or loss amortization	113	41	3	1
Effect of settlement	18	23	0	0
Net periodic (benefit)/cost	29	18	94	88

A minimum pension liability adjustment was required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. At December 31, 2003 and 2002, the minimum liability adjustment, less allowable intangible assets, net of tax benefit, was \$241 million and \$828 million respectively, and was reported as an adjustment to surplus.

Weighted average assumptions used in the determination of the projected pension benefit obligation and plan assets at December 31, which were based on an October 31 measurement date, were:

	2003	2002
Discount rate	6.25%	7.00%
Rate of compensation increase	4.00% - 4.50%	4.00% - 4.50%
Expected long-term rate of return on plan assets	8.50%	9.50%

The weighted average health care trend rate used in measuring the accumulated postretirement benefit obligation was 11.9% for 2003, gradually declining to 5.5% in 2010, and remaining level thereafter.

A one percentage-point increase in assumed health care cost trend rates would increase the total of the service and interest cost component of net periodic benefit cost of other postretirement benefits, and the accumulated postretirement benefit obligation by \$2 million and \$12 million, respectively. A one percentage-point decrease in assumed health care cost trend rates would decrease the total of the service and interest cost components of net periodic benefit cost of other postretirement benefits and the accumulated postretirement benefit obligation by \$4 million and \$26 million, respectively.

Most domestic full-time employees and certain part-time employees and certain employee agents of AIC are eligible to participate in The Savings and Profit Sharing Fund of Allstate Employees (the "Fund"). Employer contributions to the Fund are based on actual performance levels and matching obligations under the Fund. The cost allocated to AIC for this benefit, after reinsurance was \$92 million and \$99 million in 2003 and 2002, respectively.

4. Territory and Plan of Operation

The Company is authorized to transact business in ten states and the District of Columbia. In 2003, 92% of life insurance premiums and 94% of annuity considerations were received from New York.

A majority of the Company's direct writings, as reported in Schedule T of the filed 2003 annual statement, was produced within the following identified states:

Direct Premium by State					
<u>Annuity Considerations</u>			<u>Life Insurance Premiums</u>		
<u>State</u>	<u>Balance</u>	<u>Percent</u>	<u>State</u>	<u>Balance</u>	<u>Percent</u>
New York	\$688,703,370	94.07%	New York	\$91,375,386	92.06%
Nebraska	\$25,271,434	3.45%	New Jersey	\$2,215,954	2.23%
New Jersey	\$6,708,036	0.92%	Florida	\$1,653,291	1.67%
Florida	\$2,315,148	0.32%	Pennsylvania	\$677,275	0.68%
Connecticut	\$1,726,664	0.24%	Connecticut	\$500,006	0.50%
All others	<u>\$7,358,783</u>	<u>1.01%</u>	All others	<u>\$2,834,461</u>	<u>2.86%</u>
Totals	\$732,083,435	100.00%	Totals	\$99,256,373	100.00%

A. Statutory and Special Deposits

As of December 31, 2003, the Company had \$1,560,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state for the benefit of all policyholders, claimants and creditors of the Company. As reported in Schedule E of the 2003 filed annual statement, an additional \$400,000 (par value) in U.S. Treasury Bonds was being held with the State of North Carolina for the benefit of all policyholders.

B. Direct Operations

The Company currently issues policies on a non-participating basis. However, the Company has a small block of participating policies, which were issued prior to AIC's acquisition of PM Life in 1983. The Company's product portfolio includes Traditional Life, Interest Sensitive Life, Variable Annuities, Fixed Annuities, Market Value Adjusted Annuities, Structured Settlements, and Accident & Health insurance. The Company

distributes its products through a combination of Allstate agents, including life insurance specialists, banks and other financial institutions, brokers, and direct response marketing. Structured settlement annuities are written through specialized brokers.

C. Reinsurance

According to Schedule S in the 2003 filed annual statement, the Company ceded business under active reinsurance agreements with the following companies as of December 31, 2003:

<u>NAIC #</u>	<u>Name of Company</u>	<u>Affiliated</u>	<u>Type of Reinsurance</u>	<u>State of Domicile</u>
60186	Allstate Life Insurance Company	Yes	YRT/1, OTH/1, OTH/G	Illinois
90611	Allianz Life Insurance Company	No	CO/1	Minnesota
60895	American United Life	No	CO/1	Indiana
79359	Canada Life Insurance Co. of New York	No	CO/1	New York
90670	ERC Life Reinsurance Corporation	No	CO/1	Missouri
97071	General I USA Life Reassurance Co.	No	CO/1	Missouri
65978	Metropolitan Life Insurance Company	No	DIS/G, CO/G	New York
66168	Minnesota Life Insurance Company	No	CO/1	Minnesota
93572	RGA Reinsurance Company	No	CO/1	Missouri
68713	Security Life of Denver	No	CO/1	Colorado
82627	Swiss Re Life & Health America, Inc.	No	CO/1	Connecticut
70688	Transamerica Financial Life Insurance	No	CO/1	New York
71412	Mutual of Omaha Insurance	No	OTH/G	Nebraska

The Company's life business is ceded on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

5. Growth of the Company

The following significant data, as of December 31, of the indicated years, as taken from the Annual Statements for the years indicated, reflects the Company's growth:

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net admitted assets					
General account	4,270,131,740	3,669,035,641	2,996,351,806	2,604,713,327	2,118,503,458
Separate account	<u>859,099,494</u>	<u>692,130,801</u>	<u>666,624,894</u>	<u>560,089,873</u>	<u>458,686,172</u>
Total net admitted assets	\$5,129,231,234	\$4,361,166,442	\$3,662,976,700	\$3,164,803,200	\$2,577,189,630
Liabilities					
Excluding separate account	3,975,488,991	3,398,617,031	2,751,224,530	2,366,554,806	1,903,765,285
Separate account	<u>859,099,494</u>	<u>692,130,801</u>	<u>666,624,894</u>	<u>560,089,873</u>	<u>458,686,172</u>
Total liabilities	\$4,834,588,485	\$4,090,747,832	\$3,417,849,424	\$2,926,644,679	\$2,362,451,457
Total capital and surplus	\$294,642,749	\$270,418,610	\$245,127,276	\$238,158,521	\$214,738,172
Total liabilities, capital and surplus	\$5,129,231,234	\$4,361,166,442	\$3,662,976,700	\$3,164,803,200	\$2,577,189,629
Gain (loss) from operations	\$38,674,904	\$16,272,110	\$8,654,418	\$26,087,958	\$18,916,542

As of December 31, 2003, 16.74% the Company's net admitted assets, were derived from Separate Accounts.

The following data, as of December 31 of the indicated years, reflects the composition and performance of the Company's investment portfolio (exclusive of Separate Accounts):

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Distribution of assets					
Bonds	88.5%	85.9%	88.0%	87.0%	88.3%
Stocks	1.3%	1.4%	1.1%	1.7%	0.9%
Cash and short-term investments	<u>0.6%</u>	<u>3.2%</u>	<u>1.9%</u>	<u>1.7%</u>	<u>1.8%</u>
Total	90.4%	90.5%	91.0%	90.4%	91.0%
Total investment income	\$255,365,516	\$213,932,954	\$205,314,985	\$171,594,793	\$146,972,525

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>2001</u>	<u>2002</u>	<u>2003</u>
Ordinary:			
Life insurance	\$ 5,695,078	\$14,205,729	\$14,858,628
Individual annuities	8,125,688	6,438,680	2,659,723
Supplementary contracts	<u>168,224</u>	<u>92,931</u>	<u>733</u>
Total ordinary	<u>\$13,988,990</u>	<u>\$20,737,340</u>	<u>\$17,519,084</u>
Group:			
Life	\$ (1,397)	\$ (2,477)	\$ (2,191)
Annuities	<u>(5,997,249)</u>	<u>(5,363,836)</u>	<u>21,602,159</u>
Total group	<u>\$ (5,998,646)</u>	<u>\$ (5,366,313)</u>	<u>\$21,599,968</u>
Accident and health:			
Group	\$ 14,289	\$ (4,861)	\$ (6,131)
Other	<u>649,786</u>	<u>905,945</u>	<u>(438,018)</u>
Total accident and health	<u>\$ 664,075</u>	<u>\$ 901,084</u>	<u>\$ (444,149)</u>
Total	<u>\$ 8,654,419</u>	<u>\$16,272,111</u>	<u>\$38,674,903</u>

The Company reported losses of \$5,997,249 and \$5,363,836 in the Group Annuity line of business for the years 2001 and 2002, respectively. The Company attributes these losses primarily to poor variable annuity fund performance caused by the depressed equity markets in 2001 and 2002. The poor fund performance in 2001 and 2002 caused lower variable annuity fee income, higher death benefit payouts and increases in variable annuity guaranteed minimum death benefit reserves in these years. Improved fund performance in 2003 raised fee income and allowed for reserve releases for guaranteed minimum death benefits.

6. Financial Statements

A. Independent Accountants

The firm of D&T was retained by ALIC to audit the combined statutory basis statements of financial position of ALIC and its combined U.S. domiciled life and accident and health insurance subsidiaries, including the Company, as of December 31 of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

D&T concluded that the statutory financial statements presented fairly, in all material respects, the financial position of ALIC and its combined U.S. domiciled life and accident and health insurance subsidiaries at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2003, as contained in the Company's 2003 filed annual statement and a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The financial statements may not reconcile immaterially due to rounding.

B. Net Admitted Assets

Bonds	\$3,715,985,112
Stocks:	
Preferred stocks	48,221,281
Common stocks	7,136,191
Mortgage loans on real estate:	
First liens	369,635,498
Cash, cash equivalents and short term investments	24,378,850
Contract loans	34,067,509
Receivable for securities	316,610
Investment income due and accrued	45,845,269
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	(646,984)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,263,783
Reinsurance:	
Amounts recoverable from reinsurers	1,194,600
Other amounts receivable under reinsurance contracts	429,131
Current federal and foreign income tax recoverable and interest thereon	4,832,497
Net deferred tax asset	6,017,373
Guaranty funds receivable or on deposit	19
Receivables from parent, subsidiaries and affiliates	133,259
Accounts receivable	2,321,742
From separate accounts, segregated accounts and protected cell accounts	<u>859,099,494</u>
Total admitted assets	<u>\$5,129,231,234</u>

C. Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$3,353,762,844
Aggregate reserve for accident and health contracts	589,619
Liability for deposit-type contracts	485,123,170
Contract claims:	
Life	5,576,655
Accident and health	2,316,869
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts	
Dividends apportioned for payment	52,322
Premiums and annuity considerations for life and accident and health contracts received in advance	161,970
Contract liabilities not included elsewhere	
Other amounts payable on reinsurance	722,101
Commissions to agents due or accrued	2,722,059
General expenses due or accrued	340,997
Transfers to Separate Accounts due or accrued	(43,325,802)
Taxes, licenses and fees due or accrued, excluding federal income taxes	2,227,093
Amounts withheld or retained by company as agent or trustee	5,825
Remittances and items not allocated	5,451,494
Miscellaneous liabilities:	
Asset valuation reserve	18,270,310
Payable to parent, subsidiaries and affiliates	6,165,648
Payable for securities	875
Collateral for security lending	134,489,198
Deposit-type fund suspense	445,105
Reserve for checks written off	250,084
Discontinued ops reserves	97,830
Accounts Payable	42,726
From Separate Accounts statement	<u>859,099,494</u>
Total liabilities	<u>\$4,834,588,485</u>
Common capital stock	\$ 2,500,000
Gross paid in and contributed surplus	46,511,449
Annuity Mortality Fluctuation Fund	50,000
Unassigned funds (surplus)	<u>245,581,300</u>
Surplus	<u>\$ 292,142,749</u>
Total common capital stock, preferred capital stock and surplus	<u>\$ 294,642,749</u>
Total liabilities, common capital stock, preferred capital stock and surplus	<u>\$5,129,231,234</u>

D. Condensed Summary of Operations

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$631,183,689	\$ 901,244,912	\$ 830,800,904
Investment income	203,980,942	234,916,451	259,004,787
Commissions and reserve adjustments on reinsurance ceded	144,809	1,216,228	3,272,462
Miscellaneous income	<u>12,841,524</u>	<u>12,159,479</u>	<u>12,161,932</u>
 Total income	 <u>\$848,150,964</u>	 <u>\$1,149,537,070</u>	 <u>\$1,105,240,085</u>
Benefit payments	\$229,348,522	\$ 290,212,088	\$ 351,311,126
Increase in reserves	319,033,311	649,423,070	579,053,283
Commissions	47,542,555	47,977,014	48,131,370
General expenses and taxes	36,389,087	46,968,439	48,189,154
Increase in loading on deferred and uncollected premium	965,544	22,537	581,333
Net transfers to (from) Separate Accounts	194,384,061	90,882,227	23,660,061
Miscellaneous deductions	<u>(5,235)</u>	<u>(153,312)</u>	<u>(308,897)</u>
 Total deductions	 <u>\$827,657,845</u>	 <u>\$1,125,332,063</u>	 <u>\$1,050,617,430</u>
Net gain (loss)	\$ 20,493,119	\$ 24,205,007	\$ 54,622,655
Dividends	62,076	60,275	75,126
Federal and foreign income taxes incurred	<u>11,776,624</u>	<u>7,872,624</u>	<u>15,872,624</u>
Net gain (loss) from operations before net realized capital gains	\$ 8,654,419	\$ 16,272,108	\$ 38,674,905
Net realized capital gains (losses)	<u>2,179,973</u>	<u>(15,095,278)</u>	<u>(1,895,725)</u>
 Net income	 <u>\$ 10,834,392</u>	 <u>\$ 1,176,830</u>	 <u>\$ 36,779,180</u>

E. Capital and Surplus Account

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Capital and surplus, December 31, prior year	\$ <u>238,158,517</u>	\$ <u>245,127,276</u>	\$ <u>270,418,610</u>
Net income	\$ 10,834,392	\$ 1,176,830	\$ 36,779,179
Change in net unrealized capital gains (losses)	(334,948)	(4,846,250)	3,384,112
Change in net deferred income tax	0	0	(6,118,786)
Change in non-admitted assets and related items	656,179	(2,018,090)	2,403,694
Change in asset valuation reserve	(6,053,435)	9,584,514	(12,224,060)
Cumulative effect of changes in accounting principles	1,866,569	11,394,328	0
Surplus adjustment Paid in	0	10,000,000	0
Net change in capital and surplus for the year	\$ <u>6,968,757</u>	\$ <u>25,291,332</u>	\$ <u>24,224,139</u>
Capital and surplus, December 31, current year	\$ <u>245,127,275</u>	\$ <u>270,418,608</u>	\$ <u>294,642,749</u>

F. Comments on Financial Statements

The accompanying financial statements were prepared on a statutory basis in conformity with the accounting practices prescribed or permitted by the Department.

The capital and surplus balance as reported by the Company for 2003 was \$294,642,749. The total adjusted capital is \$312,939,220 while the authorized control level risk-based capital is \$41,414,979 as stated by the Company in the 2003 Annual Statement.

The examination review of the Company's financial position as of December 31, 2003, resulted in the following notes and comments:

I. Use of Estimates

In the preparation of the financial statements in accordance with statutory accounting practices, the Company makes estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amount of revenues and expenses. While these estimates are based on the best judgment of the Company, actual results could differ from the reported estimates. Any such differences are reflected in the period in which the change occurred.

II. Investments

Valuation of Investments

Investments are valued in accordance with the prescribed practices of the NAIC as delineated in the Purposes and Procedures Manual of the NAIC Securities Valuation Office. Bonds and preferred stocks are primarily carried at amortized cost and common stocks at market value as determined by the NAIC. Loan-backed and structured securities are valued at amortized cost using the constant effective interest method as well as contractual terms and are modified using the retrospective method for any changes in estimated cash flows from the original purchase assumptions. Short-term securities are carried at amortized cost, which approximates estimated fair value.

Bonds

The Company's investment in bonds was recalculated on a test basis and was found to be properly stated at December 31, 2003. The following table summarizes the bond composition of the Company's admitted invested assets:

Bonds	<u>Amount</u>	<u>Percentage</u>
U.S. Government	\$ 339,450,281	9.13%
Foreign government	\$ 27,359,863	0.74%
Securities issued by states, etc. in U.S.		
Political subdivisions of states, territories, and possessions	\$ 2,072,596	0.06%
Revenue and assessment obligations	\$ 595,019,846	16.01%
Public Utilities	\$ 240,748,274	6.48%
Industrial and Miscellaneous	<u>\$2,511,334,253</u>	<u>67.58%</u>
Total bonds	<u>\$3,715,985,113</u>	<u>100.00%</u>

As stated in Schedule D, Part 1A, Section 1 of the 2003 filed annual statement, approximately 44.7% of the Company's bond portfolio had maturities in excess of ten years, 38.5% had maturities between five and ten years, and approximately 16.8% mature in less than five years. In certain instances, expected maturities may differ from contractual maturities based on the borrower's ability to call or prepay the given obligation without a call or prepayment penalty.

III. Premiums and Policy Acquisition Costs

Premiums are recognized over the premium paying period of the policies. Premium acquisition costs such as commissions and other underwriting expenses are properly being charged to income as they are incurred.

Premium income for the year ended December 31, 2003 was \$830,800,904 for all lines of business. This amount was comprised of ordinary-life premiums of \$92,766,231, ordinary-individual annuity premiums of \$229,319,604, group annuity premiums of \$500,188,745 and accident and health premiums of \$8,526,324.

IV. Federal Income Taxes

The Company is included in the consolidated federal income tax return of its ultimate parent, Allstate, and calculates its related income tax expense in accordance with a tax sharing agreement in effect between the companies. The Company is allocated a provision for income taxes based on the effect of including its operations in the consolidated provision.

7. 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 51.5 of Department Regulation No. 60 states, in part:

"Each agent and broker shall . . .

(c) Where a replacement has occurred or is likely to occur . . .

(2) Notify the insurer whose policy or contract is being replaced and the insurer replacing the life insurance policy or annuity contract of the proposed replacement. Submit to the insurer whose policy or contract is being replaced a list of all life insurance policies or annuity contracts proposed to be replaced, as well as the policy or contract number for such policies or contracts, together with the proper authorization from the applicant, and request the information necessary to complete the "Disclosure Statement" with respect to the life insurance policy or annuity contract proposed to be replaced. In the event the insurer whose coverage is being replaced fails to provide the information in the prescribed time, the agent or broker replacing the life insurance policy or annuity contract may use, and the insurer replacing the life insurance policy or annuity contract shall review and may accept, good faith approximations based on the information available . . ."

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

"(a) Each insurer shall . . .

(2) Require with or as part of each application, a completed "Definition of Replacement" signed by the applicant and agent or broker . . .

(b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .

(2) Require with or as part of each application a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and proof of receipt by the applicant of the "IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" and the completed "Disclosure Statement;"

(3) Examine any proposal used, including the sales material used in the sale

of the proposed life insurance policy or annuity contract, and the "Disclosure Statement," and ascertain that they are accurate and meet the requirements of the Insurance Law and this Part;

(4) Within ten days of receipt of the application furnish to the insurer whose coverage is being replaced a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed "Disclosure Statement" . . .

(6) Where the required forms are received with the application and found to be in compliance with this Part, maintain copies of: any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; proof of receipt by the applicant of the "IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts;" the signed and completed "Disclosure Statement;" and the notification of replacement to the insurer whose life insurance policy or annuity contract is to be replaced indexed by agent and broker, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later;

(7) Where the required forms are not received with the application, or if the forms do not meet the requirements of this Part or are not accurate, within ten days from the date of receipt of the application either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore. In such cases, the insurer shall maintain any material used in the proposed sale, in accordance with the guidelines of Section 51.6(b)(6) herein . . .

(9) In the event the life insurance policy or annuity contract issued differs from the life insurance policy or annuity contract applied for, ensure that the requirements of this Part are met with respect to the information relating to the life insurance policy or annuity contract as issued, including but not limited to the revised "Disclosure Statement," any revised or additional sales material used and acknowledgement by the applicant of receipt of such revised material . . .

(e) Both the insurer whose life insurance policy or annuity contract is being replaced and the insurer replacing the life insurance policy or annuity contract shall establish and implement procedures to ensure compliance with the requirements of this Part. These procedures shall include a requirement that all material be dated upon receipt. Such insurers shall also designate a principal officer specifically responsible for the monitoring and enforcement of these procedures. All insurers covered under this Part shall furnish the Superintendent of Insurance with these procedures and the name and title of the designated principal officer by the effective date of this Part. Any changes in these procedures or the designated principal officer shall be furnished to the Superintendent of Insurance within thirty days of such change."

Section 51.7(b) of Department Regulation No. 60 states, in part:

“No insurer, agent, broker, representative, officer, or employee of an insurer or any other licensee of this Department shall fail to comply with or engage in other practices that would prevent the orderly working of this Part in accomplishing its intended purpose in the protection of policyholders and contract holders. Any person failing to comply with this Part, or engaging in other practices that would prevent the orderly working of this Part, shall be subject to penalties under the Insurance Law of the State of New York, which may include, but shall not be limited to, monetary restitution, restoration of policies or contracts, removal of directors or officers, suspension or revocation of agent's, broker's or company's licenses and monetary fines.”

Section 243.2(b) of Department Regulation No. 152 states, in part:

“Except as otherwise required by law or regulation, an insurer shall maintain. . .

(1) A policy record for each insurance contract or policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer. . . A policy record shall include . . .

(ii) The application, including any application form or enrollment form for coverage under any insurance contract or policy . . .

(iv) Other information necessary for reconstructing the solicitation, rating, and underwriting of the contract or policy . . .

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

Based on the examiner's review of the Company's replacements and compliance with Department Regulation No. 60, it is apparent that there was a break-down of controls and procedures.

In order to review the Company's compliance with Department Regulation No. 60, the Company was asked to provide a data file listing all New York life insurance policy and annuity contract replacements occurring during the examination period. The Company provided two listings; one listing contained 1,209 life replacements and the other contained 15,355 annuity replacements. Samples were selected from each of the listings provided. Upon examination of the annuity files that were requested, it was determined that many of the annuities did not, in fact, involve a replacement transaction as defined under Regulation No. 60. The annuity data file provided to the examiners for the selection of the sample was

created by the Company selecting certain transaction codes which might involve a replacement (i.e. 1035 exchanges “35X”, rollovers “ROL” and transfers “TTR”). Section 51.6(b)(6) of Department Regulation No. 60 requires companies to maintain an index of replacements by agent. It is noted that prior to August of 2004, the Company did not maintain any index of annuity replacements whatsoever.

The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain an index of replacements by agent.

The Company estimated that most of the contracts with a transaction code of 35X (1,728 of 15,355) were likely to be replacements and that approximately 3%-5% of the remaining 13,627 annuity transactions which were coded ROL or TTR, were replacements.

A review of 1035 exchanges (presumed replacements) revealed that almost all contracts that were electronically issued by the Company via remote processing did not contain a Definition of Replacement or any other replacement documentation. One of the electronically issued 1035 exchanges reviewed did contain a Definition of Replacement that indicated a replacement was involved but there was no other replacement information in the file. The Company appears to have not complied with the requirements of Department Regulation No. 60 for the contracts that were electronically issued via remote processing, by failing to perform any replacement procedures on these contracts.

The Company violated Section 51.7(b) of Department Regulation No. 60 by failing to comply with the orderly working of the Regulation in accomplishing its intended purpose in the protection of policyholders and contract holders.

A review of the ROL and TTR (3%-5% presumed to be replacements) annuity files revealed that a number of contracts electronically issued via remote processing did not contain a Definition of Replacement.

The Company violated Section 51.6(a)(2) of Department Regulation No. 60 by not requiring a completed Definition of Replacement.

As a result of the missing information described above, the examiner was only able to review documentation for a portion of the annuity sample selected. Of the 187 annuity contracts selected, 63 contracts were determined by the examiner to be annuity replacements which contained documentation to be reviewed. Of the 63 annuity replacements reviewed 15 were internal replacements and 48 were external replacements. The examiner also reviewed 12 life insurance replacements of which seven were internal and five were external. The review revealed multiple violations of Department Regulation No. 60. The violations that were identified, along with the applicable sections of Department Regulation Nos. 60 and 152 noted in parenthesis, are as follows:

1. Twenty-seven files did not contain a Definition of Replacement and three files contained a Definition of Replacement that was not dated. (Section 51.6(a)(2) of Department Regulation No. 60)
2. Five files did not contain a Disclosure Statement, four files did not have an IMPORTANT Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts (“Important Notice”), one file contained an Important Notice that was missing the first page, two files contained an Important Notice that was not dated, another file contained a Disclosure Statement that was not dated, one file contained a Disclosure Statement that was not signed, twenty Disclosure Statements did not indicate if sales materials were used and twelve Disclosure Statements did not indicate whether estimates were used. (Sections 51.6(b)(2) and 51.6(b)(3) of Department Regulation No. 60)
3. Forty external replacements did not have an illustration or any other information from the Company in lieu of an illustration, to validate the values for the new policy or contract on the Disclosure Statement, eleven internal replacements did not contain information to validate the values for either the replaced or the new contract and six internal replacements did not contain information to validate the replaced contract. Forty-one external replacement files did not contain an illustration or any other information from the company being replaced that could have been used to complete the Disclosure Statement, although only two files indicated that estimates were used. Regarding the two instances where the

use of estimates was indicated, in one case the estimates were not used on the Disclosure Statement and in the other case the disclosure information from the company being replaced was actually in the file. Thirty-nine files did not contain a date-stamped letter or any other correspondence from the company being replaced indicating when the information necessary to complete the Disclosure Statement was received from the other insurer, thirty-seven files did not contain a letter to the replaced insurer requesting information needed to complete the Disclosure Statement, twenty-nine files did not contain an authorization to obtain information from the other insurer signed by the proposed insured and one file contained an authorization that was not dated. (Sections 51.6(b)(2), 51.6(b)(3) and 51.6(e) of Department Regulation No. 60 and Sections 243.2(b)(1) and 243.2(b)(8) of Department Regulation No. 152)

4. In many cases the information on the Disclosure Statements was incomplete or inaccurate. For example, in many cases the surrender charges for the new contracts were not indicated, in some cases information in the file did not appear to support the written reasons, statements or figures presented on the Disclosure Statement, in some cases the values were not completely filled in and in some cases the written reasons for the replacement were not filled in. (Section 51.6(b)(7) of Department Regulation No. 60)
5. Forty-eight files did not contain a notification letter to the Company being replaced notifying them that the contract was being replaced (10 day letter). (Section 51.6(b)(4) of Department Regulation No. 60)
6. In forty files neither the application nor the Disclosure Statement contained a date stamp to indicate when the application information was received by the Company. (Section 51.6(e) of Department Regulation No. 60)
7. In two files the application was dated prior to the Disclosure Statement, in four files the authorization, application, and Disclosure Statement were all dated the same day, in two files the authorization and Disclosure Statement were dated the same day, in one file the authorization and application were dated the same day (in addition to there being no Disclosure Statement in the file), in two files the Important Notice was dated after the application and in one file the application was not dated. The instances noted in this paragraph indicate that

the Company did not conform to the proper sequence of events. (Section 51.7(b) of Department Regulation No. 60)

8. Three annuity files did not contain an application and one annuity file contained an application that was missing the first page. (Section 243.2(b)(1)(ii) of Department Regulation No. 152)
9. One replacement was not issued as applied for and a new Disclosure Statement was not completed. (Section 51.6(b)(9) of Department Regulation No. 60)
10. One replacement file did not contain any Department Regulation No. 60 documentation and another replacement was not treated as a replacement and should have been. (Section 51.6(b) of Department Regulation No. 60)

The Company has agreed to a remediation plan acceptable to the Department to mitigate the deficiencies noted above for all policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts. The Company has begun to implement the remediation plan and, as a result, has accrued \$17 million of additional policy and contract holder benefits under the plan.

The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee.

B. Underwriting and Policy Forms

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

The Department's Office of General Counsel ("OGC") issued an opinion, OGC Opinion No. 2000-39 - Insurance Transactions Over the Internet, which states, in part:

“ . . . The Department's position is that insurance business conducted on the Internet, or using any other method of electronic commerce, is no different

from other insurance transactions. Transactions conducted on the Internet are, therefore, subject to the Department's jurisdiction to the same extent as the same insurance business conducted using other means of communication. . . . ”

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law ”

Section 5-701 of the New York General Obligations Law states, in part:

“Agreements required to be in writing. a. Every agreement, promise or undertaking is void, unless it or some note or memorandum thereof be in writing, and subscribed by the party to be charged therewith, or by his lawful agent, if such agreement, promise or undertaking:

1. By its terms is not to be performed within one year from the making thereof or the performance of which is not to be completed before the end of a lifetime ”

Section 302(3) of the New York Technology Law states:

“ ‘Electronic signature’ shall mean an electronic sound, symbol, or process, attached to or logically associated with an electronic record and executed or adopted by a person with the intent to sign the record. ”

During the review of annuity replacements the examiner noted that some annuity application files did not contain an application. The Company stated that it has been selling certain annuity contracts using what the Company refers to as an “app-less” process. The process involved agents using software on his or her laptop and inputting the information taken from a customer. The information was electronically transmitted to the Company and was used to issue an annuity contract. All inputting and transmission was done by the agent. At no time did the customer enter information, sign the application, or click “ok” or take any affirmative step in the process.

Whether in writing or by electronic means, a customer request for an annuity is still an application. Such application or application process must be submitted to the Department for approval as required by Section 3201(b)(1) of the New York Insurance Law and OGC Opinion No. 2000-39.

Since the customer had no active part in attaching a signature, electronic or otherwise, to the application, the application was not signed as required by the New York General Obligations Law.

The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to file with the Superintendent the electronic application process for annuities.

The Company violated Section 5-701 of the New York General Obligations Law by not having its annuity applications signed.

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 4221(a) of the New York Insurance Law states, in part:

“. . . no policy of life insurance . . . shall be delivered or issued for delivery in this state unless it shall contain in substance the following provisions, or corresponding provisions which in the opinion of the superintendent are at least as favorable to the defaulting or surrendering policyholder . . .

(5- a) In the case of policies which provide for the crediting of additional amounts . . . and which provide for surrender charges . . . a statement as to any charges that will be imposed upon surrender of the policy.”

The examiner reviewed the basis and calculation of surrender charges for the Company’s universal life policies in force. The Company issued 116 universal life policies under policy form NYLU591 with incorrectly calculated surrender charges. The Company incorrectly used a maximum surrender charge which resulted in policies at older ages being issued with maximum surrender charges in excess of the amount allowed.

The Company violated Section 4221(a)(5-a) of the New York Insurance Law by issuing universal life policies under policy form NYLU591 with surrender charges in excess of the amount allowed.

The Company issued an endorsement on January 11, 2006 showing the correct surrender charge on all universal life policies that remain in force.

8. Books of Account

Section 325(a) of the New York Insurance Law states, in part:

“Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state its charter and by-laws . . . and its books of account . . .”

A physical inspection of the records maintained at the Company’s home office revealed that the Company did not maintain its general ledger, trial balance and annual statement workpapers at its home office in this state. The aforementioned records were maintained in Illinois.

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state.

As previously mentioned in Section 3D of this report, the Company has an administrative services agreement in effect with AHL that provides for services on a regular and systematic basis. The terms of the service agreement require that back-up records constituting the Company’s books of account be forwarded to the Company on a monthly basis and be maintained at the Company’s principal office in New York. This service agreement was filed with and approved by the Department. The Company is also in violation of the terms of its filed service agreement.

9. Maintenance of Records

Section 243.2(b) of Department Regulation No. 152 states, in part:

“ . . . an insurer shall maintain . . .

(7) A financial record necessary to verify the financial condition of an insurer, including ledgers, journals, trial balances, annual and quarterly statement workpapers, evidence of asset ownership, and source documents, for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review.”

The examiner requested policy level detail to support Schedule NP of the 2003 filed annual statement supplement. The Company did not maintain adequate workpapers to support the amounts reported on the Schedule.

The Company violated Section 243.2(b)(7) of Department Regulation No. 152 by failing to maintain proper workpapers to support the amounts reported in Schedule NP.

10. Prior Report Summary and Conclusions

Following are the violations, recommendation and comment 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 reclassified negative cash balances to the liability “reserve for checks issued and outstanding” on the 2000 annual statement in the amount of \$608,451. The examiner recommends that the Company report negative cash balances on the asset page of the annual statement in accordance with the NAIC annual statement instructions.</p> <p>A review of the annual statements indicated that the Company only reported a reserve for checks written off as a liability during the examination period.</p>
B	<p>The Company violated Section 219.5(a) of Department Regulation No. 34-A by not maintaining in its advertising file a notation indicating the manner and extent of distribution of each advertisement.</p> <p>The review of a sample of advertisement files revealed that the Company maintained the proper documentation.</p>
C	<p>The examiner recommends that the Company monitor and periodically reconcile the accounts that comprise the liability “Remittances and items not allocated,” prepare aging schedules for the accounts comprising the liability, and investigate and clear old items.</p> <p>The Company implemented new procedures to clear suspense account items. Each suspense/clearing account is now aged, with a threshold of 30 days for all accounts except for cash with application, which is 60 days.</p>
D	<p>The Company violated Section 243.2(b) of Department Regulation No. 152 for not maintaining the application, including the policy forms and any other information necessary for reconstructing the solicitation, rating and underwriting of the contract or policy.</p> <p>Similar violations appear in this report.</p>

11. Summary and Conclusions

Following are the violations, recommendation and comment 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 entering into transactions with its affiliates without first notifying the Superintendent of its intention to do so.	13
B	The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain an index of replacements by agent.	35
C	The Company violated Section 51.7(b) of Department Regulation No. 60 by failing to comply with the orderly working of Regulation No. 60 in accomplishing its intended purpose in the protection of policyholders and contract holders.	35, 37-38
D	The Company violated Section 51.6(a)(2) of Department Regulation No. 60 by not requiring a completed Definition of Replacement.	35 - 36
E	The Company violated Sections 51.6(b)(2), 51.6(b)(3) and 51.6(e) of Department Regulation No. 60 by not: requiring proof of receipt by the applicant of the Important Notice and the completed Disclosure Statements and by not examining the Disclosure Statements to ascertain that they were accurate and met the requirements of the Regulation; requiring and reviewing a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; and by not establishing or implementing procedures that would ensure compliance with Section 51.5(c)(2) of Department Regulation No. 60. The Company also violated Sections 243.2(b)(1) and 243.2(b)(8) of Department Regulation No. 152 by not maintaining copies of the proposals used in the sale of the proposed life insurance policy or annuity contract, copies of authorizations and copies of all correspondence related to the replacement.	36 - 37

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
F	The Company violated Section 51.6(b)(7) of Department Regulation No. 60 because where the required forms did not meet the requirements of the Regulation or were not accurate, the Company failed to, within ten days from the date of receipt of the application, either have any deficiencies corrected or reject the application and so notify the applicant of such rejection and the reason therefore.	37
G	The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to furnish the insurer whose coverage is being replaced, within ten days of receipt of the application, a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement.	37
H	The Company violated Section 51.6(e) of Department Regulation No. 60 by failing to date stamp all applications and disclosure statements upon receipt.	37
I	The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by not maintaining application forms.	38
J	The Company violated Section 51.6(b)(9) of Department Regulation No. 60 by failing to have the agent complete and submit a revised Disclosure Statement, any revised or additional sales material used and an acknowledgement by the applicant of receipt of such revised material, when the life insurance policy issued differed from the life insurance policy applied for.	38
K	The Company violated Section 51.6(b) of Department Regulation No. 60 by not complying with any of the requirements of such section and by not handling an obvious replacement transaction as a replacement.	38

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
L	The Company has agreed to a remediation plan acceptable to the Department to mitigate the deficiencies noted in this report for all policy and contract holders that did not receive complete, accurate and timely disclosure prior to completing an application to replace their existing policies and contracts. The Company has begun to implement the remediation plan and, as a result, has accrued \$17 million of additional policy and contract holder benefits under the plan.	38
M	The examiner recommends that the Company develop and implement an audit plan designed to review, test and monitor compliance with Department Regulation No. 60. Such plan should be approved by the Company's board of directors or its audit committee and the results of audits performed should also be reviewed by the board of directors or its audit committee.	38
N	The Company violated Section 3201(b)(1) of the New York Insurance Law by failing to file with the Superintendent the electronic application process for annuities.	38 - 40
O	The Company violated Section 5-701 of the New York General Obligations Law by not having its annuity applications signed.	38 - 40
P	The Company violated Section 4221(a)(5-a) of the New York Insurance Law by issuing universal life policies under policy form NYLU591 with surrender charges in excess of the amount allowed.	40
Q	The Company has issued an endorsement showing the correct surrender charge on all universal life policies that remain in force.	40
R	The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state.	41
S	The Company is in violation of its filed service agreements for not maintaining the records constituting its books of account in accordance with the terms of such agreements.	41
T	The Company violated Section 243.2(b)(7) of Department Regulation No. 152 by failing to maintain proper workpapers to support the amounts reported in Schedule NP.	42

APPOINTMENT NO. 22258

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:

MARC TSE

as a proper person to examine into the affairs of the

ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK

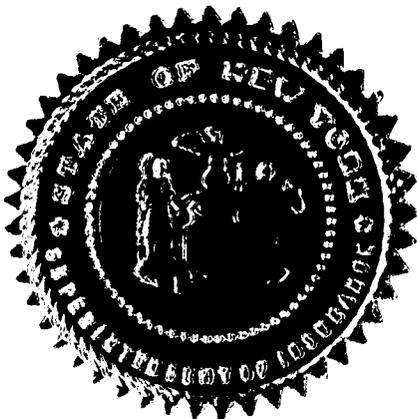
and to make a report to me in writing of the condition of the said

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 29th day of September, 2004



GREGORY V. SERIO

Superintendent of Insurance

[Handwritten Signature]

Superintendent