



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

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

JULY 7, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

CHONG KIM

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 9, 2017

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31498, dated June 20, 2016, and annexed hereto, an examination has been made into the condition and affairs of AAA Life Insurance Company of New York, hereinafter referred to as “the Company,” at its home office located at 500 Mamaroneck Avenue, Suite 320, Harrison, NY 10528.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

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, 2015, filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, insurance regulations and circular letter and the operating rules of the Company. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the National Association of Insurance Commissioner (“NAIC”) *Financial Condition Examiners Handbook, 2016 Edition* (the “Handbook”). The examination covers the three-year period from January 1, 2013 to December 31, 2015. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015 but prior to the date of this report (i.e., the completion date of the report) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the NAIC. The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was conducted in conjunction with the coordinated examination of the Company’s parent, AAA Life Insurance Company (“AAA Life”). The examination was led by the State of Michigan with participation from the states of California and New York. Since the lead and participating states are accredited by the NAIC, all states deemed it appropriate to rely on each other’s work.

Information about the Company’s organizational structure, business approach and control environment were utilized to develop the examination approach. The Company’s risks and

management activities were evaluated incorporating the NAIC's nine branded risk categories.

These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of Ernst & Young, LLP. The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company shares an internal audit department with its parent which was given the task of assessing the internal control structure and compliance with the Model Audit Rule ("MAR"). Where applicable, MAR workpapers and reports were reviewed and portions were relied upon this examination.

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.

2. DESCRIPTION OF COMPANY

A. History

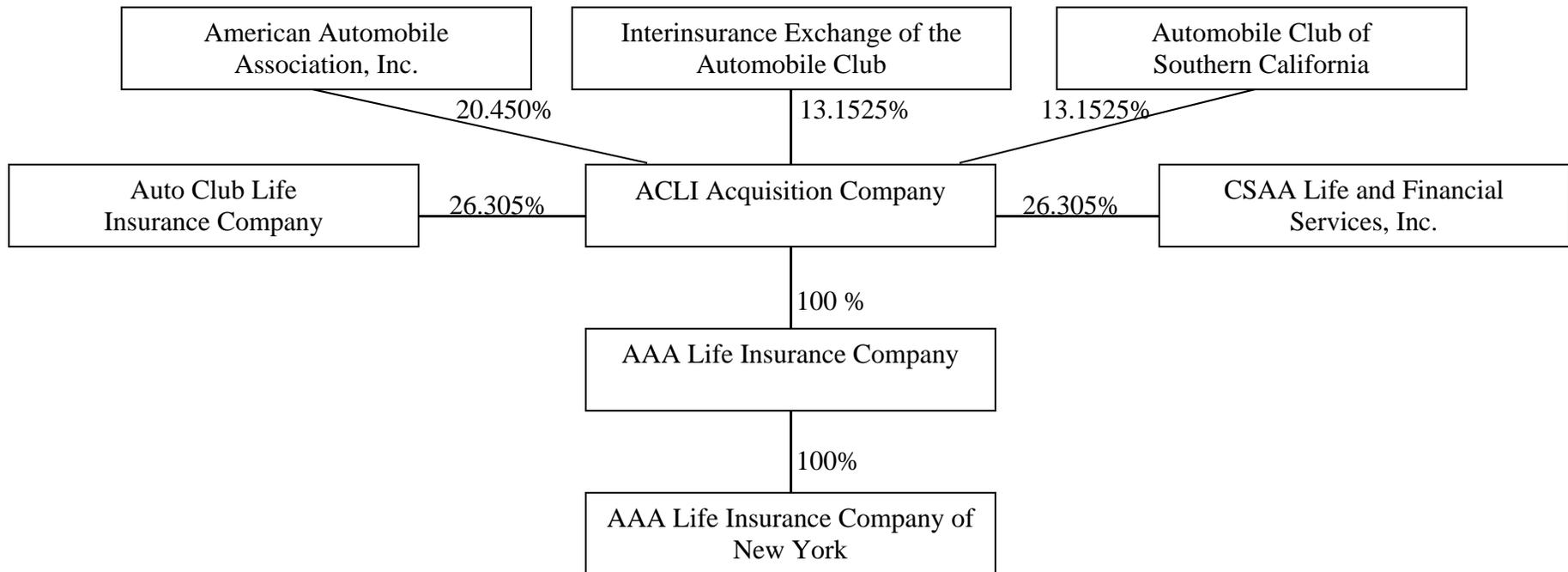
The Company was incorporated as a stock life insurance company under the laws of New York on March 10, 2011, was licensed and commenced business on July 25, 2013. Initial resources of \$9,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$7,000,000, were provided through the sale of 200,000 shares of common stock (with a par value of \$10 each) for \$45 per share.

B. Holding Company

The Company is a wholly owned subsidiary of AAA Life, a Michigan domestic life insurer. AAA Life is in turn wholly owned by ACLI Acquisition Company (“ACLI Acquisition”), a Delaware corporation. The following five companies collectively own more than 99.00% shares of ACLI Acquisition: CSAA Life and Financial Services, Inc., a California corporation, owns 26.305%; Auto Club Life Insurance Company, a Michigan corporation, owns 26.305%; American Automobile Association, Inc. (“AAA”), a Connecticut corporation, owns 20.450%; Automobile Club of Southern California, a California corporation, owns 13.1525%; and Interinsurance Exchange of the Automobile Club, a California corporation, owns 13.1525%. The remaining less than 1.00% is owned by eight independent AAA clubs.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015 follows:



D. Service Agreements

The Company had one service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement File No. 44450	8/9/2013	AAA Life Insurance Company	The Company	Policy Administrative Services	2014 \$(244,519) 2015 \$(280,582)

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

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2015, the board of directors consisted of nine members. Meetings of the board of directors are held at such times as may from time to time be fixed by resolution of the board of directors.

The nine board members and their principal business affiliation, as of December 31, 2015, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Diane Coudurier Bloomfield Twp, Michigan	Vice President and Secretary AAA Life Insurance Company of New York	2013
John DuBose III Brighton, Michigan	Vice President and Treasurer AAA Life Insurance Company of New York	2013
Harold Huffstetler, Jr. Northville, Michigan	President and Chief Executive Officer AAA Life Insurance Company of New York	2013
Kenneth Johnson* Chesterfield, Missouri	Chief Executive Officer and President (Retired) AAA Missouri	2013
Christopher Lane Plymouth, Michigan	Vice President AAA Life Insurance Company of New York	2014
James Lucas Milford Michigan	Vice President and Chief Actuary AAA Life Insurance Company of New York	2013
James Phelps* Sarasota Springs, New York	President and Chief Executive Officer AAA Northway	2013
Betty Schick Saline, Michigan	Vice President AAA Life Insurance Company of New York	2014
Anthony Spada, Jr.* Williamsville, New York	President and Chief Executive Officer AAA Western and Central New York	2014

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

On December 31, 2016, Harold Huffstetler, Jr. resigned as a director and Chairman of the board of directors, and the board of directors did not elect a director to replace him. The board of directors elected John DuBose III as the Chairman of the board of directors effective December 31, 2016.

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, 2015:

<u>Name</u>	<u>Title</u>
Harold Huffstetler Jr.	President and Chief Executive Officer
John DuBose III	Vice President and Treasurer
Diane Coudurier*	Vice President and Secretary
James Lucas	Vice President and Chief Actuary
Christopher Lane	Vice President

* Designated consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c)

In April 2016, Christopher Lane replaced John DuBose III as Treasurer. Mr. DuBose retained his position as a Vice President and Christopher Lane became Vice President and Treasurer.

In December 2016, Harold Huffstetler, Jr. resigned as the President and Chief Executive Officer and was replaced by John DuBose III.

3. TERRITORY AND PLAN OF OPERATIONS

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 the State of New York. In 2015, 99.3% of life premiums were received from the State of New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2015, the Company had \$400,000 (par value) of United States Treasury Bond on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

B. Direct Operations

Since 2013, the Company has been issuing simplified issue term life insurance and guaranteed issue graded benefit whole life insurance through direct mail distribution.

C. Reinsurance

As of December 31, 2015, the Company had reinsurance treaties in effect with three companies, all of which were authorized or accredited. The Company's life business is reinsured on a yearly renewable term basis. Reinsurance is provided on an automatic or facultative basis.

The maximum retention limit for individual life contracts is \$500,000. The total face amount of life insurance ceded as of December 31, 2015, was \$178,587,500, which represents 48.8% of the total face amount of life insurance in force.

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 (decline) during the period under review:

	May 30, <u>2013</u>	December 31, <u>2015</u>	Increase (Decrease)
Admitted assets	\$ <u>9,143,630</u>	\$ <u>8,019,898</u>	\$(<u>1,123,732</u>)
Liabilities	\$ <u>143,630</u>	\$ <u>1,106,998</u>	\$ <u>963,368</u>
Common capital stock	\$2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	7,000,000	7,000,000	0
Unassigned funds (surplus)	<u>0</u>	<u>(2,087,100)</u>	<u>(2,087,100)</u>
Total capital and surplus	\$ <u>0</u>	\$ <u>6,912,900</u>	\$ <u>6,912,900</u>
Total liabilities, capital and surplus	\$ <u>9,143,630</u>	\$ <u>8,019,898</u>	\$(<u>1,123,732</u>)

The Company's invested assets as of December 31, 2015 were mainly comprised of bonds (91.6%) and cash and short-term investments (8.4%).

The majority (89.1%) of the Company's bond portfolio, as of December 31, 2015, 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>Individual Whole Life</u>		<u>Individual Term</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
2013	\$ 1,045	\$ 1,025	\$ 18,250	\$ 17,950
2014	\$ 6,745	\$ 7,055	\$231,200	\$225,625
2015	\$ 2,370	\$ 8,523	\$178,850	\$357,175

The ordinary lapse ratio for each of the examination years was 3.4% in 2013, 17.8% in 2014 and 16.4% in 2015. These ratios are due to the type of term and whole life products sold by the Company, which do not require a full medical underwriting.

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>2013</u>	<u>2014</u>	<u>2015</u>
Ordinary:			
Life insurance	<u>\$(495,810)</u>	<u>\$(1,082,101)</u>	<u>\$(485,138)</u>
Total ordinary	<u>\$(495,810)</u>	<u>\$(1,082,101)</u>	<u>\$(485,138)</u>
Total	<u>\$(495,810)</u>	<u>\$(1,082,101)</u>	<u>\$(485,138)</u>

The 2013 net loss was primarily due to operating expenses of \$0.7 million.

The 2014 net loss resulted from increased operating expenses of \$2.3 million and aggregate reserves of \$0.3 million, offset by premiums of \$1.0 million. The increases in operating expenses, aggregate reserves, and premiums resulted from new sales of ordinary life and individual term insurance.

The 2015 net loss was primarily due to operating expenses of \$2.1 million, offset by premiums of \$1.6 million.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, as contained in the Company's 2015 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, 2015 filed annual statement.

A. Independent Accountants

The firm of Ernst & Young, LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Ernst & Young, LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	\$6,959,236
Cash, cash equivalents and short term investments	641,138
Contract loans	461
Investment income due and accrued	26,619
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,688
Deferred premiums, agents' balances and installments booked but deferred and not yet due	162,907
Reinsurance:	
Amounts recoverable from reinsurers	50,000
Current federal and foreign income tax recoverable and interest thereon	169,159
Premium tax receivable	<u>5,689</u>
Total admitted assets	<u>\$8,019,898</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 617,360
Contract claims:	
Life	31,317
Premiums and annuity considerations for life and accident and health contracts received in advance	7,461
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	47,061
General expenses due or accrued	233,333
Remittances and items not allocated	4,990
Miscellaneous liabilities:	
Asset valuation reserve	112,558
Payable to parent, subsidiaries and affiliates	52,840
Unclaimed property	<u>78</u>
 Total liabilities	 <u>\$ 1,106,998</u>
 Common capital stock	 2,000,000
 Gross paid in and contributed surplus	 7,000,000
Unassigned funds (surplus)	<u>(2,087,100)</u>
 Surplus	 <u>\$ 4,912,900</u>
 Total capital and surplus	 <u>\$ 6,912,900</u>
 Total liabilities, capital and surplus	 <u>\$ 8,019,898</u>

D. Condensed Summary of Operations

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Premiums and considerations	\$ 91,669	\$ 1,039,443	\$1,588,089
Investment income	99,044	138,809	123,258
Miscellaneous income	<u>0</u>	<u>30</u>	<u>0</u>
Total income	<u>\$ 190,713</u>	<u>\$ 1,178,282</u>	<u>\$1,711,347</u>
Benefit payments	\$ 2,819	\$ 22,727	\$ 87,813
Increase in reserves	30,694	336,630	250,036
General expenses and taxes	728,073	2,289,099	2,079,078
Increase in loading on deferred and uncollected premiums	61,884	143,621	(52,869)
Miscellaneous deductions	<u>0</u>	<u>0</u>	<u>146</u>
Total deductions	<u>\$ 823,469</u>	<u>\$ 2,792,077</u>	<u>\$2,364,205</u>
Net gain (loss) from operations	\$(632,756)	\$(1,613,795)	\$ (652,859)
Federal and foreign income taxes incurred	<u>(136,946)</u>	<u>(531,694)</u>	<u>(167,721)</u>
Net gain (loss) from operations before net realized capital gains	\$(495,810)	\$(1,082,101)	\$ (485,138)
Net realized capital gains (losses)	<u>0</u>	<u>18,804</u>	<u>28,427</u>
Net income	<u>\$(495,810)</u>	<u>\$(1,063,297)</u>	<u>\$(456,710)</u>

In 2014, the increase in premiums and reserves was due to new sales of ordinary life and individual term.

In 2014, the increase in general expenses was due to an increase in operating expenses of \$1.5 million, primarily due to direct mail acquisition expenses.

E. Capital and Surplus Account

	2013	2014	2015
Capital and surplus, December 31, prior year	\$ 0	\$ 8,448,528	\$7,444,242
Net income (loss)	\$ (495,810)	\$(1,063,297)	\$ (456,710)
Change in net unrealized capital gains (losses)	30,219	16,280	(46,912)
Change in net deferred income tax	6,149	23,170	51,533
Change in non-admitted assets and related items	(24,265)	5,359	(72,902)
Change in asset valuation reserve	(67,765)	(38,442)	(6,351)
Capital changes:			
Paid in	2,000,000	0	0
Surplus adjustments:			
Paid in	7,000,000	0	0
Correction of errors	<u>0</u>	<u>52,644</u>	<u>0</u>
Net change in capital and surplus for the year	<u>\$8,448,528</u>	<u>\$(1,004,286)</u>	<u>\$ (531,342)</u>
Capital and surplus, December 31, current year	<u>\$8,448,528</u>	<u>\$ 7,444,242</u>	<u>\$6,912,900</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.

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

B. Underwriting and Policy Forms

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

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.

Respectfully submitted,

_____/s/_____
Chong Kim
Senior Insurance Examiner

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

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

_____/s/_____
Chong Kim

Subscribed and sworn to before me
this _____ day of _____

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

CHONG KIM

*as a proper person to examine the affairs of the
AAA LIFE INSURANCE COMPANY OF NEW YORK*

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

COMPANY

with such other information as he shall deem requisite.

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

this 20th day of June, 2016

*MARIA T. VULLO
Superintendent of Financial Services*

By:

Mark McLeod

*MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU*

