

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

DATE OF REPORT:

JANUARY 15, 2003

EXAMINER:

WILLIAM M. TARDOGNO

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 15, 2003

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

Sir:

In accordance with instructions contained in Appointment No. 21928, dated August 20, 2002 and annexed hereto, an examination has been made into the condition and affairs of Pruco Life Insurance Company of New Jersey, hereinafter referred to as "the Company," at its home office located at 751 Broad Street, Newark, New Jersey 07102.

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 Company is deemed a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law for the purposes of Article 15 of the New York Insurance Law only. (See item 3D of this report)

The Company informed the Department that it performed an internal review of annuity sales that revealed inconsistencies with replacement regulation and illustrations. The Department and the Company have agreed on remediation plans. (See item 4A 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 4A of this report)

2. SCOPE OF EXAMINATION

The 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 was limited to a review of: holding company transactions; underwriting; policy forms; replacements; agent licensing and compensation filings; treatment of policyholders; and advertising. The examiner 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 aforementioned matters.

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

3. DESCRIPTION OF COMPANY

A. History

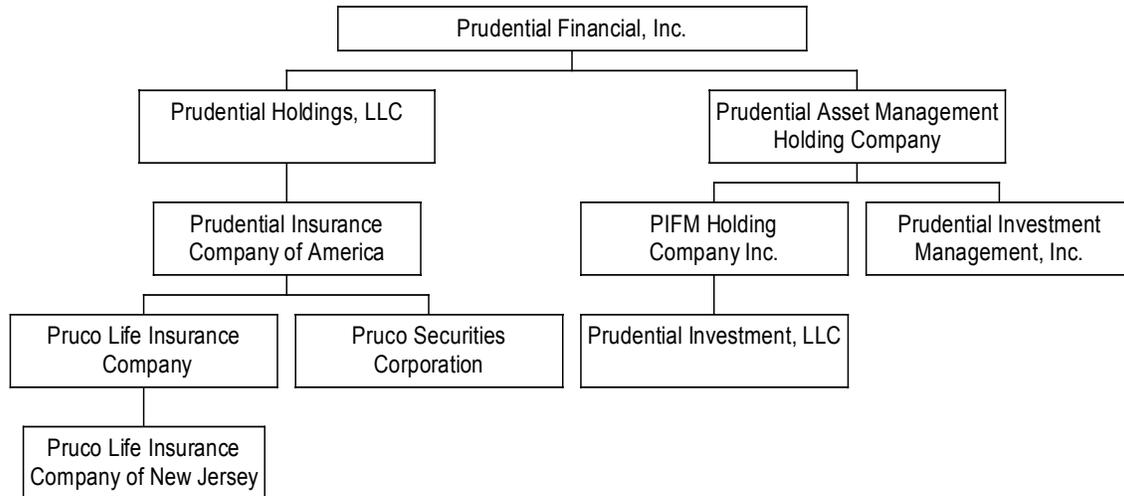
The Company was incorporated as a stock life insurance company under the laws of New Jersey under the name of Pruco Life Insurance Company of New Jersey on October 18, 1982 and commenced business on December 27, 1982. Initial resources of \$1,100,000, consisting of common stock of \$1,000,000 and paid in and contributed surplus of \$100,000, were provided through the sale of 100,000 shares of common stock (with a par value of \$10 per share) for \$11 per share. Article 5 of the Company's Certificate of Incorporation was amended on March 11, 1983 to increase the amount of capital stock to 400,000 shares (with a par value of \$5 per share) bringing the Company's common capital stock to \$2,000,000. The Company was granted a license by the Department to conduct business in the State of New York on October 3, 1985.

As of December 31, 2001, capital and paid in and contributed surplus were \$2,000,000 and \$105,578,532 respectively.

B. Holding Company

The Company is a wholly owned subsidiary of Prudential Life Insurance Company ("PLIC"), an Arizona insurance company. PLIC is in turn a wholly owned subsidiary of Prudential Insurance Company of America ("Prudential"), a New Jersey insurance company. On December 18, 2001, Prudential converted from a mutual life insurance company to a stock life insurance company and became an indirect wholly owned subsidiary of Prudential Financial, Inc. The demutualization was completed in accordance with Prudential's Plan of Reorganization, which was approved by the Commissioner of Banking and Insurance in the State of New Jersey in October 2001. Prudential Financial, Inc. is a financial services holding company and the ultimate parent of the Company.

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



As of December 31, 2001, the Company had the following agreements in effect with other members of the holding company system.

The Company entered into an administrative service agreement with Prudential wherein Prudential supplies administrative support services, employee welfare services, materials and supplies.

The Company had three marketing agreements with Prudential and Pruco Securities Corporation (“Prusec”), whereby Prudential and Prusec provide marketing services to the Company and PLIC regarding variable life insurance and annuity products. The Company also had a service agreement whereby the Company is responsible for the books and records in connection with the variable products covered under these marketing agreements. Fees are paid to the Company for maintaining the books and records for all companies under these agreements.

The Company had three distribution agreements with affiliates regarding the Company’s variable products. The Company also had a separate service agreement with Prudential and PLIC whereby Prudential acts as the investment manager for the funds invested in these variable products.

The Company entered into an investment management agreement with Prudential Investment Management Services (“PIM”) and The Prudential Variable Contract Real Property Partnership (“the Partnership”). The Company is a partner in the agreement. The agreement permits PIM to act as investment manager for the Partnership. The Partnership was established to provide a means for investing the assets allocated to real estate investment options under the variable annuity contracts and variable life insurance policies issued by the Company. The Partnership pays PIM a daily investment management fee equal to an aggregate 1.25% per year of the daily gross assets of the partnership.

Additionally, there is an administrative service agreement with PIM whereby PIM, delegates its responsibility to perform certain bookkeeping and recording services to the Company. PIM pays the Company a market rate fee for the performance of these services for the Partnership.

The Company entered into an administrative service agreement with Prudential Investments, LLC. (“PI”) and Prudential. The Company sells variable annuities and variable life insurance policies whereby the investment return under such is linked to various mutual funds, including the portfolio of the Prudential Series Fund, Inc. (“the Series Fund”). Under this agreement PI is obligated to administer the Series Fund’s business affairs, which include performing certain bookkeeping and record keeping services on behalf of the Series Fund. Under the captioned agreement, PI delegates its responsibility to perform these services to the Company. PI pays the Company a market rate fee for the performance of these services.

In addition, there is an agreement with Prudential and PLIC to pool assets held in the Separate Accounts of the participants to invest in real estate assets. Another investment agreement with OCC Distributors and the OCC Accumulation Trust Fund (“the Fund”) provides for the Company to purchase shares of the Fund on behalf of its Separate Accounts.

The Company participates in Prudential’s Retained Asset program and, under a service agreement, death benefit proceeds are paid by way of a draft book instead of a check payment.

The Company also entered into a yearly renewable term reinsurance agreement with Prudential covering life, waiver of premium and accidental death benefit business.

The Company entered into a federal tax allocation agreement with Prudential Financial, Inc. and its affiliates.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than five nor more than 15 directors. Directors are elected for a period of one year at the annual meeting of the stockholders and shall hold office until the next succeeding annual meeting. As of December 31, 2001, the board of directors consisted of seven members. Meetings of the board are held annually.

The seven 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>
James J. Avery, Jr. Princeton Junction, NJ	Senior Vice President The Prudential Insurance Company of America	1997
Vivian L. Banta New Hope, PA	President Pruco Life Insurance Company of New Jersey Vice Chairwoman Prudential Financial, Inc	2001
Richard J. Carbone Staten Island, NY	Senior Vice President and Chief Financial Officer Prudential Financial, Inc.	2001
Helen M. Galt North Caldwell, NJ	Vice President, Company Actuary The Prudential Insurance Company of America	2001
Jean D. Hamilton New York, NY	Executive Vice President Prudential Financial, Inc.	2001
Ronald P. Joelson Far Hills, NJ	Senior Vice President, Asset Liability and Risk Management Prudential Financial, Inc.	2000
David R. Odenath, Jr. Mendham, NJ	Senior Vice President The Prudential Insurance Company of America	1999

The board consists of directors that are all affiliated with Prudential Financial, Inc. or Prudential.

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:

<u>Name</u>	<u>Title</u>
Vivian L. Banta	President
Andrew J. Mako	Executive Vice President
Hwei-Chung Shao	Senior Vice President, Chief Actuary
Carl S. Thigpen	Senior Vice President, Investments & Assistant Secretary
William J. Eckert IV	Vice President, Chief Accounting Officer
Charles A. McGee	Vice President, Comptroller

Section 216.4(c) of Department Regulation No. 64 states, in part:

“Every insurer shall establish an internal department specifically designated to investigate and resolve complaints filed with the Insurance Department . . . Responsibility for such department is to be vested in a corporate officer who is also to be entrusted with the duty of executing the Insurance Department's directives . . . Each insurer must furnish the superintendent with the name and title of the corporate officer responsible for its internal consumer services department.”

The Company did not appoint a corporate officer as its consumer services officer.

The Company violated Section 216.4(c) of Department Regulation No. 64 by failing to appoint a corporate officer as the consumer services officer.

The appointments of the Investment Strategy Committee members were not included in the minutes of the board of director meetings.

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 two states, New Jersey and New York. In 2001, 52.92% of life premiums and 57.47% of annuity premiums were received from New York. In 2001, 100% of the deposit-type contract funds were from New York. Since the Company writes more premiums in New York than it does in New Jersey, its state of domicile, and such premium is more than 20% of premiums written, it is deemed to be a domestic insurer pursuant to Section 1501(d) of the New York Insurance Law for the purposes of Article 15 of the New York Insurance Law only. All policies are written on a non-participating basis.

The Company's principal lines of business during the examination period were life insurance and annuities. Products provided by the Company include individual term life insurance, whole life insurance, variable life insurance, universal life insurance, variable and fixed annuities and immediate income annuities.

The Company's agency operations are conducted on a general agency basis. The Company's general agents are the same agents that write business for Prudential in New York.

4. 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.

1. 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.”

Two of the 45 advertisements, provided by the Company and reviewed by the examiner, did not mention the Company; however they mentioned PLIC and Prudential. The Company indicated that these two advertisements were used in New York.

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

2. The Company informed the Department that it performed an internal review of annuity sales made from November 1998 through June 2002. The review focused on two issues: (i) compliance with Department Regulation No. 60 with respect to annuity replacement sales in New York by Prudential Securities Financial Advisors; and (ii) the extent to which unapproved illustrations may have been used in connection with sales of annuity products.

The review revealed that the requirement of Department Regulation No. 60 and the Company's internal policy and procedures to furnish applicants with documentation and comparative information mandated by Department Regulation No. 60 was circumvented. The

review also revealed that in connection with the sale of certain annuities, some customers received unapproved or inappropriate illustrations for the products they purchased.

The Department and the Company have agreed on remediation plans.

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.

5. INTERNAL CONTROLS

A. All approved application forms used by the Company have two boxes in the upper right corner to choose from; one box is for Prudential and the other is for the Company. A review of Company applications indicated that 23 of the 65 life and annuity policies and contracts sampled had application forms that indicated Prudential as the issuing insurer instead of the Company. This is misleading to an applicant who could believe that the policy or contract is with Prudential, when the policy or contract is actually with the Company.

B. Section 51.7 of Department Regulation No. 60 states, in part:

“(a) No insurer or agent shall:

(1) make or give any deceptive or misleading information in the ‘Disclosure Statement’ or in any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract . . .”

In 51 of the 70 replacement files reviewed the Disclosure Statement indicated that Prudential was the replacing company when in fact it was the Company.

The Company violated Section 51.7(a) of Department Regulation No. 60 by indicating that Prudential, rather than the Company, was replacing these policies.

C. As noted in Section 4 of this report, the Company uses advertisements in New York that mention an unauthorized insurer, however the advertisements do not even mention the Company whose products are being advertised.

The examiner recommends that the Company take greater care in distinguishing between itself and its affiliates with respect to application forms, Department Regulation No. 60 Disclosure Statement forms and advertisements.

6. SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 216.4(c) of Department Regulation No. 64 by failing to appoint a corporate officer as the Company's consumer services officer.	8
B	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to an unauthorized insurer in its advertisements.	10
C	The Department and the Company have agreed on remediation plans.	10 – 11
D	The Company violated Section 51.7(a) of Department Regulation No. 60 by indicating that Prudential, rather than the Company, was replacing certain policies.	12
E	The examiner recommends that the Company take greater care in distinguishing between itself and its affiliates with respect to application forms, Department Regulation No. 60 Disclosure Statement forms and advertisements.	12

APPOINTMENT NO. 21928

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:

WILLIAM TARDOGNO

as a proper person to examine into the affairs of the

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

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 20th day of August, 2002



GREGORY V. SERIO

Superintendent of Insurance


Superintendent