



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
UNIMERICA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2010

DATE OF REPORT:

JUNE 12, 2012

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
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EXAMINER:

PETER AGUH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 22, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 30535, dated May 27, 2010, and annexed hereto, an examination has been made into the condition and affairs of Unimerica Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at One Penn Plaza, New York, New York 10119.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department. On October 3, 2011, the Insurance Department merged with the Banking Department to create the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The material findings and violations contained in this report are summarized below:

- The Company violated Section 325(a) of the New York Insurance Law when it failed to keep and maintain the complete minutes of the board of directors and its committees thereof for the years under examination at its principal office in New York. (See Section 7 of this report)
- The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest computed daily at the rate of interest currently paid by the insurer on proceeds left under the interest settlement option. The Company has implemented a plan of remediation, identified adversely affected policyholders and paid the appropriate interest. (See Section 8C of this report)
- The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commission to 17 individuals who were not licensed life insurance agents of the Company. (See Section 10 of this report)
- The Company violated Section 2114(a)(3) of the New York Insurance Law by paying commission to 9 individuals who were not licensed accident and health insurance agents of the Company. (See Section 10 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2010. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2010 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, 2010 to determine whether the Company's 2010 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
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendations and comment contained in the prior report on examination. The results of the examiner's review are contained in item 11 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

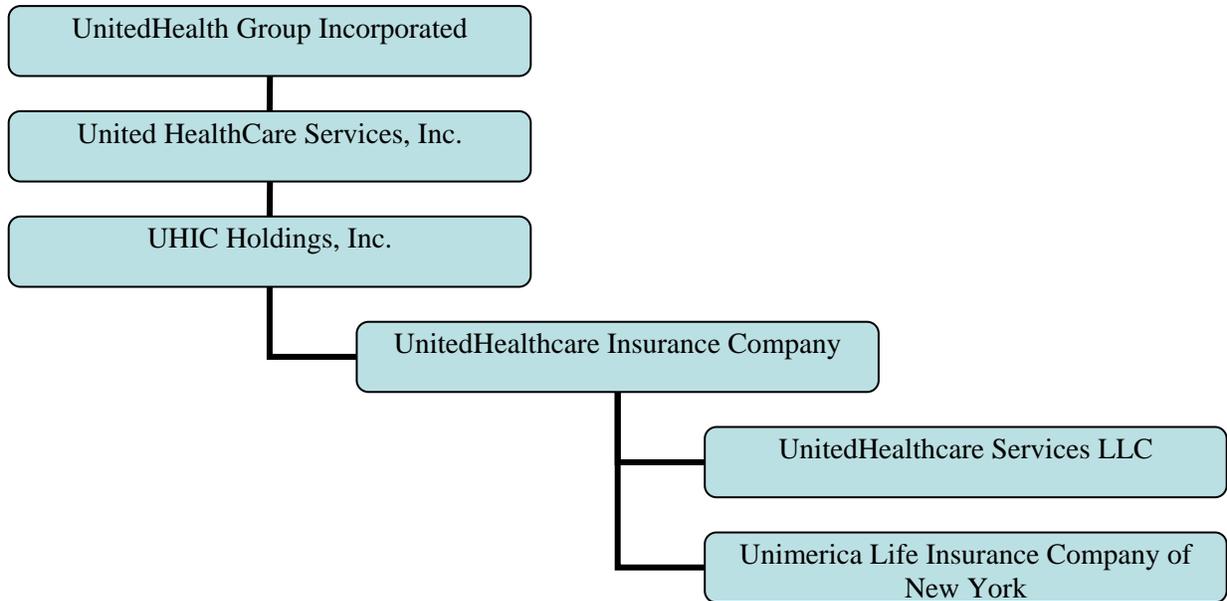
The Company was incorporated as a stock life insurance company under the laws of the State of New York on August 12, 1999, was licensed and commenced business on April 8, 2003 under the name United HealthCare Life Insurance Company of New York. On August 8, 2003, the Company changed to its present name, Unimerica Life Insurance Company of New York. Initial resources of \$6,500,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,500,000, were provided through the sale of 2,000 shares of common stock (with a par value of \$1,000 each) for \$3,250 per share.

During the examination period, the Company's parent, United-Healthcare Insurance Company ("UnitedHealthcare"), contributed \$10 million in gross paid in and contributed surplus to the Company (see Section 3B of this report). At December 31, 2010, the Company's capital and paid-in and contributed surplus were \$2,000,000 and \$14,628,699, respectively.

B Holding Company

The Company is a wholly-owned subsidiary of United HealthCare, which is wholly-owned by UHIC Holding Inc., which is, in turn, a wholly-owned subsidiary of United Healthcare Services, Inc. ("UHS"). UHS is in turn a wholly-owned subsidiary of UnitedHealth Group Incorporated ("UHG"). Together with its subsidiaries, UHG forms one of the largest health insurance, managed care and well-being companies in the United States. The main insurance operation of UHG is United-Healthcare. United-Healthcare Services LLC ("UHSC"), a subsidiary of United-Healthcare, performs claims administration services for the Company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2010 follows:



The Company had 1 service agreement in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement Dept. File No. 31504	8/7/2003	UHS and UHSC	The Company	Administrative	2010 \$(1,095,000) 2009 \$ (983,000) 2008 \$ (975,000) 2007 \$ (794,000)

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

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

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

"The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system . . . investments . . . involving five percent or more of the insurer's admitted assets at last year-end."

In December 2007 the Company recorded a \$1 million capital contribution from its parent, United-Healthcare, as a note receivable. The cash proceeds were received on February 28, 2008. In March 2008, the parent again made an investment in the Company through a cash contribution in the amount of \$6 million. The Company failed to obtain the Superintendent's prior approval of the \$7 million capital contribution which involved approximately 46.53% of the Company's 2007 admitted assets.

The examiner recommends that in the future the Company obtain the Superintendent's prior approval for any capital contributions involving five percent or more of the insurer's admitted assets at last year-end.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 9 and not more than 13 directors. Directors are elected for a period of 1 year at the annual meeting of the stockholders held in April of each year. As of December 31, 2010, the board of directors consisted of ten members. Meetings of the board are held quarterly.

The ten board members and their principal business affiliation, as of December 31, 2010, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Andrew W. Attivissimo* Woodbury, NY	President and Chief Executive Officer Empire Insurance Group	2002
Paul M. Emerson Savage, MN	Chief Financial Officer OptumHealth	2009
Richard J. Fleder* New York, NY	President T&H Benefits, LLC	2008
Paul B. Hebert Granby, CT	Vice President Unimerica Life Insurance Company of New York	2009
Jeffrey W. Kagan Farmingville, NY	Vice President Unimerica Life Insurance Company of New York	1999

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Terry W. Mackenthun Webster, MN	Unimerica Life Insurance Company of New York Special Benefits	2010
Richard A. Perrine* Edina, MN	Senior Vice President Hay's Company	2005
Robert T. Secovnie* Valatie, NY	Director Insurance Training Institute	1999
Diane D. Souza Glastonbury, CT	President and Chief Executive Officer Unimerica Life Insurance Company of New York	2004
David L. Sparkman Eden Prairie, MN	Sr. Human Capital Partner OptumHealth	2004

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

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

“(a) 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 in addition to the service thereof, as required by section six hundred five of the business corporation law.

(b) Whenever any directors of such a company shall have resigned and successors shall have been chosen pursuant to the provisions of the by-laws, 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 ...”

The examiner reviewed the Department's records for filings made in accordance with Section 4211 of the New York Insurance Law and noted that six of the Company's filings for directors who were elected during the examination period were not made in a timely manner, that is notifications were filed after the elections had already been held or after the successor had taken office.

The examiner recommends that in the future the Company submits its 4211 filings to the Department in a timely manner.

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, 2010:

<u>Name</u>	<u>Title</u>
Diane D. Souza	President and Chief Executive Officer
Terry W. Mackenthun	Chief Financial Officer
Ted A. Lyle	Vice President and Chief Actuary
Jeffrey W. Kagan	Vice President
Robert W. Oberrender	Treasurer
Timothy F. Ryan	Secretary
Cecilia A. Walpole-Griffin	Assistant Treasurer
Thomas S. McGlinch	Assistant Treasurer
Paul T. Runice	Assistant Treasurer
Patrick S. Scallen*	Assistant Secretary
Michelle M. Dill	Assistant Secretary

* 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 New York State and the locality of the District of Columbia. In 2010, 100% of life premiums and accident and health premiums were received from New York. Policies are written on non-participating basis.

The Company offers group life insurance, group short and long-term disability insurance and accidental death and dismemberment coverage. The Company offers its product portfolio to all segments of the New York group life and group disability insurance markets, which consists primarily of employee groups. The Company's target market is employee groups in the 2 to 10,000 employee range. In 2010, all group life premiums and group accident and health premiums were received from New York.

The Company's agency operations are conducted on a general agency/branch office basis. The Company uses multiple distribution channels including contracts with general agents as well as its own field operations employees. The Company obtains business through national and regional insurance brokers as well as employee benefits consultants who represent large employers. The Company also markets to one large association, on a direct response basis. In addition, the Company has deployed six employees as sales representatives to drive sales for the New York market.

E. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with five companies, of which four were authorized or accredited and one was unauthorized. The Company's life and accident and health business is reinsured on a coinsurance and/or modified-coinsurance basis. Reinsurance is provided on an automatic and/or 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, 2010 was \$116,228,000, which represents 3.6% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$38,602, was supported by funds withheld.

The Company did not assume any reinsurance during the examination period.

During the review of the Company's reinsurance agreements provided in response to the First Day Letter request, the examiner noted that the Lloyds of London reinsurance agreement had not been executed. The examiner requested an executed copy from the Company, but the Company was unable to provide one.

The examiner recommends that the Company obtain an executed copy of the Lloyds of London reinsurance agreement and maintain it in its files.

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, <u>2006</u>	December 31, <u>2010</u>	<u>Increase</u>
Admitted assets	\$ <u>10,585,449</u>	\$ <u>31,273,880</u>	\$ <u>20,688,431</u>
Liabilities	\$ <u>4,263,148</u>	\$ <u>13,950,091</u>	\$ <u>9,686,943</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,500,000	14,628,699	10,128,699
Unassigned funds (surplus)	<u>(177,699)</u>	<u>695,090</u>	<u>872,789</u>
Total capital and surplus	\$ <u>6,322,301</u>	\$ <u>17,323,789</u>	\$ <u>11,001,488</u>
Total liabilities, capital and surplus	\$ <u>10,585,449</u>	\$ <u>31,273,880</u>	\$ <u>20,688,431</u>

The Company experienced a significant increase in admitted assets and surplus during the examination period as a result of its parent's capital infusion of funds.

The Company's invested assets as of December 31, 2010 were mainly comprised of bonds (57.8%), cash and short-term investments (42.2%). The Company's entire bonds portfolio, as of December 31, 2010, was comprised of investment grade obligations.

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>Group Life</u>	
	<u>Issued & Increases</u>	<u>In Force</u>
2007	\$2,817,125	\$3,012,756
2008	\$ 639,695	\$3,651,009
2009	\$ 771,022	\$4,018,934
2010	\$ 16,193	\$3,306,100

According to the Company, the downward fluctuation in the group life issued and increases is due to the Company not being able to competitively offer multi-year rate guarantees in the life business.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

	<u>Group Accident and Health</u>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Outstanding, end of previous year	382,000	0	11,036,180	5,494,812
Issued during the year	721,618	0	(5,541,368)	47,746
Other net changes during the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Outstanding, end of current year	<u>1,103,618</u>	<u>0</u>	<u>5,494,812</u>	<u>4,729,644</u>

Due to errors identified in the original annual statement filings, the revised schedule below was provided by the Company in response to examination requests.

Group Accident and Health (Revised)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Outstanding, end of previous year	4,188,875	5,661,570	4,702,824	6,827,722
Issued during the year	1,309,917	206,436	2,017,462	102,891
Other net changes during the year	<u>162,778</u>	<u>(1,165,185)</u>	<u>107,436</u>	<u>(1,207,718)</u>
Outstanding, end of current year	<u>5,661,570</u>	<u>4,702,824</u>	<u>6,827,722</u>	<u>5,720,875</u>

The fluctuations in the data above are as a result of stop loss business issued in 2007 and terminated in 2008 and 2010, and the increases in association disability business in 2009.

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Group Life	\$(1,900,773)	\$(654,430)	\$1,410,886	\$ (27,197)
Accident and health:				
Group	\$ 620,907	\$ 735,235	\$ 336,660	\$(346,270)
Other	(597,443)	0	0	0
Total accident and health	\$ <u>23,464</u>	\$ <u>735,235</u>	\$ <u>336,660</u>	\$ <u>(346,270)</u>
Total	\$ <u>(1,877,309)</u>	\$ <u>80,805</u>	\$ <u>1,747,546</u>	\$ <u>(373,467)</u>

The net loss in group life insurance in 2007 is attributable to an increase of \$1.7 million due to Department Regulation No. 147 reserve requirement. In 2008, higher than anticipated claims experience contributed to the negative results. In 2009, favorable results appear to be driven by a \$1.1 million reduction in Department Regulation No. 147 reserves. However, the reserve changes had a minimal impact on the 2010 results.

Similarly, for the group accident and health results in 2007, stop loss performed very well and offset the disability losses recorded to “Other”. Starting in 2008, the Association Disability business is recorded to “A&H – Group”. Improved results in disability and decreases in disabled life claims contributed to favorable results for both the years 2008 and 2009. For the 2010 reporting year, unfavorable results were driven by the increase in the number of Disabled Life claims at the end of 2010.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	70.5%	36.3%	51.1%	42.8%
Commissions	12.2	8.5	18.9	14.7
Expenses	<u>21.8</u>	<u>18.4</u>	<u>28.0</u>	<u>22.5</u>
	<u>104.5%</u>	<u>63.2%</u>	<u>98.0%</u>	<u>80.0%</u>
Underwriting results	<u>(4.4)%</u>	<u>36.8%</u>	<u>2.0%</u>	<u>19.9%</u>

The primary driver of the negative results in 2007 was the \$1.7 million valuation basis change recorded for the Department Regulation No. 147 reserves. The incurred losses percentage would have been 33.5% without the Department Regulation No. 147 adjustment.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2010 as contained in the Company's 2010 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, 2010 filed annual statement.

A. Assets, Liabilities, Capital and Surplus as of December 31, 2010

Admitted Assets

Bonds	\$17,000,457
Cash, cash equivalents and short term investments	12,387,475
Investment income due and accrued	97,714
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	936,176
Reinsurance:	
Amounts recoverable from reinsurers	12,356
Other amounts receivable under reinsurance contracts	132
Current federal and foreign income tax recoverable and interest thereon	374,700
Net deferred tax asset	278,149
Receivables from parent, subsidiaries and affiliates	<u>186,721</u>
 Total admitted assets	 <u>\$31,273,880</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 1,737,971
Aggregate reserve for accident and health contracts	7,153,778
Liability for deposit-type contracts	69,570
Contract claims:	
Life	700,830
Accident and health	108,354
Premiums and annuity considerations for life and accident and health contracts received in advance	25,950
Contract liabilities not included elsewhere:	
Provision for experience rating refunds	3,652,127
Other amounts payable on reinsurance	56,576
Interest maintenance reserve	7,798
Commissions to agents due or accrued	150,749
General expenses due or accrued	230,918
Taxes, licenses and fees due or accrued, excluding federal income taxes	44,134
Miscellaneous liabilities:	
Asset valuation reserve	5,367
Reinsurance in unauthorized companies	5,888
Funds held under reinsurance treaties with unauthorized reinsurers	<u>81</u>
 Total liabilities	 <u>\$13,950,091</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	14,628,699
Unassigned funds (surplus)	<u>695,090</u>
Surplus	\$15,323,789
Total capital and surplus	<u>\$17,323,789</u>
 Total liabilities, capital and surplus	 <u>\$31,273,880</u>

B. Condensed Summary of Operations

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Premiums and considerations	\$ 6,519,366	\$8,583,579	\$7,058,163	\$6,407,568
Investment income	<u>480,061</u>	<u>574,591</u>	<u>375,808</u>	<u>559,428</u>
Total income	<u>\$ 6,999,427</u>	<u>\$9,158,170</u>	<u>\$7,433,971</u>	<u>\$6,966,996</u>
Benefit payments	\$ 2,110,659	\$5,102,534	\$2,996,376	\$3,928,147
Increase in reserves	4,734,558	1,732,705	53,393	721,243
Commissions	729,124	785,535	931,868	1,039,366
General expenses and taxes	<u>1,247,216</u>	<u>1,402,710</u>	<u>1,374,322</u>	<u>1,783,973</u>
Total deductions	<u>\$ 8,821,557</u>	<u>\$9,023,484</u>	<u>\$5,355,969</u>	<u>\$7,472,729</u>
Net gain (loss)	\$(1,822,130)	\$ 134,686	\$2,078,001	\$ (505,733)
Dividends	0	0	0	0
Federal and foreign income taxes incurred	<u>55,179</u>	<u>53,881</u>	<u>330,455</u>	<u>(132,266)</u>
Net gain (loss) from operations before net realized capital gains	\$(1,877,309)	\$ 80,805	\$1,747,546	\$ (373,467)
Net realized capital gains (losses)	<u>0</u>	<u>(56,390)</u>	<u>10,095</u>	<u>(237)</u>
Net income	<u>\$(1,877,309)</u>	<u>\$ 24,415</u>	<u>\$1,757,641</u>	<u>\$ (373,704)</u>

C. Capital and Surplus Account

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and surplus, December 31, prior year	\$ <u>6,322,301</u>	\$ <u>6,685,732</u>	\$ <u>16,284,240</u>	\$ <u>17,605,740</u>
Net income	\$(1,877,309)	\$ 24,415	\$ 1,757,641	\$ (373,704)
Change in net deferred income tax	732,808	38,867	(395,642)	(112,429)
Change in non-admitted assets and related items	(559,845)	501,128	(33,735)	82,701
Change in liability for reinsurance in unauthorized companies	(25,412)	25,412	0	(5,888)
Change in reserve valuation basis	1,730,009	0	0	0
Change in asset valuation reserve	(1,070)	8,686	(3,136)	(2,231)
Capital changes:				
Paid in	1,000,000	9,000,000	0	128,699
Surplus adjustments:				
Tax Sharing agreement adjustment	0	0	0	(128,699)
Prior Period Adjustment	<u>(635,750)</u>	<u>0</u>	<u>(3,628)</u>	<u>129,600</u>
Net change in capital and surplus for the year	\$ <u>363,431</u>	\$ <u>9,598,508</u>	\$ <u>1,321,500</u>	\$ <u>(281,951)</u>
Capital and surplus, December 31, current year	\$ <u>6,685,732</u>	\$ <u>16,284,240</u>	\$ <u>17,605,740</u>	\$ <u>17,323,789</u>

6. ANNUAL STATEMENT REPORTING

A review of the Company's annual statements filed during the examination period revealed some discrepancies and inconsistencies:

1. The Company issued group accident and health insurance policies in 2008 but reported zero in its 2008 annual statement exhibit of accident and health. The Company also reported one credit policy with premiums in-force of \$4,136,655 in its 2008 exhibit of accident and health. However the Company does not have or sell credit insurance.
2. After providing the examiners with several data files, the final issued and in-force group accident and health data files for the years 2007, 2009, and 2010 did not reflect the numbers and amounts reported in the corresponding annual statement exhibit of accident and health insurance. Also the group life issued and in-force data files provided by the Company during the examination did not reflect the number of amounts reported in the 2007, 2008 and 2009 exhibit of life insurance.

For example in 2010, the exhibit of life insurance reported number of policies in-force end of year as 167, and an in-force amount of \$3,306,100,000. The Company's submission, after adjustments, indicates that the group life number of policies in-force end of year should have been 182, with an in-force amount of \$3,343,715,966.

Similarly, the 2010 exhibit of accident and health reported 12,293 certificates with premiums in-force of \$4,729,644. A revised version of the Company's submission indicates that the number should be 12,092 certificates with premiums in force of \$5,720,875.

3. The Company also reported on Schedule E of its 2010 filed annual statement, cash on deposit with Chase Bank in the amount of \$1,344. However the Company's account with Chase Bank was closed in 2009. Instead the bank account was with US Bank.
4. The Company reported in Schedule S of its 2008, 2009 and 2010 filed annual statements that NH Insurance Company per AIG Europe Ltd and Lloyd's Syndicates were authorized insurers in New York. These companies are unauthorized insurers. These companies should have been reported on Schedule S Part 4 of the filed annual statements.

The examiner recommends that the Company exercise greater care in the preparation of its filed annual statements.

7. ACCOUNTS AND RECORDS

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

“Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state its charter and by-laws . . . its books of account . . . and if a domestic corporation the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof . . .”

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, or such shorter period as he may permit, and he has not disapproved it within such period . . .
(3) rendering of services on a regular or systematic basis . . .”

In the first day letter dated October 7, 2010, the examiner requested that the Company make available, the corporate records and the minutes of the meetings of the board of directors and all committees thereof covering the period from the start of the examination January 1, 2007 through the present. During the onsite meeting, the examiner requested the minutes to determine whether they were maintained at the Company’s home office. The examiner also requested access to the computer terminal, which is linked to the electronic system that generates the electronic records that constitute the Company’s books of account and the backup records that constitute the Company’s books of account. According to Article IV, Section 4.5(e) of the Company’s service agreement with United HealthCare Services, Inc. and United Healthcare Services LLC., such books shall be forwarded to the Company on a monthly basis and shall be maintained by the Company at its principal office in New York.

The examiners were not provided with the minutes or the backup records. Instead, the examiners were told that some records were maintained in the home office and that some may be kept by an affiliate’s employee at the home office address.

The examiner later contacted the affiliate’s employee, and was provided with some of the 2007 minutes, but no backup of the books of accounts. The 2007, 2008, 2009, and 2010 board minutes were later delivered to the examination either by email or CD mailing from the contact

person in Connecticut. The examiner determined that such records are not kept and maintained at the Company's home office as required by Section 325(a) of the New York Insurance Law.

The Company violated Section 325(a) of the New York Insurance Law when it failed to keep and maintain the complete minutes of the board of directors and its committees thereof for the years under examination, at its principal office in New York.

The Company is also not in compliance with its service agreement when it failed to maintain the backup of its books of accounts at its principal office in New York.

8. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The 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. With respect to the advertisements of accident and health insurance products, Section 215.17(a) of Department Regulation No. 34 states, in part:

" . . . Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other state whether or not licensed in such other state, with a notation attached to each such advertisement which shall indicate the manner and extent of distribution and the form number of any policy advertised . . . "

With respect to the advertisements of life insurance products, 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 . . . "

In response to the First Day Letter request, the Company provided folders with its life and accident and health advertisements disseminated during the examination period. The advertisements in the folders are preceded by Summary Pages, some of which describe the "Extent of Distribution" as broker, employer, or employee. Only the cover sheets for the advertisements to the New York State Union of Teachers identify the Manner of Distribution which is listed as mailing. A listing of the advertisements was also provided which contains the

description of the advertisements and the policy form number/administrative (advertising) number. However, the listing does not indicate the manner and extent of distribution. Neither the listing nor the cover sheets include a notation indicating the number of copies that were disseminated to brokers, employers or employees. In addition, the listing does not contain all the advertisements that were provided to the examiners nor were all the advertisements on the listing provided.

The Company violated Section 215.17(a) of Department Regulation No. 34 and Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete advertising file containing a notation indicating the manner and extent of distribution for both its accident and health and life insurance product advertising.

2. 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.”

Article 1, Section 1.1(c) of the Company’s Administrative Service agreement with UHS and UHSC effective August 7, 2003, states:

“UHS will: . . . (ii) in all written correspondence, identify UHS as administrator for ULICO-NY or identify the ULICO-NY as the insurer.”

The examiner’s review of 38 paid death claims revealed that UHS is not identified as the administrator on the correspondence. Also in many instances, the insuring entity is identified as Unimerica Insurance Company, Unimerica Life Insurance Company, Unimerica Life Insurance Company of New York or United-Healthcare Insurance Company. There were cases where there was no insuring company, but the name and address of United Health Care Specialty Benefits is printed directly at the top of the correspondence; hence giving the impression that United Health Care Specialty Benefits is the insurer. Further, there were instances in which the payment letter states, ‘We at United-Healthcare Specialty Benefits wishes to express our sincerest condolences to you on your loss’ or ‘As you are aware United Health Care Specialty Benefits is the group life insurance carrier for . . . ’ or ‘However, the ensuring entity is Unimerica Insurance Company.’ The Company in its written correspondence with policyholders and certificateholders, called

attention to unauthorized insurers: Unimerica Insurance Company, Unimerica Life Insurance Company, and United HealthCare Insurance Company.

The Company violated Section 2122(a)(2) of the New York Insurance Law when it called attention to unauthorized insurers in its correspondence.

The examiner recommends that the Company compel UHS to comply with its filed service agreement by identifying UHS as administrator for the Company or identifying the Company as the insurer in its written correspondence.

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.

1. Section 86.4 of Department Regulation No. 95 states, in part:

“(a) Except with respect to automobile insurance, all claim forms for insurance, and all applications for commercial insurance and accident and health insurance, provided to any person residing or located in this State in connection with insurance policies for issuance or issuance for delivery in this State, shall contain the following statement:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance

act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation . . . ’

(d) Location of warning statements and type size. The warning statements required by subdivisions (a), (b) and (e) of this section shall be placed immediately above the space provided for the signature of the person executing the application or claim form and shall be printed in type which will produce a warning statement of conspicuous size. On claim forms which require execution by a person other than the claimant, or in addition to the claimant, the warning statements required by subdivisions (a), (b) and (e) of this section shall be placed at the top of the first page of the claim form or in the page containing instructions, either in print, by stamp or by attachment and shall be in type size which will produce a warning statement of conspicuous size.”

The examiner reviewed a sample of 45 death claims processed during the examination period. In all of the death claims reviewed, the Company failed to include the appropriate fraud warning statement on the claim form. Also, in instances where the claimant executed the claim form, the fraud warning statement was placed at the top of the page as opposed to immediately above the space provided for the signature.

In 49 of the 56 (87.5%) disability claims reviewed, the Company’s claim forms fraud warning statement were either inappropriate in that they deviated from the required New York language by omitting the fine, or were included as a separate attachment of the claim form instead of being placed immediately above the space provided for the signature of the person executing the claim form. The Company’s claim form attachment also included the fraud warning statement of other states besides the two states in which the Company is licensed.

The Company violated Sections 86.4(a) and 86.4(d) of Department Regulation No. 95 by utilizing claim forms that failed to contain the required fraud warning statement and by failing to place the required fraud warning statement immediately above the space provided for the signature of the person executing the claim form.

The Company subsequently revised its claim forms to include the complete fraud warning statement required by Law.

2. 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 . . . to the date of payment and shall be added to and be a part of the total sum paid.”

The examiner reviewed a sample of 38 out of 186 death claims from the Company's group life business. In 8 out of 38 (21.05%) death claims reviewed, the Company did not pay interest in accordance with the interest settlement rules provided for under Section 3214(c). The Company did not pay interest in accordance with the interest settlement rules of the state where the beneficiary of the insured resides. The Company did not pay any interest on 7 of the group life death claims, and paid the incorrect interest amount in one case.

Additionally, in 1 out of 38 (2.63%) death claims reviewed, the Company paid interest on the Basic Life policy, but failed to pay interest on the Accidental Death and Dismemberment portion of the claim.

The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest 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 to the date of payment.

The Company subsequently paid the interest to the eight beneficiaries identified in the examiner's review in accordance with the interest settlement rules provided for under Section 3214(c) of the New York Insurance Law. The Company also investigated additional cases where the beneficiary of the insured residing in a state other than New York was not paid interest and remitted interest due to 135 beneficiaries.

The Company also paid interest to the beneficiary in the case where it failed to pay interest on the Accidental Death and Dismemberment portion of the claim. The Company further identified adversely affected policyholders and paid the appropriate interest.

9. RECORDS RETENTION

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

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

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

The Company was unable to provide commission statements for 18 individuals who were paid commission but were not licensed insurance agents of the Company.

The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain the commission statements for its agents who wrote business during the examination period.

10. AGENT LICENSING AND TERMINATION

Section 2112 of the New York Insurance Law states, in part:

“(a) Every insurer . . . doing business in this state shall file a certificate of appointment in such form as the superintendent may prescribe in order to appoint insurance agents to represent such insurer . . .

(b) To appoint a producer, the appointing insurer shall file, in a format approved by the superintendent, a notice of appointment within fifteen days from the date the agency contract is executed or the first insurance application is submitted.

(c) Certificates of appointment shall be valid until (i) terminated by the appointing insurer after a termination in accordance with the provisions of the agency contract; (ii) the license is suspended or revoked by the superintendent; or (iii) the license expires and is not renewed.

(d) Every insurer . . . doing business in this state shall, upon termination of the certificate of appointment . . . of any insurance agent licensed in this state, or upon termination for cause for activities . . . of the certificate of appointment, of employment, of a contract or other insurance business relationship with any insurance producer, file with the superintendent within thirty days a statement, in such form as the superintendent may prescribe, of the facts relative to such termination for cause . . .”

Section 2114(a) of the New York Insurance Law states, in part:

(1)“No insurer . . . doing business in this state shall pay any commission or other compensation to any person, firm or corporation, for any services in obtaining in this state any new contract of life insurance or any new annuity contract, except to a licensed life insurance agent of such insurer or of such society . . .

(3) No insurer . . . doing business in this state and no agent or other representative thereof shall pay any commission or other compensation to any person, firm, association or corporation for services in soliciting, negotiating or selling in this state any new contract of accident or health insurance . . . except to a licensed accident and health insurance agent of such insurer . . . or to a licensed insurance broker of this state . . .”

The examiner compared the list of agents in the NAIC database, the agents listed in the Agent Producer/Licensee Search on the Department’s website and the Company’s listing of agents provided in response to the pre-examination letter request and the writing agents in the Company’s in-force listing provided in response to the pre-examination letter request. The review revealed that 35 agents were not appointed by the Company.

The comparison also revealed that 26 of the 35 agents were listed in the in-force listing as having written business during the examination period and were paid commissions by the Company. Some of these agents wrote life, accident and health insurance or both. The examiner requested the commission statements, but the Company did not provide the statements. The Company did not deny that the agents had been paid commissions.

The comparison further revealed that one agent wrote business in 2010, after his license was terminated 2007 and four additional agents wrote business before they were appointed. These agents also received commissions.

The examiner's review also revealed that seven agents were terminated by the Company, but their terminations were not processed with the Department.

The Company violated Section 2112(a) and (b) of the New York Insurance Law by failing to file a certificate of appointment with the superintendent in order to appoint 35 insurance agents to represent the Company.

The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commission to 17 individuals who were not licensed life insurance agents of the Company.

The Company violated Section 2114(a)(3) of the New York Insurance Law by paying commission to 9 individuals who were not licensed accident and health insurance agents of the Company.

The Company violated Section 2112(d) of the New York Insurance Law by failing to file a certificate of termination of appointment with the Department upon the termination of appointment of seven of its agents.

11. 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 91.4(a)(2) of Department Regulation No. 33 when it failed to maintain records with sufficient detail to demonstrate how the Company was allocated general expenses from its parent and affiliate.</p> <p>The examination revealed that the Company maintained sufficient detailed to demonstrate how the Company was allocated general expenses from its parent and affiliate.</p>
B	<p>The Company violated Section 1202(b)(2) of the New York Insurance Law when it failed to have its audit committee meet in 2003, 2004 and 2005 and failed to nominate candidates for director, evaluate the performance of officers deemed by such committee to be principal officers or recommend to the board the selection and compensation of such principal officers in 2006.</p> <p>The examination revealed that the Company's audit committee meets annually and candidates for directors are nominated, performance evaluation for officers conducted, and recommendations are made to the board for the selection and compensation of principal officers.</p>
C	<p>The examiner recommended that the Company's Board of Directors meet in person more frequently as necessary to promote open discussion and better communication among directors.</p> <p>The examination revealed that the Board of Directors met in person on a regular basis in compliance with the by-laws.</p>
D	<p>The Company violated Section 91.5(b) of Department Regulation No. 33 when it used an unapproved alternate method to allocate its net investment income.</p> <p>The examination revealed that the Company presently allocates net investment income to major annual statement lines of business in proportion to the total mean policy reserves and liabilities of each of its major annual statement lines of business.</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner recommended that the Company submit its alternate method of allocating its net investment income to the superintendent for approval.</p> <p>The examination revealed that the Company's method is currently in compliance with the regulation.</p>
F	<p>Subsequent to filing the 2006 annual statement the Company discovered an error in the treatment of deferred taxes. The Company reported in 2006 (\$13,363) for change in net deferred income tax instead of (\$649.112). In the 2007 annual statement, an adjustment was made to surplus in the amount of \$635,750 to reflect the correction of this error.</p> <p>The examination revealed that the Company took corrective actions and there were no problems in the current cycle of the examination.</p>
G	<p>The Company violated Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement related to life insurance hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 6A of this report)</p>
H	<p>The Company violated Section 215.17(a) of Department Regulation No. 34 by failing to maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement related to accident and health insurance hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 6A of this report)</p>
I	<p>The Company violated Section 2112(a) of the New York Insurance Law when it failed to appoint agents that wrote business on its behalf during the examination period.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 10 of this report)</p>

<u>Item</u>	<u>Description</u>
J	<p>The examiner recommended that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the outside committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control. To the extent that audits performed by an affiliate on a functional basis are intended to encompass the activities of the Company, it should be clear from the audit workpapers that Company transactions or activities are specifically included in the samples reviewed by internal audit.</p> <p>The examination revealed that the Company is included in UHG Internal Audit annual audit plan. The examiner was presented with copies of minutes of the annual audit committee meetings, which demonstrated that the Company's internal auditors report to the Company's audit committee.</p>

12. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that in the future the Company obtain the Superintendent's prior approval for any surplus contributions involving five percent or more of the insurer's admitted assets at last year-end.	5 – 6
B	The examiner recommends that in the future the Company submit its 4211 filings to the Department in a timely manner.	7
C	The examiner recommends that the Company obtain an executed copy of the Lloyds of London reinsurance agreement and maintain it in its files.	9
D	The examiner recommends that the Company exercise greater care in the preparation of its filed annual statements.	18
E	The Company violated Section 325(a) of the New York Insurance Law when it failed to keep and maintain the complete minutes of the board of directors and its committees thereof for the years under examination, at its principal office in New York.	19 – 20
F	The Company is not in compliance with its service agreement when it failed to maintain the backup of its books of accounts at its principal office in New York, in accordance with its filed service agreement.	19 – 20
G	The Company violated Section 215.17(a) of Department Regulation No. 34 and Section 219.5(a) of Department Regulation No. 34-A by failing to maintain at its home office a complete advertising file containing a notation indicating the manner and extent of distribution for both its accident and health and life insurance product advertising.	21 – 22
H	The Company violated Section 2122(a)(2) of the New York Insurance Law when it called attention to unauthorized insurers in its correspondence.	22 – 23
I	The examiner recommends that the Company compel UHS to comply with its filed service agreement by identifying UHS as administrator for the Company or identify the Company as the insurer in its written correspondence.	22 – 23

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Company violated Sections 86.4(a) and 86.4(d) of Department Regulation No. 95 by utilizing claim forms that failed to contain the required fraud warning statement and by failing to place the required fraud warning statement immediately above the space provided for the signature of the person executing the claim form.	23 – 24
K	The Company subsequently revised its claim forms to include the complete fraud warning statement required by Law.	23 – 24
L	The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest 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 to the date of payment.	25
M	The Company subsequently: paid the interest to the eight beneficiaries in accordance with the interest settlement rules provided for under Section 3214(c) of the New York Insurance Law; investigated additional cases where the beneficiary of the insured residing in a state other than New York was not paid interest and remitted any interest due to 135 beneficiaries; paid interest to the beneficiary in the case where it failed to pay interest on the Accidental Death and Dismemberment portion of the claim and identified adversely affected policyholders and paid the appropriate interest.	25
N	The Company violated Section 243.2(b)(8) of Department Regulation No. 152 by failing to maintain the commission statements for its agents who wrote business during the examination period.	26
O	The Company violated Section 2112(a) and (b) of the New York Insurance Law by failing to file a certificate of appointment with the Superintendent in order to appoint 38 insurance agents to represent the Company.	27 - 28
P	The Company violated Section 2114(a)(1) of the New York Insurance Law by paying commission to 25 individuals who were not licensed life insurance agents of the Company.	27 – 28
Q	The Company violated Section 2114(a)(3) of the New York Insurance Law by paying commission or other compensation to 9 individuals who were not licensed accident and health insurance agents of the Company.	27 – 28
R	The Company violated Section 2112(d) of the New York Insurance Law by failing to file a certificate of termination of appointment with the Department upon the termination of appointment of seven of its agents.	27 – 28

Respectfully submitted,

/s/

Peter Aguh
Senior Insurance Examiner

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

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

/s/

Peter Aguh

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 30535

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, JAMES J. WRYNN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

PETER AGUH

as a proper person to examine into the affairs of the

UNIMERICA LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

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

this 27th day of May, 2010

JAMES J. WRYNN
Superintendent of Insurance

Superintendent

