NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

BAPTIST LIFE ASSOCIATION

CONDITION: DECEMBER 31, 2015

DATE OF REPORT: APRIL 28, 2017

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EXAMINER: FLORA EGBUCHULAM

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NEW YORK STATE
DEPARTMENT of FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 23, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31551, dated December 5, 2016 and annexed hereto, an examination has been made into the condition and affairs of Baptist Life Association hereinafter referred to as "the Association," at the Department's home office located at One State Street, New York, NY 10004.

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 material violations and recommendation contained in this report are summarized below:

- The Association violated Section 3201(b)(1) of the New York Insurance Law when it issued certificate form T-048-0599 with certificate data pages T-048-0105 10YR, T-048-0105 15YR and T-048-0105 20YR, but failed to submit the three certificate data pages to the superintendent for approval. (See item 7B of this report)
- The Association violated Section 3211(b)(2) of the New York Insurance Law by utilizing a premium notice that failed to state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.
(See item 7C of this report)
- The examiner recommends that the Association continue to update its assumptions and methodology as agreed upon with the Department in order to be fully compliant with Regulation 126. (See item 6F of this report)

2. SCOPE OF EXAMINATION

The examination of the Association was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2016 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2013 through 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 examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Association 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 National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the fraternal'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 fraternal. 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.

Information about the Association's organizational structure, business approach and control environment were utilized to develop the examination approach. The Association'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 Association was audited annually, for the years 2013 through 2015, by the accounting firm of Amato, Fox and Company, PC. The Association 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 examiner reviewed the corrective actions taken by the Association with respect to the violations, recommendations and comments contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 ASSOCIATION

A. History

The Association was incorporated under the laws of New York on June 21, 1899, under the name Mutual Benefit Association of the German Baptists of North America. The Association received its final certificate of authority to transact business as a fraternal benefit association on August 22, 1899. The name was changed to German Baptist Life Association in 1911, and to its present name, Baptist Life Association in 1934.

B. Subsidiaries

The Association formed a wholly-owned subsidiary on January 4, 2008, Kingdom Quest Financial, Inc. ("KQF"), a life insurance agency licensed by the state of New York. The Association owns 100% of the common stock, a total of 200 shares.

C. Service Agreements

The Association did not have any service agreements with affiliates during the examination period.

D. Management

The Quadrennial Convention is the supreme governing body that has exclusive legislative authority. It meets every four years. The Quadrennial Convention consists of elected delegates and directors of the Association. Each local branch is entitled to elect one delegate. The board of directors ('board") is elected by a plurality of delegates at the Quadrennial Convention. The board may fill any vacancies occurring between regular meetings of the Quadrennial Convention for the unexpired term.

Special conventions may be called by the Chairman of the Board, the President of the Association, or by a majority of the board.

On August 15, 2008 the Association amended Article IV, Section 1 of its by-laws reducing the number of directors from 12 to at least nine members. The directors are elected at the regular meeting of the Supreme Governing Body. As of December 31, 2015, the board of directors consisted of nine members. Meetings of the board are held at least twice a year.

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

Name and Residence	Principal Business Affiliation	Year First Elected
Kelly J. Bullis* Carson City, NV	Owner Bullis and Co. CPAs LLC	2012
Deborah R. Hart * Oakland, FL	Vice President Investor Relations The Timothy Plan	2008
Judith A. Hatfield* Fort Myers, FL	Adoption Specialist Florida Baptist Children's Homes	2015
John D. Hunter* East Amherst, NY	Retired Praxair, Inc	2004
Jesse J. Jerge* Tonawanda, NY	Loan Operations Manager Alden State Bank	2012
Ralph G. Mooney* New Castle, PA	Partner Lifting Up Life, LP	1992
Richard H. Murphy* East Amherst, NY	Attorney Sheffer, Murphy and White	1984
Donald D. Troyer* Williamsville, NY	Owner Print King	2012
Steven J. Woodard* Lancaster, NY	Vice President and Chief Financial Officer Alden State Bank	1998

* Not affiliated with the Association or its only affiliate, Kingdom Quest Financial, Inc. ("KQF")

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 Association as of December 31, 2015:

Name	Title
Jeffery A. Armstrong	President
John Q. Curtin Jr. *	Secretary and Treasurer

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

4. TERRITORY AND PLAN OF OPERATIONS

The Association 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 Association is licensed to transact business in 25 states. In 2015, approximately seventy-four percent (74%) of total life premiums, accident and health premiums and annuity considerations were received from New York (28.27%), Texas (12.24%), Pennsylvania (10.75%), North Carolina (8.24%), Michigan (8.07%), and Ohio (6.66%).

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2015:

Life Insurance Premiums	
New York	26.50%
Texas	13.06
North Carolina	11.12
Pennsylvania	8.59
Michigan	8.83
Subtotal	68.10%
All others	31.90
Total	100.00%

Annuity Considerations	
New York	33.29%
Pennsylvania	16.77
Ohio	13.42
Texas	9.96
Michigan	5.98
Sub total	79.41%
All others	20.59
Total	100.00%

A. Statutory and Special Deposits

The State of New York, the Association's domiciliary state, does not require special deposits from Article 45 entities. As of December 31, 2015, the Association had no deposits with the State of New York. As per confirmations received, deposits, which were reported in Schedule E of the 2015 filed annual statement, were held by the states of North Carolina and South Carolina in the amounts of $30,000 and $10,000 respectively.

B. Direct Operations

The Association's insurance products include; whole life, single premium whole life, interest sensitive single premium universal life, term life, term for children and flexible premium fixed annuities. On September 1, 2010 the Association suspended underwriting new business. Therefore, there were no changes in its product portfolio during this examination period. The Association indicated that it will notify the Department before re-establishing sales activities.

The Association's agency operations are conducted on a general agency basis, however, it did not engage in any new business activities during the examination period. All appointed agents of the Association are independent.

C. Reinsurance

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

The maximum retention limit for individual life contracts is $50,000. The total face amount of life insurance ceded as of December 31, 2015, was $66,891,132, which represents 43.6% of the total face amount of life insurance in force.

Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $123,961, was supported by letters of credit of $125,000. The Association recorded a negligible reinsurance premium of $1,157 for Accident and Health ceded to an authorized reinsurer at December 31, 2015.

During the period under review, the Association did not assume any reinsurance business.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Association 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 Association's financial growth (decline) during the period under review:

	December 31, 2012	December 31, 2015	Increase (Decrease)
Admitted assets	$31,324,780	$30,704,206	$ (620,574)
Liabilities	$30,528,440	$29,462,172	$(1,066,268)
Contingent reserve for orphan benefits	$ 20,000	$ 20,000	$ 0
Unassigned funds (surplus)	776,340	1,222,034	445,694
Total capital and surplus	$ 796,340	$ 1,242,034	$ 445,694
Total liabilities, capital and surplus	$31,324,780	$30,704,206	$ (620,574)

The Association's invested assets as of December 31, 2015, were mainly comprised of bonds (96.03%).

The majority (99.1%) of the Association's bond portfolio, as of December 31, 2015, was comprised of investment grade obligations.

The decrease in admitted assets was primarily due to a decrease in cash and cash equivalents, caused by the Association's continued reliance on investment income and other liquid assets for normal operating expenses since no new money or premium receivable is being generated from new business. Also, the Association recorded a receivable from a subsidiary in the December 31, 2012 filed annual statement, but the receivable was not admitted in this reporting period.

The decrease in liabilities is primarily due to low level contract reserves, as the Association continues to pay death claims and books no additional reserves normally associated with new underwritings.

The following is the net gain (loss) from operations by line of business after refunds to members, but before realized capital gains (losses) reported for each of the years under examination in the Association's filed annual statements:

	2013	2014	2015
Ordinary:			
Life insurance	$ 71,185	$ 160,717	$ 53,351
Individual annuities	168,558	177,101	159,637
Supplementary contracts	36,098	(8,635)	37,953
Total ordinary	$ 275,841	$ 329,183	$ 250,941
Accident and health:			
Other	$ (340)	$ 127	$ (395)
Total accident and health	$ (340)	$ 127	$ (395)
Fraternal	$(127,056)	$(133,553)	$(136,075)
Total	$ 148,445	$ 195,757	$ 114,471

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities and surplus as of December 31, 2015, as contained in the Association'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 Association's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement.

A. Independent Accountants

The firm of Amato, Fox and Company, PC was retained by the Association to audit the Association's combined statutory basis statements of financial position of the Association 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.

Amato, Fox and Company, PC concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Association 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	$28,963,156
Stocks:	
Common stocks	34,146
Cash, cash equivalents and short term investments	325,283
Contract loans	837,485
Investment income due and accrued	426,800
Premiums and considerations:	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	112,154
Electronic data processing equipment and software	182
Security deposit	5,000
Total admitted assets	$30,704,206

C. Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$28,724,551
Liability for deposit-type contracts	197,162
Contract claims:	
Life	68,464
Premiums and annuity considerations for life and accident and health contracts received in advance	11,326
Contract liabilities not included elsewhere:	
Interest maintenance reserve	203,914
Commissions to agents due or accrued	112
General expenses due or accrued	39,537
Taxes, licenses and fees due or accrued, excluding federal income taxes	30,118
Miscellaneous liabilities:	
Asset valuation reserve	118,077
Unclaimed benefits	59,157
Benevolent Fund	9,754
Total liabilities	$29,462,172
Contingent reserve for orphan benefits	20,000
Unassigned funds (surplus)	1,222,034
Total surplus and other funds	$ 1,242,034
Total liabilities, capital and surplus	$30,704,206

D. Condensed Summary of Operations

	2013	2014	2015
Premiums and considerations	$1,234,148	$1,197,595	$1,032,398
Investment income	1,626,349	1,590,352	1,579,596
Commissions and reserve adjustments on reinsurance ceded	252	225	144
Miscellaneous income	278	726	571
Total income	$2,861,027	$2,788,898	$2,612,709
Benefit payments	$2,272,311	$2,507,210	$1,977,885
Increase in reserves	(259,001)	(601,819)	(178,723)
Commissions	10,251	7,770	7,482
General expenses and taxes	692,286	681,849	690,166
Increase in loading on deferred and uncollected premium	(3,265)	(1,869)	1,428
Total deductions	$2,712,582	$2,593,141	$2,498,238
Net gain (loss) from operations	$ 148,445	$ 195,757	$ 114,471
Net gain (loss) from operations before net realized capital gains	$ 148,445	$ 195,757	$ 114,471
Net realized capital gains (losses)	(11,042)	55,476	24,389
Net income	$ 137,403	$ 251,233	$ 138,860

E. Surplus Account

	2013	2014	2015
Surplus, December 31, prior year	$796,340	$ 876,768	$1,108,360
Net income	$137,403	$ 251,233	$ 138,860
Change in net unrealized capital gains (losses)	113,847	(5,984)	(904)
Change in non-admitted assets and related items	(157,046)	(1,438)	1,783
Change in asset valuation reserve	(13,776)	(12,219)	(6,065)
Net change in capital and surplus for the year	$ 80,428	$ 231,592	$ 133,674
Surplus, December 31, current year	$876,768	$1,108,360	$1,242,034

F. Reserves

The Department conducted a review of reserves as of December 31, 2015. During the review, concerns were raised with the potential lack of conservatism in the assumptions and methodology used for the Association's asset adequacy analysis pursuant to Department Regulation No. 126. In response, the Association committed to update its assumptions and methodology in a manner acceptable to the Department. At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the final methodology has been implemented. The prior examination report contained similar concerns.

The examiner recommends that the Association continue to update its assumptions and methodology as agreed upon with the Department in order to be fully compliant with Regulation 126.

7. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The Association voluntarily suspended writing new business in September of 2010 and had no advertising and sales activities during this examination period.

B. Underwriting and Policy Forms

There was no underwriting review because the Association did not issue new business during this examination period.

Section 3201(b)(1) of the New York Insurance Law states, in part:

> "No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law. . . "

The Association's records indicated that policy forms T-048-0105 10YR, T-048-0105 15YR and T-048-0105 20YR were used as specification pages 3 and 4 (schedule pages) in policy form number T-048-0599. The Association noted that these pages were developed due to a change in the premium rates when the plan was repriced in 2006, and the change did not require a filing. The Department's records indicate that form T-048-0599 was approved, but not with forms T-048-0105 10YR, T-048-0105 15YR and T-048-0105 20YR, and there is no record of any filing for a separate policy schedule with these three forms. According to the Association, 107 policies issued with forms T-048-0105 10 YR, T-048-0105 15YR and T-048-0105 20YR between 2005 and 2008 were still in-force as of December 31, 2015.

The Association violated Section 3201(b)(1)of the New York Insurance Law when it issued certificate form T-048-0599 with certificate data pages T-048-0105 10YR, T-048-0105 15YR and T-048-0105 20YR, but failed to submit the three certificate data pages to the superintendent for approval.

The examiner recommends that the Association only use certificate T-048-0599 as approved and that it submit any future revisions to the Department for its review and approval prior to use.

C. Treatment of Policyholders

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

Section 3211 of the New York Insurance Law states, in part:

> "(a)(1) No policy of life insurance . . . issued for delivery in this state, and no life insurance certificate delivered or issued for delivery in this state by a fraternal benefit society, shall terminate or lapse by reason of default in payment of any premium . . .in less than one year after such default, unless, for scheduled premium policies, a notice shall have been duly mailed . . . when the insurer determines that the net cash surrender value under the policy is insufficient to pay the total charges that are necessary to keep the policy in force. . .
> (b) The notice required by paragraph one of subsection (a) hereof shall . . .
> (2) state the amount of such payment, the date when due, the place where and the person to whom it is payable; and shall also state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit. . . ."

The examiner's review of the premium due notice utilized during the exam period revealed that the notice did not contain a statement indicating that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit. This statement should be on all premium due notices, on all policy types, including policy types that do not build cash surrender values or nonforfeiture benefits, in which case the notice would show the cash value as zero ($0.00).

The Association violated Section 3211(b)(2) of the New York Insurance Law by utilizing a premium notice that failed to state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.

The examiner recommends that future premium due notices should be amended to comply with the requirements of Section 3211(b)(2) of the New York Insurance Law.

8. 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 Association in response to each citation:

Item	Description
A	The Association voluntarily stopped the sale of its annuity and single premium universal life products. These actions were implemented as of September 1, 2010. Subsequently, in June 2012, the Association informed the Department that it has suspended sales of all insurance and annuity products and that the only certificates being issued, are those required to meet the obligations of certificates already in force, such as term conversion and guaranteed insurability rider options. The Association indicated that it will consult with the Department before re-establishing sales activities. The Association did not write any new business during examination period and has indicated that the Department will be consulted before sales activities are re-established.
B	The Association violated Section 1301(a)(13)(A) of the New York Insurance Law by failing to amortize EDP equipment over the lesser of its useful life or three years. The Association corrected the EDP equipment depreciation method in 2014.
C	The examiner recommended that the Association immediately write-off the amount of admitted asset for EDP equipment which was beyond the lesser of its useful life or three years. In the future, the Association is required to follow the depreciation methods cited in Section 1301(a)(13)(A) of the New York Insurance Law for any purchase of EDP equipment. The above error was discovered during the examination conducted in 2013 and was corrected in 2014. The EDP equipment depreciation was adjusted as of March 31, 2014 to reflect the method in Section 1301(a)(13)(A). The adjustment at that time amounted to $12,476.
D	The Association violated Section 1302(b) of the New York Insurance Law by including a doubtful receivable in the amount of $157,030 as an admitted asset. The receivable noted was from the subsidiary, Kingdom Quest Financial, Inc.

Item	Description
E.	The examiner recommended that the Association write-off the entire receivable due from its affiliate KQF and refrain from accruing receivables from any affiliate when the affiliate cannot generate income to cover its expenses. The amount receivable from the subsidiary of $156,954 was categorized as a non-admitted asset as of December 31, 2013, and is still reported as such in the filed Annual Statements.
F.	The Department conducted a review of reserves as of December 31, 2012. During this reserve review, the Department found that greater conservatism was needed in the assumptions and methodology used for asset adequacy analysis. The greater conservatism was needed to be consistent with the Department's industry guidance relating to Insurance Regulation No. 126, 11 NYCRR. In light of these ongoing adequacy concerns, certificates of reserve valuation for December 31, 2012 and prior years were to be held in abeyance until the Department was able to find that sufficient conservatism had been incorporated into asset adequacy analysis. The Department will continue to monitor the Association’s reserves and work with the Association to help ensure that its reserves will be sufficient to meet anticipated policyholder obligations and related expenses. The Association stated that it and the appointed actuary had understood the Department’s position on the asset adequacy analysis and the certificates of reserve valuation and would continue to monitor the reserves as well. Corrective action would be determined after the actuarial review and certification process.

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The examiner recommends that the Association continue to update its assumptions and methodology as agreed upon with the Department in order to be fully compliant with Regulation 126.	15
B	The Association violated Section 3201(b)(1)of the New York Insurance Law when it issued certificate form T-048-0599 with certificate data pages T-048-0105 10YR, T-048-0105 15YR and T-048-0105 20YR, but failed to submit the three certificate data pages to the superintendent for approval.	16
C	The examiner recommends that the Association only use certificate T-048-0599 as approved and that it submit any future revisions to the Department for its review and approval prior to use.	17
D	The Association violated Section 3211(b)(2) of the New York Insurance Law by utilizing a Premium Notice that failed to state that unless such payment is made on or before the date when due or within the specified grace period thereafter, the policy shall terminate or lapse except as to the right to any cash surrender value or nonforfeiture benefit.	17
E	The examiner recommends that future premium due notices should be amended to comply with the requirements of Section 3211(b)(2) of the New York Insurance Law.	18

Respectfully submitted,

____________/s/____________
Flora Egbuchulam
Associate Examiner

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

Flora Egbuchulam, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____________/s/____________
Flora Egbuchulam

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31551

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:

FLORA EGBUCHULAM

as a proper person to examine the affairs of the

BAPTIST LIFE ASSOCIATION

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

FRATERNAL BENEFIT SOCIETY

with such other information as she 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 5th day of December, 2016

MARIA T. VULLO
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU