STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

COMPANION LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT:	MARCH 1, 2002
EXAMINER:	JOHN LETOURNEAU

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

March 1, 2002

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

Sir:

In accordance with instructions contained in Appointment Number 21773, dated September 10, 2001, and annexed hereto, an examination has been made into the condition and affairs of Companion Life Insurance Company, hereinafter referred to as the Company, at its home office located at 303 Merrick Road, Suite 503, Lynbrook, New York 11563.

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, 2000 filed annual statement. (See item 5 of this report)

The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles in excess of the amounts allowed. (See item 6B of this report)

The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on a number of death claims. (See item 6C 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 to December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 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, 2000, to determine whether the Company's 2000 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', employees' and agents' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

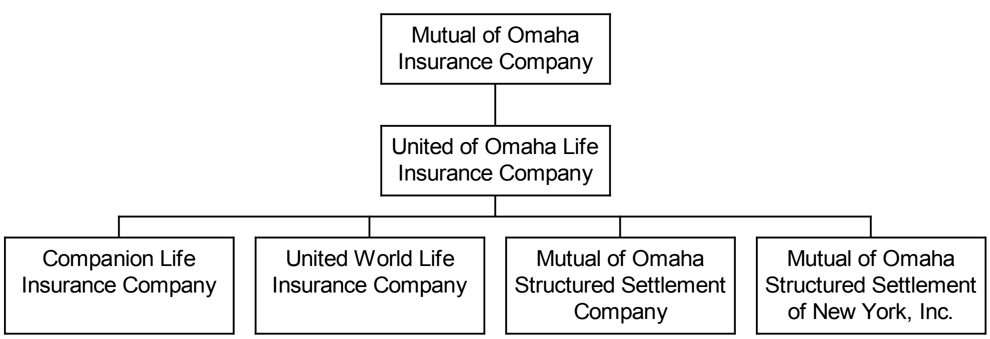
The Company was incorporated as a stock life insurance company under the laws of New York on June 3, 1949, was licensed on July 1, 1949 and commenced business on July 18, 1949. Initial resources of $1,500,000 consisting of capital of $500,000 and paid in and contributed surplus of $1,000,000 were provided through the sale of 5,000 shares of common stock (with a par value of $100) for $300 per share.

Changes in capital and paid in and contributed surplus prior to the examination period resulted in capital and paid in and contributed surplus of $2,000,000 and $45,650,000 respectively, as of December 31, 1997. There were no changes to capital and paid in and contributed surplus during the examination period.

B. Holding Company

The Company is a wholly owned subsidiary of United of Omaha Life Insurance Company ("United"), a Nebraska life insurance company. United is in turn wholly owned by Mutual of Omaha Insurance Company ("Mutual"), also a Nebraska insurance company, which is authorized to write accident and health insurance in New York.

An organizational chart reflecting the relationship between the Company and certain significant affiliated entities as of December 31, 2000 follows:



C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 17 directors; however, if the Company shall have admitted assets of less than $1,500,000,000, the minimum number of the directors shall in no case be less than nine. Directors are elected for one year at the annual meeting of the stockholders held in December of each year. As of December 31, 2000, the Company had ten directors.

Meetings of the board are held quarterly on such dates as determined by the board.

The ten board members and their principal business affiliation, as of December 31, 2000, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Fred C. Boddy, Jr. Island Park, NY	Vice President, Treasurer and Assistant Secretary Companion Life Insurance Company	1998
William G. Campbell * Ely, MN	Attorney at Law William Campbell Law Firm	1991
Samuel L. Foggie * Fort Washington, MD	Consultant Self-employed	1978
Randall C. Horn Omaha, NE	President Companion Life Insurance Company	1999
Mary J. Huerter Omaha, NE	Vice President and Secretary Companion Life Insurance Company	1991
Charles T. Locke * Darien, CT	Attorney at Law Locke & Herbert, P.C.	1987
James J. O'Neil * New Rochelle, NY	Attorney at Law Self-employed	1997
Oscar S. Strauss, II * New York, NY	Chairman Daniel & Florence Guggenheim Foundation	1977
John A. Sturgeon Omaha, NE	President Mutual of Omaha Insurance Company	1984

Name and Residence	Principal Business Affiliation	Year First Elected
John W. Weekly Omaha, NE	Chairman of the Board Companion Life Insurance Company	1983

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

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

The following is a listing of the principal officers of the Company as of December 31, 2000:

Name	Title
Randall C. Horn	President
Mary J. Huerter	Vice President and Secretary
Fred C. Boddy, Jr.	Vice President, Treasurer and Assistant Secretary
Burton D. Jay	Actuary
Terrance DeWald *	Vice President and Compliance Officer

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

D. Territory and Plan of Operation

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

The Company is licensed to transact business in three states, namely New York, New Jersey and Connecticut. In 2000, the vast majority of life premiums (97.21%), annuity considerations (99.26%), accident and health premiums (99.99%), and all deposit type funds were received from New York. Policies are written on a non-participating basis. In 1995, the Company received approval from the Department to issue individual variable annuities through a Separate Account.

The Company sells its products through a combination of branch office, general agency and direct response distribution channels. The following is a synopsis of the Company's distribution channels.

1) Three division offices employ division managers and district sales managers, all of whom are employees of the Company and Mutual. Career agents work out of district offices and represent the Company and Mutual exclusively; they receive commissions, overrides and expense allowances. The agents sell mostly life insurance and some annuities.
2) Independent agents and banks sell life insurance and annuities for the Company as well as other insurance companies. The Dime agency (an affiliate of the Dime Savings Bank) is the Company's largest writer of annuities and is responsible for more than 80% of the sales of new annuity business.
3) Direct marketing (mail and television) is used for one product called "EZWAY," which is a guaranteed issue life insurance policy that contains a provision for return of premium when death occurs within the first two years.

E. Reinsurance

As of December 31, 2000, the Company had treaties with 18 companies, of which 14 were authorized or accredited. The Company's life insurance, annuity contracts and accident and health policies are ceded on a coinsurance, modified-coinsurance, yearly renewable term and catastrophic basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $100,000. The total face amount of life insurance ceded at December 31, 2000 was $2,194,598,593, which represents 36.9% of the total life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverables from unauthorized companies, totaling $93,116,475, were supported by a letter of credit and funds withheld. The majority of the reserve credit and all of the reinsurance recoverables, totaling $92,876,784, resulted from cessions to the Company's parent, United. United accounted for $1,447,674,024 (66%) of total reinsurance ceded.

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, 2000	Increase
Admitted assets	$465,810,010	$561,710,517	$95,900,507
Liabilities	$410,674,306	$497,473,588	$86,799,282
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	45,650,000	45,650,000	0
Group contingency life reserve	428,417	547,095	118,678
Unassigned funds (surplus)	7,057,287	16,039,834	8,982,547
Total capital and surplus	$ 55,135,704	$ 64,236,929	$ 9,101,225
Total liabilities, capital and surplus	$465,810,010	$561,710,517	$95,900,507

The Company's invested assets as of December 31, 2000, exclusive of Separate Accounts, were mainly comprised of bonds. The majority (95.8%) of the Company's bond portfolio, as of December 31, 2000, was comprised of investment grade obligations.

The Company paid a cash dividend of $6,000,000 to its parent in 2000.

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
Ordinary:			
Life insurance	$4,012,329	$1,225,906	$4,255,804
Individual annuities	2,062,521	1,617,620	3,062,220
Supplementary contracts	39,978	151,829	12,622
Total ordinary	$6,114,828	$2,995,355	$7,330,646
Group:			
Life	$ 184,982	$ (27,282)	$ 352,862
Annuities	(20,814)	11,003	8,321
Total group	$ 164,168	$ (16,279)	$ 361,183
Accident and health:			
Group	$ 47,101	$ (63,679)	$ (30,931)
Other	(18,431)	(32,346)	(12,947)
Total accident and health	$ 28,670	$ (96,025)	$ (43,878)
Total	$6,307,666	$2,883,051	$7,647,951

The primary reasons for the higher net income in 1998 and 2000 were that total premium for 1998 and 2000 exceeded 1999 by $10.8 million and $8.4 million, respectively, and death claims in 1999 exceeded 1998 and 2000 death claims by $2.7 million and $1.4 million, respectively. The consistent losses on the other accident and health line of business are due to the fact that this is a small, closed block of business and the Company has decided that it is not worth the effort or expense to apply for a rate increase.

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 2000 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, 2000 annual filed statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	$483,599,523
Mortgage loans	
First liens	9,473,109
Policy loans	10,088,233
Cash and short term investments	5,765,618
Receivable for securities	751,821
Reinsurance ceded:	
Amounts recoverable from reinsurers	1,434,342
Commissions and expense allowances due	423,710
Electronic data processing equipment	52,898
Life insurance premiums and annuity considerations deferred and uncollected on in force business	3,927,750
Accident and health premiums due and unpaid	(492)
Investment income due and accrued	6,116,438
Receivable from parent, subsidiaries and affiliates	1,853,452
Suspense items	2,117,095
From Separate Accounts statement	36,107,020
Total admitted assets	$561,710,517

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$351,669,727
Aggregate reserve for accident and health policies	171,756
Supplementary contracts without life contingencies	421,276
Policy and contract claims:	
Life	4,104,474
Accident and health	91,467
Policyholders' dividend and coupon accumulations	103,377
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts: Dividends apportioned for payment	64,081
Premiums and annuity considerations received in advance	61,675
Liability for premium and other deposit funds:	
Policyholder premiums	2,827
Other contract deposit funds	222,150
Policy and contract liabilities:	
Provision for experience rating refunds	2,737
Interest maintenance reserve	386,678
Commissions to agents due or accrued	48,709
General expenses due or accrued	1,316,563
Transfers to Separate Accounts due or accrued	(1,063,267)
Taxes, licenses and fees due or accrued	139,209
Federal income taxes due or accrued	1,700,859
Unearned investment income	238,837
Amounts withheld or retained by company as agent or trustee	393,547
Amounts held for agents' account	1,487,521
Remittances and items not allocated	2,119,930
Miscellaneous liabilities:	
Asset valuation reserve	4,047,391
Reinsurance in unauthorized companies	35,263
Funds held under reinsurance treaties with unauthorized reinsurers	93,601,267
Payable to parent, subsidiaries and affiliates	500
Liability for interest due and unpaid on policy claims	40,505
From Separate Accounts statement	36,064,529
Total liabilities	$497,473,588
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	45,650,000
Group contingency life reserve	547,095
Unassigned funds (surplus)	16,039,834
Total capital, surplus and other funds	$ 64,236,929
Total liabilities, capital, surplus and other funds	$561,710,517

B. CONDENSED SUMMARY OF OPERATIONS

	1998	1999	2000
Premiums and considerations	$54,750,918	$43,956,521	$52,226,087
Investment income	32,813,466	34,166,038	36,934,738
Net gain from operations from Separate Accounts	4,337	6,792	(2,699)
Commissions and reserve adjustments on reinsurance ceded	1,635,958	2,890,388	3,926,645
Miscellaneous income	219,236	379,372	611,020
Total income	$89,423,915	$81,399,111	$93,695,791
Benefit payments	$50,999,533	$44,434,171	$50,794,588
Increase in reserves	(6,022,852)	6,602,917	141,140
Commissions	4,817,705	5,113,960	6,117,411
General expenses and taxes	12,909,359	11,962,273	13,671,182
Increase in loading and cost of collection	(149,489)	(577,793)	1,351,080
Net transfers to (from) Separate Accounts	12,653,190	4,247,836	3,006,051
Miscellaneous deductions	2,921,427	3,648,693	5,901,825
Total deductions	$78,128,873	$75,432,057	$80,983,277
Net gain	$11,295,042	$ 5,967,054	$12,712,514
Dividends	58,047	52,436	63,599
Federal income taxes	4,929,330	3,031,567	5,000,964
Net income	$ 6,307,665	$ 2,883,051	$ 7,647,951

C. CAPITAL AND SURPLUS ACCOUNT

	1998	1999	2000
Capital and surplus, December 31, prior year	$55,135,704	$61,159,052	$63,337,851
Net income	$ 6,307,665	$ 2,883,051	$ 7,647,951
Change in net unrealized capital gains (losses)	0	(192,674)	0
Change in nonadmitted assets and related Items	83,597	(69,512)	152,911
Change in liability for reinsurance in unauthorized companies	(243)	(6,559)	5,900
Change in asset valuation reserve	(367,671)	(435,507)	(644,631)
Dividends to stockholders	0	0	(6,000,000)
Prior year adjustments	0	0	(263,053)
Net change in capital and surplus	$ 6,023,348	$ 2,178,799	$ 899,078
Capital and surplus, December 31, current year	$61,159,052	$63,337,851	$64,236,929

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

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

B. Underwriting and Policy Forms

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

Section 3207(c) of the New York Insurance Law states, in part:

> "An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months, for an amount or amounts of life insurance which may be in excess of the limits specified in subsection (b) of this section, provided that such policy or policies are effectuated by a person or persons having an insurable interest in the life of such minor or by a person or persons upon whom such minor is dependent for support and maintenance and provided further that an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of ten thousand dollars or the limit of fifty per centum (five thousand dollars or the limit of twenty-five per centum in the case of a minor under the age of four years and six months) of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . . "

A review of policies issued on juveniles during the period under examination revealed that in 19 instances, the Company issued policies in excess of the maximum allowed by Section 3207(c) of the New York Insurance Law.

The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles in excess of the amounts allowed.

C. Treatment of Policyholders

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

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

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

The Company did not pay interest on 26 of the 120 group death claims reviewed (22%).

The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on a number of death claims.

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 did an extensive review of their records including rate books, underwriting manuals, applications, underwriting files (both standard and substandard), policy forms, producer files and board minutes. They also contacted the Company's retired chief underwriter.

In summary, the Company's findings were that one page of the 1956 rate book caused some concern. It stated race and nationality were to be considered in the selection of a risk. However, the Company found no evidence that it ever engaged in 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. Based upon the procedures performed, the examiner noted no discrepancies from the Company's reported findings and no instances of race-based underwriting.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

Item	Description
A	The Company violated Section 308(a) of the New York Insurance Law when it failed to give notification to the Department within 30 days of the amendments to its tax allocation agreement as advised by Department Circular Letter No. 33 (1979). A review of the amendments to the tax allocation agreement revealed that the Company filed the amendments.
B	The Company violated Sections 4232(a) and (b) of the New York Insurance Law when it failed to have written criteria for its annuity and universal life interest rates. A review of the board of directors minutes indicated that the board of directors has approved written criteria.
C	The examiner recommends that the Company maintain records with sufficient detail to show the system used for allocation. A review of allocated expenses indicated that the Company maintains records in sufficient detail to show that expenses were allocated correctly.
D	The Company violated Section 2122(a)(2) of the New York Insurance Law when it allowed sales material and three other advertisements to mention its unauthorized parent, United of Omaha Life Insurance Company.
E	The Company violated Section 1313(a)(1) of the New York Insurance Law when it allowed seven advertisements to be distributed which mentioned the holding company’s assets without including the holding company’s liabilities, reserves and surplus.
F	The Company violated Section 1313(f) of the New York Insurance Law when it allowed six advertisements to be distributed which referenced the holding company’s assets with no reference of the Company’s assets.

Item	Description
G	The Company violated Section 219.4(p) of Department Regulation No. 34-A when it allowed four printed advertisements and one television commercial to be distributed without including the Company's home address.
H	The Company violated Section 219.4(p) of Department Regulation No. 34-A when it failed to include the policy series in its advertisement of the Series V annuity.
I	The examiner recommends that the Company keep better controls on the extent and manner of distribution of its printed and televised advertisements.
	A review of advertising indicated that the Company corrected the advertising to comply with Sections 2122(a)(2), 1313(a)(1), and 1313(f) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A. The Company now maintains better controls over the extent and manner of distribution of its advertisements.
J	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used an unapproved policy form.
	A review of policies issued revealed the Company no longer uses the unapproved form.
K	The examiner recommends that the Company review its inventory of policy form 729Y 1/96 to ensure that the Company uses only the approved version of the form.
	A review indicated that only the approved version of the form is in use.
L	The Company violated Department Regulation No. 60 when it failed to complete the Notice to Applicant form on the majority of its variable annuity policy replacements.
	A review of variable annuity policies indicated that the Notice to Applicant was completed.

8. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles in excess of the amounts allowed.	14 - 15
B	The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on a number of death claims.	15

Respectfully submitted,

/s/
John Letourneau
Senior Insurance Examiner

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

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

/s/
John Letourneau

Subscribed and sworn to before me

this__________ day of ___________________2002.

APPOINTMENT NO. 21773

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:*

JOHN LETOURNEAU

as a proper person to examine into the affairs of the

COMPANION 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 10th day of September ,2001

GREGORY V. SERIO
Superintendent of Insurance

Superintendent