STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

COLUMBIAN FAMILY LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT:	AUGUST 2, 2002
EXAMINER:	VIJAY GOSWAMI

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

August 2, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21824, dated January 25, 2002 and annexed hereto, an examination has been made into the condition and affairs of Columbian Family Life Insurance Company, hereinafter referred to as "the Company," at its home office located at Vestal Parkway East, P.O. Box 1381, Binghamton, New York 13902.

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, 2001, filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 8 of this report)

The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control. (See item 6 of this report)

The examiner recommends that the Company develop disaster recovery and business continuity plans. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2001. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2001 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, 2001 to determine whether the Company's 2001 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

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

The examiner reviewed the corrective actions taken by the Company with respect to the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 9 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 October 23, 1962 under the name Nathan Hale Insurance Company of New York. The Company was licensed to write accident and health insurance and commenced business on May 29, 1964. Initial resources of $240,000, consisting of common capital stock of $150,000 and paid in and contributed surplus of $90,000, were provided through the sale of 30,000 shares of common stock (with a par value of $5 each) for $8 per share.

On August 27, 1964, the Company changed its name to Nathan Hale Life Insurance Company of New York. A new license was issued on January 26, 1965 to write life insurance, annuities and accident and health insurance. Initial resources of $1,920,000 were provided through the sale of 320,000 shares of common stock (with a par value of $2 each) for $6 per share.

In 1967, Southland Life Insurance Company of Dallas, Texas ("Southland") acquired the Company. In 1972, Washington National Insurance Company of Evanston, Illinois acquired the Company from Southland. The Company adopted the name Anchor National Life Insurance Company of New York on December 1, 1972 and on July 1, 1976, the Company changed its name to Washington National Life Insurance Company of New York. On July 22, 1991, Columbian Mutual Life Insurance Company of Binghamton, New York acquired 100% of the Company's outstanding shares.

As of December 31, 2001, capital and paid in and contributed surplus were $2,000,000 and $25,505,452, respectively.

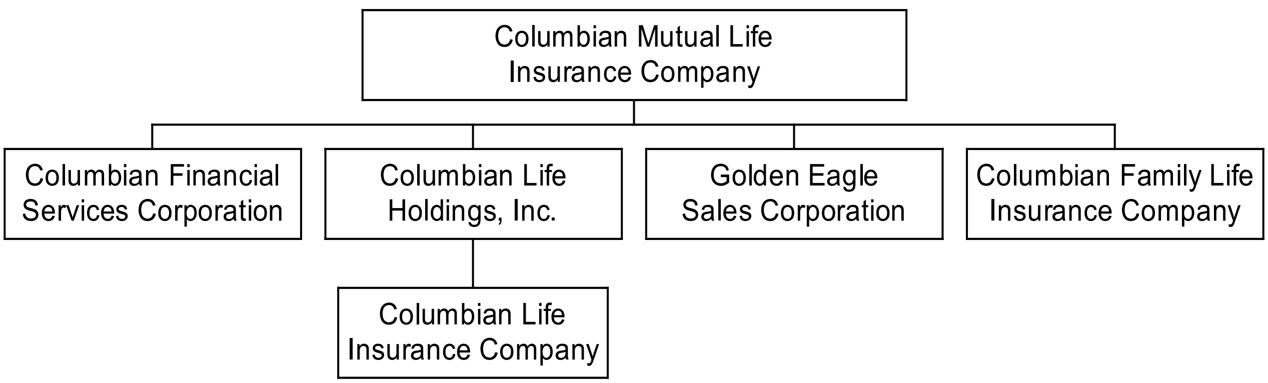
The Company changed its name to Columbian Family Life Insurance Company on January 1, 1998.

B. Holding Company

The Company is a wholly owed subsidiary of Columbian Mutual Life Insurance Company ("Columbian").

As a condition for approval of the sale of Washington National Life Insurance Company of New York to Columbian, a commitment agreement was entered into between the Company and Columbian that limited each company to certain lines of business. These limitations provided that until such time as a merger between Columbian and the Company occurs, the Company will only write non-participating business.

An organization chart reflecting the relationship between the Company and its affiliates, as of December 31, 2001 follows:



The Company had one service agreement in effect as of December 31, 2001. The agreement is an administrative and management services agreement with Columbian whereby Columbian provides the Company with all services including underwriting, actuarial, legal, accounting, marketing, and investment advisory services.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 25 directors. Directors are elected for a period of three years at the annual meeting of the stockholders held in May of each year. As of December 31, 2001, 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, 2001, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Carey S. Barney* Los Angeles, CA	Attorney and Partner Lord, Bissell & Brook	1995
Michael K. Conn* Louisville, KY	Consultant	1999
Peter M. Culley* Paradise Valley, AZ	Retired President and Chief Executive Officer H.S. Pickrell Company	1983
Joseph Fafian, Jr.* Staten Island, NY	President Fafian and Associates, Inc.	1991
John J. Gately, Jr. Binghamton, NY	Senior Vice President and Chief Actuary Columbian Family Life Insurance Company Columbian Mutual Life Insurance Company	2000
Peter M. Husting* Winnetka, IL	President Husting Enterprises	1992
Charles F. Krause* San Antonio, TX	Attorney Rockwald, Ltd.	1976
George J. Matkov, Jr.* Chicago, IL	Attorney Matkov, Salzman, Madoff & Gunn	1993
Edward J. Muhl* Alexandria, VA	Independent Consultant	1997
Thomas E. Rattmann Vestal, NY	Chairman, President and Chief Executive Officer Columbian Family Life Insurance Company Columbian Mutual Life Insurance Company	1996

Name and Residence	Principal Business Affiliation	Year First Elected
John G. Shillestad* Northfield, IL	Consultant	1986
Robert W. Singer* Dallas, TX	President and Chief Executive Officer Keystone Consolidated Industries, Inc.	1999
James C. Tappan* Hobe Sound, FL	President Tappan Capital Partners	1987

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

On May 23, 2002, Peter M. Culley retired from the board. As of the date of this report he had not been replaced.

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, 2001:

Name	Title
Thomas E. Rattmann	President and Chief Executive Officer
Ronald W. Funk	Senior Vice President, Chief Financial Officer and Treasurer
Robert Reynard Bowsher	Senior Vice President, Sales and Marketing
John J. Gately, Jr.	Senior Vice President and Chief Actuary
Lance A. Bowe	Vice President and Chief Investment Officer
Michael L. Proctor*	Vice President

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

In July 2002, Lance A. Bowe, Vice President and Chief Investment Officer, resigned. Ronald W. Funk, Senior Vice President, Chief Financial Officer and Treasurer has assumed the duties of Vice President and Chief Investment Officer on a temporary basis.

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 ceased writing new business in 1994. There are no plans for the Company to write any new business.

The Company is licensed to transact business in two states, namely New York and New Jersey. In 2001, 80.39% of all renewal premiums (life, accident and health, annuity considerations, and deposit type funds) were received from New York. Policies were written on a non-participating basis.

E. Reinsurance

As of December 31, 2001, the Company had reinsurance treaties in effect with 16 companies, of which 14 were authorized or accredited. The Company's universal life, single premium deferred annuities, flexible premium deferred annuities, and single premium immediate annuities are reinsured on a coinsurance, modified-coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $150,000. The total face amount of life insurance ceded, as of December 31, 2001, was $336,335,918, which represents 92.4% of the total face amount of life insurance in force. Of the amount reinsured, $186,772,924, or 55.5%, was reinsured with affiliates.

The amounts reinsured with unauthorized companies was less than 1% of the amount reinsured. No reserve credit was taken for reinsurance ceded to unauthorized companies.

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, 1997	December 31, 2001	Increase (Decrease)
Admitted assets	$ 27,097,926	$ 25,251,380	$(1,846,546)
Liabilities	$ 19,489,926	$ 14,791,658	$(4,698,268)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	25,505,452	25,505,452	0
Unassigned funds (surplus)	(19,897,452)	(17,045,730)	2,851,722
Total capital and surplus	$ 7,608,000	$ 10,459,722	$ 2,851,722
Total liabilities, capital and surplus	$ 27,097,926	$ 25,251,380	$(1,846,546)

The Company's invested assets, as of December 31, 2001, were mainly comprised of bonds (74.9%) and policy loans (21.8%).

The majority (88.4%) of the Company's bond portfolio, as of December 31, 2001, was comprised of investment grade obligations.

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

	1998	1999	2000	2001
Ordinary:				
Life insurance	$462,858	$1,015,292	$ 958,978	$1,302,769
Individual annuities	200,896	279,437	207,824	111,555
Supplementary contracts	153,107	93,803	247,400	75,189
Total ordinary	$816,861	$1,388,532	$1,414,202	$1,489,513
Total accident and health	$ 3,756	$ 3,414	$ 6,596	$ 2,454
Total	$820,616	$1,391,947	$1,420,797	$1,491,967

The change in the gain in the ordinary life line between 1998 and 1999 was due to a substantial increase in surrenders in 1998.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2001, as contained in the Company's 2001 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, 2001 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2001

Admitted Assets

Bonds	$16,660,895
Policy loans	4,841,597
Cash and short term investments	735,822
Reinsurance ceded:	
Amounts recoverable from reinsurers	281,496
Commissions and expense allowances due	82,029
Other amounts receivable under reinsurance contracts	150,170
Federal income tax recoverable	26,992
Life insurance premiums and annuity considerations deferred and uncollected on in force business	(283,287)
Investment income due and accrued	423,172
Receivable from parent, subsidiaries and affiliates	2,332,497
Total admitted assets	$25,251,380

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$ 11,891,497
Aggregate reserve for accident and health policies	8,041
Supplementary contracts without life contingencies	638,468
Policy and contract claims:	
Life	264,330
Accident and health	5,000
Policyholders' dividends and coupons due and unpaid	1,476
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	19,000
Premiums and annuity considerations received in advance	4,080
Policy and contract liabilities not included elsewhere	
Interest maintenance reserve	996,179
General expenses due or accrued	76,400
Taxes, licenses and fees due or accrued	111,183
Unearned investment income	12,699
Amounts withheld or retained by company as agent or trustee	217,603
Amounts held for agents' account	2,331
Remittances and items not allocated	128,283
Miscellaneous liabilities:	
Asset valuation reserve	96,495
Reinsurance in unauthorized companies	11,867
Other liabilities	306,725
Total liabilities	$ 14,791,658
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	25,505,452
Unassigned funds (surplus)	(17,045,730)
Total capital, surplus and other funds	10,459,722
Total liabilities, surplus and other funds	$ 25,251,380

B. CONDENSED SUMMARY OF OPERATIONS

	1998	1999	2000	2001
Premiums and considerations	$ 613,897	$ 787,224	$ 554,663	$ 306,959
Investment income	1,807,130	1,901,397	1,860,082	1,870,072
Commissions and reserve adjustments on reinsurance ceded	767,542	865,952	590,765	573,723
Miscellaneous income	175,047	133,963	86,295	0
Total income	$ 3,363,616	$3,688,535	$ 3,091,805	$2,750,754
Benefit payments	$ 2,242,333	$1,612,919	$ 2,111,750	$ 856,130
Increase in reserves	(1,332,972)	(594,951)	(1,549,933)	(858,651)
Commissions	209,247	161,167	121,945	97,907
General expenses and taxes	1,171,650	754,902	455,792	658,965
Increase in loading and cost of collection	(3,385)	(4,541)	(4,925)	(923)
Total deductions	$ 2,286,873	$1,929,498	$ 1,134,629	$ 753,428
Net gain (loss)	$ 1,076,743	$1,759,037	$ 1,957,177	$1,997,326
Dividends	19,827	22,474	21,958	20,965
Federal and foreign income taxes incurred	236,300	344,617	514,422	484,394
Net gain (loss) from operations before net realized capital gains	$ 820,616	$1,391,947	$ 1,420,797	$1,491,967
Net realized capital gains (losses)	0	452	(29,553)	(48,143)
Net income	$ 820,616	$1,392,399	$ 1,391,244	$1,443,824

C. CAPITAL AND SURPLUS ACCOUNT

	1998	1999	2000	2001
Surplus, December 31, prior year	$7,608,000	$8,024,077	$ 9,383,499	$10,901,396
Net income	$ 820,616	$1,392,399	$ 1,391,244	$ 1,443,824
Change in non-admitted assets and related items	(13,887)	82,541	441,723	357
Change in liability for reinsurance in unauthorized companies	(126)	115	(8,144)	1,133
Change in asset valuation reserve	(2,499)	(5,350)	(18,066)	(30,777)
Cumulative effect of changes in accounting principles	0	0	0	4,932
Surplus adjustments:				
Change in surplus as a result of reinsurance	(44,831)	(86,391)	(30,095)	(11,143)
Dividend to stockholders	0	0	0	(1,850,000)
Aggregate write ins for gains and losses in surplus	(343,196)	(23,892)	(258,764)	0
Net change in capital and surplus	$ 416,077	$1,359,422	$ 1,517,898	$ (441,674)
Capital and surplus, December 31, current year	$8,024,077	$9,383,499	$10,901,396	$10,459,722

6. INTERNAL AUDIT

Neither the Company, nor any member of the holding company system, has an internal audit staff. Internal audit is an integral part of corporate governance that also includes the audit committee, the board of directors, senior management and the external auditors. In particular, internal auditors and audit committees are mutually supportive. Consideration of the work of internal auditors is essential for the audit committee to gain a complete understanding of the Company's operations. Internal audit identifies strategic, operational and financial risks facing the organization and assesses controls put in place by management to mitigate those risks.

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

7. DISASTER RECOVERY AND BUSINESS CONTINUITY PLANS

The Company does not have a written disaster recovery plan. The objective of a disaster recovery plan is to provide reasonable assurance that data, systems and operations can be successfully recovered and be available to users in the event of a disaster. Such a plan should address hardware and system recovery, data retrieval procedures, emergency contact information, hardware/software vendor information, telecommunications recovery procedures, disaster declaration approval procedures, and physical recovery location. The plan should contain provisions to ensure periodical testing. The disaster recovery plan should be aligned with the Company's business continuity plans and be approved and periodically reviewed by management to ensure that it meets the needs of the business. Documentation of the disaster recovery test plan and results (indicating problems found or successful completions) and documentation of management approval of the plan should be maintained.

The examiner recommends that the Company develop a disaster recovery plan.

The Company does not have a business continuity plan. The objective of a business continuity plan is to reasonably ensure that the recovery of critical business processes could take place in the event of a disaster. Such a plan should identify the recovery of critical business processes. The plan should also identify supporting systems applications, vendors that would assist with locating alternate processing and office site locations, forms and documentation arrangements, network and application restoration procedures, and procedures to be followed by Company personnel during a disaster and recovery period. The plan should contain provisions to ensure periodic testing. The business continuity plan should be approved and periodically reviewed by management to ensure that it meets the needs of the business. Documentation of the business continuity test plan and results and documentation of management approval of the plan should be maintained.

The examiner recommends that the Company develop a business continuity plan.

8. 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 Company ceased writing new business in 1994, therefore, there were no advertising or sales activities to review.

B. Underwriting and Policy Forms

The Company ceased writing new business in 1994, therefore, there were no issued or declined policies or policy forms to review.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

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

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

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

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

The Company reported that it has performed a numbers of tests to determine whether or not the Company has any business on the books for which race was used as a basis for premium rates, underwriting ratings, dividends, etc. The Company indicated that the tests performed showed no indication that any such practices have ever been used.

In summary, the Company's findings were that there were no results from any of their testing that would indicate any degree of race-based underwriting.

A review was made into the affairs of the Company with respect to race-based underwriting and the findings reported pursuant to the Supplement. The examiner determined that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent action taken by the Company in response to such:

Item	Description
A	The examiner again recommends the Company file an inter-company tax allocation agreement in compliance with Department Circular Letter No. 33 (1979). The Company filed its inter-company tax allocation agreement with the Department.

10. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.	15
B	The examiner recommends that Company develop disaster recovery and business continuity plans.	16

Respectfully submitted,

/s/

Vijay Goswami
Senior Insurance Examiner

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

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

/s/

Vijay Goswami

Subscribed and sworn to before me

this__________ day of ____________________2002 .

APPOINTMENT NO. 21824

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:

VIJAY GOSWAMI

as a proper person to examine into the affairs of the

COLUMBIAN FAMILY LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 25th day of January, 2002

GREGORY V. SERIO
Superintendent of Insurance

Superintendent