

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
WILLIAM PENN LIFE INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 2001

DATE OF REPORT:

DECEMBER 2, 2002

EXAMINER:

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

December 2, 2002

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

Sir:

In accordance with instructions contained in Appointment No. 21874, dated May 30, 2002 and annexed hereto, an examination has been made into the condition and affairs of William Penn Life Insurance Company of New York, hereinafter referred to as "the Company" or "William Penn," at its home office located at 100 Quentin Roosevelt Boulevard, Garden City, New York 11530.

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 Company violated several sections of Department Regulation No. 60 regarding replacements. (See item 6A of this report)

The Company violated Section 1202(b)(2) of the New York Insurance Law by not having an independent committee of the board of directors perform all of its required duties including: nominating candidates for director for election by shareholders; and recommending to the board of directors the compensation of officers. (See item 3 of this report)

The Company violated Section 4230(c) of the New York Insurance Law by granting bonuses and a pension plan to officers and senior staff without such bonuses or pension plan being submitted to and approved by its board of directors. A similar violation appeared in the two prior reports on examination. (See item 3 of this report)

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer in its advertisements. (See item 6A of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 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 violations and the recommendation 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 September 12, 1962, was licensed on January 28, 1963, and commenced business on February 23, 1963 under the name Modern Life Insurance Company. Initial resources of \$1,000,000, consisting of common capital stock of \$500,000 and paid in and contributed surplus of \$500,000, were provided through the sale of 100,000 shares of common stock (with a par value of \$5 each) for \$10 per share.

The Company was acquired in 1967 by ITT Hamilton Life Insurance Company, a subsidiary of PennCorp Financial, Inc. The name of the Company was changed to ITT Life Insurance Company of New York in 1968. The name was subsequently changed to Penn Life Insurance Company of New York in 1972 and was ultimately changed to William Penn Life Insurance Company of New York in 1975.

The Company was acquired in 1983 by Maiden Lane Life Insurance Company, a subsidiary of Continental Corp. Later in 1983, ownership was transferred to Commercial Life Insurance Company, also a subsidiary of Continental Corp, and in 1985, ownership was transferred directly to Continental Corp.

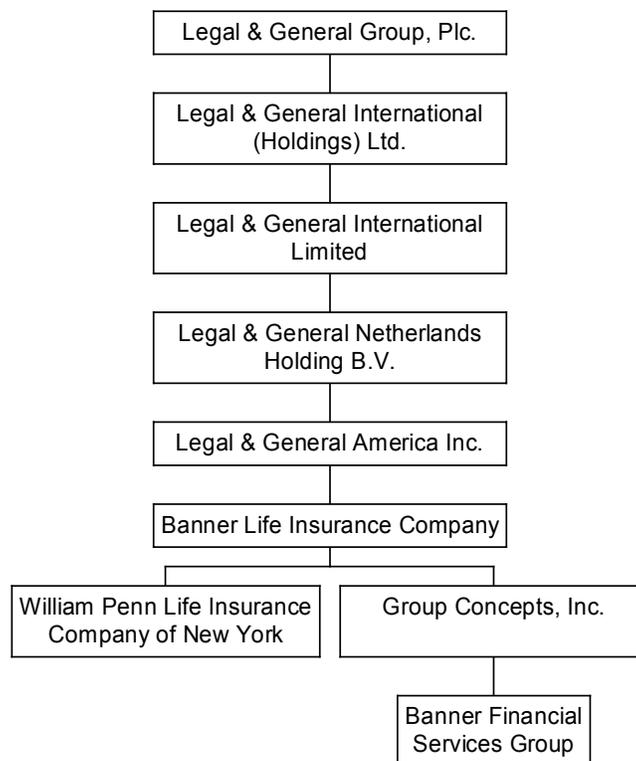
The Company was acquired in 1989 by Legal & General Group, Plc., a United Kingdom company. Ownership was transferred to Legal & General Life Insurance Company of America, Inc. (“L & G Life”), a subsidiary of Legal & General Group, Plc., also in 1989.

The Company was merged in April 1991 with an affiliate, Banner Life Insurance Company of New York, with the Company being the surviving entity. At the same time, 100% ownership of the Company was transferred from L & G Life to Banner Life Insurance Company (“Banner Life”), another affiliate.

B. Holding Company

The Company is a wholly owned subsidiary of Banner Life, a Maryland stock life insurance company licensed in all states except New York. Banner Life is in turn a wholly owned subsidiary of Legal & General America, Inc. (“L & G America”), a Delaware holding company. The ultimate parent of the Company is Legal & General Group, Plc. (“L & G Group”), a United Kingdom company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2001 follows:



The Company had four service agreements in effect as of December 31, 2001.

1. An investment management agreement with Group Concepts, Inc., whereby Group Concepts, Inc. provides investment management services to the Company.
2. An administrative service agreement with L & G America (“L&G agreement”) whereby L & G America provides: accounting support; internal auditing and tax related services; legal advisory services including regulatory compliance and monitoring; actuarial

advisory services, including negotiations, administration, and oversight of ceded reinsurance; payroll and personnel supervisory services; administration; and marketing and sales to the Company. In addition, L & G America pays the salaries of certain officers of the Company who are also officers of L & G America, and who perform investment advisory, underwriting, and customer services on behalf of the Company.

3. An administrative service agreement with Banner Life whereby the Company provides Banner Life underwriting, claims, reinsurance, and agency services.
4. An administrative service agreement with Banner Life whereby Banner Life provides accounting, personnel, and administrative services.

In addition, the Company has a consolidated federal tax allocation agreement with its affiliates since April 1992.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto . . . and he has not disapproved it within such period . . .

(3) rendering of services on a regular or systematic basis . . .”

The Company owed L & G America \$7,493,726 under the L & G agreement at December 2001. The Company also owed Banner Life \$37,664 under a service agreement with Banner at December 2001. In addition, L & G America owed Banner \$4,720,631 under a separate service agreement in which William Penn did not participate. The Company consolidated the amount payable to Banner Life with the amount L & G America owed Banner Life and reduced their payment to L & G America by the same amount. Consolidation of payments is not permitted under either of the Company’s service agreements.

The Company violated Section 1505(d) of the New York Insurance Law for not following its filed service agreements. A similar violation appeared in the prior report on examination.

The Company did not accurately report the net reimbursement of expenses between affiliates for personnel and facilities of other entities used by William Penn and the amount received from other affiliates for the use of William Penn’s personnel and facilities in item 3.2 of

the General Interrogatories – Part 2 in the annual statement. The Company reported only indirect allocated expenses.

The examiner recommends that the Company report all expenses, both allocated and direct, in item 3.2 of the General Interrogatories – Part 2 of the annual statement.

The Company did not include transactions with Banner Life and L & G America for services being provided under the three aforementioned service agreements in Schedule Y, Part 2 of the 1999, 2000 and 2001 filed annual statements.

The examiner recommends that the Company include all transactions with all affiliates in Schedule Y, Part 2 of all future annual statements.

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 20 directors. Directors are elected for a period of one year 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:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Michael M. Cassell* Greenwich, CT	Consultant	1989
Timothy E. Deal* Washington, DC	Consultant Senior Vice President U.S. Council for International Business	1999
Robert E. Freeman* Estes Park, CO	Consultant	1999

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Gene R. Gilbertson Rockville , MD	Senior Vice President, Chief Financial Officer and Treasurer William Penn Life Insurance Company of New York Legal & General America, Inc.	1989
Dewey D. Goodrich, Jr. Frederick, MD	Senior Vice President William Penn Life Insurance Company of New York Legal & General America, Inc.	1995
Andrew S. Hedden* Hartsdale, NY	Partner Coudert Brothers	1989
Sharon M. Jenkins Hempstead, NY	Vice President, Underwriting William Penn Life Insurance Company of New York	2000
David S. Lenaburg Rockville, MD	Chairman and Chief Executive Officer William Penn Life Insurance Company of New York Chief Executive Officer Legal & General America, Inc.	1989
Vincent R. McLean* Westfield, NJ	Consultant	1993
David J. Orr Monrovia, MD	Senior Vice President and Chief Actuary William Penn Life Insurance Company of New York Legal & General America, Inc.	1990
Dimitri B. Papadimitriou* Annandale-on-Hudson, NY	Executive Vice President Bard College	1974
Joseph M. Sullivan Ryebrook, NY	President William Penn Life Insurance Company of New York	1992
James I. Wyer, Esq.* Locust, NJ	Counsel Robinson, St. John & Wayne	1991

* 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.

Section 4211(a) of the New York Insurance Law states, in part:

“No election of directors of a domestic stock life insurance company shall be valid unless a copy of the notice of election shall have been filed in the office of the superintendent at least ten days before the day of such election . . .”

The Company has never filed a notice of election of its directors in the office of the Superintendent.

The Company violated Section 4211(a) of the New York Insurance Law by not filing a notice of election of its directors in the office of the Superintendent at least ten days before the day of such election.

Section 4211(b) of the New York Insurance Law states, in part:

“Whenever any directors of such a company shall have resigned and successors shall have been chosen . . . such successors shall not take office nor exercise their duties until ten days after written notice of their election shall have been filed in the office of the superintendent.”

In 2000, Sharon Jenkins was elected to the board of directors as a replacement for Otto Marracello. She took office and began acting as a director at that time. The Company did not file in the office of the Superintendent, a notice of the election of Sharon M. Jenkins as a replacement for Otto Marracello.

The Company violated Section 4211(b) of the New York Insurance Law by not filing, in the office of the Superintendent, a notice of the election of Sharon M. Jenkins as a replacement for Otto Marracello.

In reference to the report on examination, Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished . . . to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report. . . .”

The Company was unable to provide a signed statement from each member of the board of directors confirming that such member has received and read the prior report on examination.

The examiner recommends that the Company retain a signed statement by each member of the board of directors confirming that such member has received and read such report.

Section 1202(b)(2) of the New York Insurance Law states, in part:

“The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee or committees shall have responsibility for . . . nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed by such committee or committees to be principal officers of the company and recommending to the board of directors the selection and compensation of such principal officers”

The independent committee of the board of directors did not nominate candidates for director for election by shareholders nor recommend to the board of directors the selection and compensation of officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law by not having their independent committee nominate candidates for director for election by shareholders or recommend to the board of directors the selection and compensation of officers.

Article III Section 3.01(a) of the Company’s by-laws requires that the number of members of the executive committee shall be in all events not less than five. Since the resignation of Otto Marracello in June of 2000, the executive committee has had only four members. In addition, the same section requires that the executive committee members hold office at the pleasure of the board of directors until its next annual meeting. The members of the

executive committee held their positions on a continual basis; they have not been elected to the committee on an annual basis.

The examiner recommends that the Company comply with its by-laws and fill the vacancy on the executive committee and elect the members of the executive committee each year at the meeting of the board of directors following the annual meeting of shareholders.

Section 4230(a) of the New York Insurance Law states, in part:

“No domestic life insurance company shall pay any salary, compensation or emolument in any amount to any officer . . . unless such payment be first authorized by a vote of the board of directors of such company.”

The salaries and bonuses paid to officers of the Company have not been authorized by a vote of the board of directors.

The Company violated Section 4230(a) of the New York Insurance Law by not first authorizing by a vote of the board of directors the salaries and bonuses paid to officers of the Company.

Section 4230© of the New York Insurance Law states, in part:

“No principle officer or employee . . . shall receive any other compensation, bonus or emolument from such company, **directly or indirectly**, except in accordance with a plan recommended by a committee of the board . . . and approved by the board of directors.”

1) The Company participates in a bonus incentive plan available to all officers and staff of L & G America and its subsidiaries. Under the plan, senior management may be eligible for bonuses of up to 40% of salary. The plan and the payments have not been submitted to William Penn’s board of directors for approval.

2) The Chairman and Chief Executive Officer, the President, the Executive Vice President of information services and administrative services, the Chief Financial Officer and Treasurer and Senior Vice President and Chief Actuary of the Company participate in an “Executive Share Option Scheme.” The amount of the cash payment is related to increases in the

value of the shares of the ultimate parent, Legal & General Group, Plc. The William Penn board of directors has not approved the Executive Share Option Scheme available to the above officers.

3) The Company participates in an unfunded pension plan, the “Supplemental Executive Cash Balance Plan,” available to senior officers of L & G America and its subsidiaries. The plan was not approved by William Penn’s board of directors.

The Company violated Section 4230© of the New York Insurance Law by offering bonuses and a pension plan to officers and senior staff without such bonuses or pension plan being submitted to and approved by its board of directors. Similar violations appeared in the two prior reports on examination.

The following is a listing of the principal officers of the Company as of December 31, 2001:

<u>Name</u>	<u>Title</u>
David S. Lenaburg	Chief Executive Officer
Joseph M. Sullivan	President
David J. Orr	Senior Vice President and Chief Actuary
Gene R. Gilbertson	Senior Vice President, Chief Financial Officer and Treasurer
Kevin Harty	Senior Vice President and Chief Marketing Officer
Sharon M. Jenkins	Vice President, Underwriting
Dewey D. Goodrich, Jr.	Senior Vice President, Information System Services
Charles A. Lingaas *	Senior Vice President, Administrative Services
Brian Ross Newcombe	Vice President, Secretary, and General Counsel
Michael D. Mullaney	Vice President, Corporate Taxation
Barbara A. Esau	Vice President, Human Resources
Philip H. Muskatt	Vice President, Marketing

* 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 ceased writing accident and health insurance in 1975.

The Company is licensed to transact business in seven states, namely Connecticut, Florida, New Jersey, New York, Pennsylvania, Rhode Island and South Dakota and the District

of Columbia. In 2001, 76% of life premiums and 76% of annuity considerations were received from New York, and 10% of life premiums and 14% of annuity considerations were received from New Jersey. Policies are written on a non-participating basis.

The Company's principal line of business during the examination period was ordinary life insurance. The product lines include universal life and term life insurance. The sale of whole life insurance was discontinued in March 1998. The Company also markets single premium and flexible premium deferred annuity contracts. There has been a substantial decrease in annuity business in recent years reflecting the Company's strategic focus on term life insurance as they have shifted their focus from asset accumulation products to mortality-based products.

The Company's agency operations are conducted on a general agency system.

E. Reinsurance

As of December 31, 2001, the Company had reinsurance treaties in effect with 24 companies, of which 19 were authorized or accredited. The Company's universal, term and whole life businesses 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 \$750,000. The total face amount of life insurance ceded, as of December 31, 2001, was \$18,159,619,057, which represents 65% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$103,136,723 was supported by letters of credit, trust agreements and funds withheld.

The total face amount of life insurance assumed, as of December 31, 2001, was \$3,006,099.

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:

	<u>December 31,</u> <u>1999</u>	<u>December 31,</u> <u>2001</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$1,027,857,473</u>	<u>\$961,839,603</u>	<u>\$(66,017,870)</u>
Liabilities	<u>\$ 953,452,735</u>	<u>\$881,391,912</u>	<u>\$(72,060,823)</u>
Common capital stock	\$ 2,002,500	\$ 2,002,500	\$ 0
Gross paid in and contributed surplus	54,058,416	54,058,416	0
Unassigned funds (surplus)	<u>18,343,822</u>	<u>24,386,776</u>	<u>6,042,954</u>
Total capital and surplus	<u>\$ 74,404,738</u>	<u>\$ 80,447,692</u>	<u>\$ 6,042,954</u>
Total liabilities, capital and surplus	<u>\$1,027,857,473</u>	<u>\$961,839,603</u>	<u>\$(66,017,870)</u>

The Company's invested assets as of December 31, 2001 were mainly comprised of bonds (92.9%) and policy loans (6.1%).

The majority (99.5%) of the Company's bond portfolio, as of December 31, 2001, was comprised of investment grade obligations.

Section 1405(a) of the New York Insurance Law states, in part:

“The assets of a domestic insurer . . . may be invested in . . .
 (6) Equity interests. Investments . . . in common shares . . . (i) the aggregate amount of investments made under this paragraph in the institution in which such investment is then being made and then held by such insurer shall not exceed two percent of the insurer’s admitted assets . . .”

All of the Company’s common stock was invested in Evergreen Money Market Fund. The fund is being used as an overnight cash investment account. The balance in the fund fluctuates greatly due to the timing of cash receipts and disbursements. The aggregate amount invested in the Evergreen Fund regularly exceeded the two percent of admitted assets limitation.

The Company violated Section 1405(a)(6) of the New York Insurance Law by regularly exceeding the two percent of admitted assets limitation in its investment in the Evergreen Money Market Fund.

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

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>		<u>Group Life</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>	<u>Issued & Increases</u>	<u>In Force</u>
1999	\$179,867	\$8,723,676	\$2,814,917	\$11,840,829	\$0	\$235
2000	\$208,726	\$8,405,258	\$3,833,898	\$14,109,532	\$0	\$274
2001	\$172,917	\$8,107,959	\$7,546,667	\$19,828,305	\$0	\$223

The increase in individual term life insurance issued in 2001 is a reflection of the Company’s current strategic focus on term life insurance as they have shifted their focus away from asset accumulation products towards mortality-based products. In addition, the increase is due in part to a more competitive New York product with lower premiums.

The increase in individual term life insurance in force reflects the new sales described above and favorable lapse rates, less than 9%, in that line.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Outstanding, end of previous year	13,481	11,865	10,213
Issued during the year	69	55	65
Other net changes during the year	<u>(1,685)</u>	<u>(1,707)</u>	<u>(1,038)</u>
Outstanding, end of current year	<u>11,865</u>	<u>10,213</u>	<u>9,240</u>

The decrease in annuities outstanding reflects the Company's shift from asset accumulation products to mortality based products. The Company no longer actively markets annuities. Although annuities are still available, competitive rates are not being credited on new business.

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>1999</u>	<u>2000</u>	<u>2001</u>
Ordinary:			
Life insurance	\$5,260,150	\$3,527,399	\$(6,021,954)
Individual annuities	1,927,370	2,836,803	5,280,277
Supplementary contracts	<u>239,557</u>	<u>149,254</u>	<u>55,960</u>
Total ordinary	<u>\$7,427,077</u>	<u>\$6,513,456</u>	<u>\$ (685,717)</u>
Group life	\$ <u>(153,531)</u>	\$ <u>(2,892)</u>	\$ <u>1,060</u>
Accident and health - other	\$ <u>22,188</u>	\$ <u>28,186</u>	\$ <u>63,889</u>
Total	<u>\$7,295,734</u>	<u>\$6,538,750</u>	<u>\$ (620,768)</u>

The decrease in net income in the ordinary life line of business from 2000 to 2001 is primarily due to new business strain as the Company began to more fully appreciate sales efforts focused on mortality products instead of asset accumulation products. Declines in investment yields resulting from lower interest rates also contributed to the decrease.

The increase in net income in the individual annuity line of business is a result of an increase in claims with a decreased crediting rate, while maintaining the return on its investments. The Company no longer actively markets annuities.

The Company does not actively market group life policies. The large loss in the group life line of business in 1999 was the result of one larger than usual death claim incurred.

The Company's accident and health business is in runoff, which is the cause for the large fluctuation in that line of business.

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	\$857,298,264
Stocks:	
Common stocks	16,464,569
Policy loans	56,313,286
Cash and short term investments	(6,961,682)
Reinsurance ceded:	
Amounts recoverable from reinsurers	2,190,939
Commissions and expense allowances due	804,805
Federal and foreign income tax recoverable and interest thereon	10,246,549
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	9,744,802
Investment income due and accrued	15,713,058
Accounts receivable	<u>25,013</u>
 Total admitted assets	 <u>\$961,839,603</u>

The negative cash balance is a result of the Company reclassifying investments in Evergreen Money Market Funds from short-term investments to common stocks in accordance with NAIC guidelines. In addition, due to codification, negative cash balances are now included in cash rather than classified as a drafts outstanding liability.

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$842,396,076
Aggregate reserve for accident and health policies	636,853
Liability for deposit-type contracts	2,397,516
Policy and contract claims:	
Life	11,968,287
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:	
Dividends apportioned for payment	629,102
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	85,088
Policy and contract liabilities:	
Interest maintenance reserve	8,773,165
Commissions to agents due or accrued	98,460
General expenses due or accrued	1,913,276
Taxes, licenses and fees due or accrued	1,446,613
Unearned investment income	1,767,371
Amounts withheld or retained by company as agent or trustee	515,376
Amounts held for agents' account	40,519
Remittances and items not allocated	294,753
Miscellaneous liabilities:	
Asset valuation reserve	5,948,310
Reinsurance in unauthorized companies	163,834
Funds held under reinsurance treaties with unauthorized reinsurers	49,386
Payable to parent, subsidiaries and affiliates	1,321,806
Accrued interest on policy loans	1,270,937
Other liabilities	218,650
Modified coinsurance agreement	<u>(543,466)</u>
 Total liabilities	 <u>\$881,391,912</u>
 Common capital stock	 \$ 2,002,500
Gross paid in and contributed surplus	54,058,416
Unassigned funds (surplus)	<u>24,386,776</u>
 Total capital, surplus and other funds	 <u>\$ 80,447,692</u>
 Total liabilities, capital, surplus and other funds	 <u>\$961,839,603</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Premiums and considerations	\$ 59,093,082	\$ 59,490,137	\$ 64,209,390
Investment income	69,758,463	67,046,487	64,177,915
Commissions and reserve adjustments on reinsurance ceded	7,095,939	7,063,031	7,978,457
Increase in experience refund reserve	0	30,978	0
Miscellaneous income	<u>98,231</u>	<u>(49,032)</u>	<u>1,169</u>
Total income	<u>\$136,045,715</u>	<u>\$133,581,601</u>	<u>\$136,366,931</u>
Benefit payments	\$117,241,233	\$130,729,999	\$ 98,208,381
Increase in reserves	(30,369,939)	(47,049,853)	(7,228,391)
Commissions	13,584,806	13,680,824	14,510,982
General expenses and taxes	23,870,249	23,611,722	25,651,233
Increase in loading on deferred and uncollected premium	<u>1,099,485</u>	<u>351,855</u>	<u>5,134,769</u>
Total deductions	<u>\$125,425,834</u>	<u>\$121,324,547</u>	<u>\$136,276,974</u>
Net gain (loss)	\$ 10,619,881	\$ 12,257,054	\$ 89,957
Dividends*	752,296	799,437	795,015
Federal and foreign income taxes incurred	<u>2,571,851</u>	<u>4,918,866</u>	<u>(84,293)</u>
Net gain (loss) from operations before net realized capital gains	\$ 7,295,734	\$ 6,538,751	\$ (620,765)
Net realized capital gains (losses)	<u>(65,700)</u>	<u>(6,666)</u>	<u>771,775</u>
Net income	<u>\$ 7,230,034</u>	<u>\$ 6,532,085</u>	<u>\$ 151,010</u>

Changes in realized capital gains were due to market conditions and were not caused by changes in investment philosophy.

* Dividends to policyholders are paid on business assumed from Monarch Life Insurance Company.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Capital and surplus, December 31, prior year	<u>\$67,044,400</u>	<u>\$74,404,737</u>	<u>\$79,605,053</u>
Net income	\$ 7,230,034	\$ 6,532,085	\$ 151,010
Change in non-admitted assets and related items	505,194	201,669	198,408
Change in liability for reinsurance in unauthorized companies	55,415	176,496	(163,834)
Change in asset valuation reserve	(430,306)	(1,709,934)	(174,828)
Cumulative effect of changes in accounting principles	<u>0</u>	<u>0</u>	<u>831,883</u>
Net change in capital and surplus	<u>\$ 7,360,337</u>	<u>\$ 5,200,316</u>	<u>\$ 842,639</u>
Capital and surplus, December 31, current year	<u>\$74,404,737</u>	<u>\$79,605,053</u>	<u>\$80,447,692</u>

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

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

Section 2122(a)(2) of the New York Insurance Law states:

“No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to any unauthorized insurer or insurers.”

In 53 of the 75 advertisements reviewed by the examiner, the Company included the following phrase “The Legal & General America Companies: Banner Life – William Penn Life Insurance Company of New York.”

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent Banner Life, an unauthorized insurer, in their advertisements.

Department Circular Letter No. 5 (2001) advises, in part:

“ . . . if the insurance products or services are not being offered by a New York authorized insurer, the advertisements or the web sites upon which the advertisements appear must contain a clear and conspicuous disclaimer indicating that the advertised products or services are not available in New York State, and such products and services cannot, in fact, be made available in New York. . . . ”

The Company’s web site advertises products and services of its parent, Banner Life, an unauthorized insurer, but does not contain the required disclaimer indicating that the advertised products and services are not available in New York.

The examiner recommends that the Company include an appropriate disclaimer on the Company’s web-site, indicating that Banner Life’s advertised products and services are not available in New York.

Section 219.5(a) of Department Regulation No. 34-A states, in part:

“Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. . . . ”

The Company’s advertising file indicates the medium by which the advertisement is disseminated, such as a magazine or newspaper, and the intended audience, such as agents or the public. The file does not specify what magazine or the extent of distribution.

The Company violated Section 219.5(a) of Department Regulation No. 34-A by not indicating the full manner and extent of distribution of their advertisements.

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

“Each agent shall . . .

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

(2) . . . 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 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

(3) Maintain signed and completed copies of the ‘Definition of Replacement’ for six calendar years . . .

(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 . . . the completed ‘Disclosure Statement’ . . .

(c) Where a replacement has occurred or is likely to occur, the insurer whose life insurance policy or annuity contract is to be replaced shall . . .

(2) Within twenty days of receipt of a request . . . for information necessary for completion of the ‘Disclosure Statement’ . . . furnish the required information . . . to . . . the agent and insurer replacing the life insurance policy or annuity contract . . .

(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. . . .”

The examiner reviewed 91 policy files where William Penn replaced another company’s in-force policy. The review revealed:

- three files did not contain the Definition of Replacement;
- four files did not contain a letter requesting replacement information from the company whose policy was being replaced;
- four files did not contain documentation indicating that William Penn received and used information from the company whose policy was being replaced to accurately complete the Disclosure Statement;
- four files contained documentation which indicated that William Penn received the disclosure information from the company whose policy was being replaced within the 20 day time period but used good faith approximations to complete the Disclosure Statements instead;
- two files contained incomplete Disclosure Statements; and
- two internal replacements where William Penn was both the replaced and replacing insurer where the disclosure forms indicated that a good faith approximation was used to complete the Disclosure Statement because the disclosure information was not received within the 20 day time period from the company whose policy was being replaced.

The Company violated Section 51.6(a)(3) of Department Regulation No. 60 by not maintaining the Definition of Replacement forms in three replacement files.

The Company violated Section 51.6(b)(2) of Department Regulation No. 60 by failing to require completed Disclosure Statements with two applications.

The Company violated Section 51.5(e) of Department Regulation No. 60 by failing to fully implement procedures to ensure compliance with the requirements of the Regulation by:

- not requesting replacement information from the company whose policy was being replaced for four replacements;
- not maintaining information, from the company whose policy was being replaced, used to complete the Disclosure Statement in four replacement files;
- issuing four policies using good faith approximations to complete the Disclosure Statements when documentation existed indicating William Penn received the disclosure information from the company whose policy was being replaced within the 20 day time period; and
- using good faith approximations to complete the Disclosure Statements for two policies that were internal replacements.

B. Underwriting and Policy Forms

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

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

C. Treatment of Policyholders

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

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 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 an investigation of archival and current and existing records confirmed that William Penn has not engaged in race-based underwriting practices.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments 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 violated Section 1505(d) of the New York Insurance Law by not notifying the Superintendent of services provided to and received from affiliates.</p> <p>A review of the Company's service agreements revealed a similar violation of Section 1505 of the New York Insurance Law.</p>
B	<p>The examiner recommends that the Company eliminate the inconsistency between its charter and by-laws by providing for the same maximum number of directors in both its charter and by-laws.</p> <p>A review of the current charter and by-laws revealed that the Company has eliminated the inconsistency between its charter and by-laws by providing for the same maximum number of directors in both its charter and by-laws.</p>
C	<p>The Company violated Section 79.2 of Department Regulation No. 133 by failing to include in letters of credit issued by unauthorized reinsurers statements and language required by the regulation.</p> <p>A review of all letters of credit issued by unauthorized reinsurers during the current examination period revealed that they included statements and language required by the regulation.</p>
D	<p>The Company violated Section 219.4(p) of Department Regulation No. 34-A by creating the impression that someone other than the Company would have responsibility for the financial obligation under a policy.</p> <p>The Company ceased using the advertisements referenced in the prior report on examination.</p>

<u>Item</u>	<u>Description</u>
E	<p>The Company violated Section 4230(c) of the New York Insurance Law by granting bonuses and a pension plan to officers and senior staff without such bonuses and pension plan being submitted to and approved by its board of directors.</p> <p>The Company failed to take corrective action. A repeat violation appears in this report on examination.</p>
F	<p>The Company violated Section 4230(b)(1) of the New York Insurance Law by making an agreement with an officer wherein an excess of thirty-three and a third percent of his salary could be deferred beyond a period of 36 months.</p> <p>The officer referenced in the prior report has retired. The examination did not reveal any instances wherein an excess of thirty-three and a third percent of an officer's salary was deferred beyond a period of 36 months.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d) of the New York Insurance Law for not following its filed service agreements.	6
B	The examiner recommends that the Company reports all expenses, both allocated and direct, in item 3.2 of the General Interrogatories – Part 2 of the annual statement.	6 – 7
C	The examiner recommends that the Company include all transactions with Banner Life and L & G America in Schedule Y, Part 2 of all future annual statements.	7
D	The Company violated Section 4211(a) of the New York Insurance Law by not filing, in the office of the Superintendent at least ten days before the day of such election, a notice of election of its directors.	9
E	The Company violated Section 4211(b) of the New York Insurance Law by not filing, in the office of the Superintendent, a notice of the election of Sharon M. Jenkins as a replacement for Otto Marracello.	9
F	The examiner recommends that the Company retain a signed statement by each member of the board of directors confirming that such member has received and read such report.	10
G	The Company violated Section 1202(b)(2) of the New York Insurance Law by not having an independent committee nominate candidates for director for election by shareholders or recommend to the board of directors the selection and compensation of officers.	10
H	The examiner recommends that the Company comply with its by-laws and fill the vacancy on the executive committee and elect the members of the executive committee each year at the meeting of the board of directors following the annual meeting of shareholders.	10 – 11
I	The Company violated Section 4230(a) of the New York Insurance Law by not first authorizing by a vote of the board of directors the salaries and bonuses paid to officers of the Company.	11

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Company violated Section 4230(c) of the New York Insurance Law by offering bonuses and a pension plan to officers and senior staff without such bonuses or pension plan being submitted to and approved by its board of directors.	11 – 12
K	The Company violated Section 1405(a)(6) of the New York Insurance Law by regularly exceeding the two percent of admitted assets limitation in its investment in the Evergreen Money Market Fund.	15
L	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent Banner Life, an unauthorized insurer, in their advertisements.	22
M	The examiner recommends that the Company include an appropriate disclaimer on the Company's web-site, indicating that Banner Life's advertised products and services are not available in New York.	23
N	The Company violated Section 219.5(a) of Department Regulation No. 34-A by not indicating the full manner and extent of distribution of their advertisements.	23
O	The Company violated Section 51.6(a)(3) of Department Regulation No. 60 by not maintaining the Definition of Replacement forms in three replacement files.	23 – 25
P	The Company violated Section 51.6(b)(2) of Department Regulation No. 60 by failing to require completed Disclosure Statements with two applications.	23 – 25
Q	The Company violated Section 51.5(e) of Department Regulation No. 60 by failing to fully implement procedures to ensure compliance with the requirements of the Regulation.	23 – 25

APPOINTMENT NO. 21874

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:

JOANN LOEBER

as a proper person to examine into the affairs of the

WILLIAM PENN 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 she shall deem requisite.

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

this 30th day of May, 2002



GREGORY V. SERIO

Superintendent of Insurance

Greg V. Serio
Superintendent