



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

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

MAY 28, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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AS OF

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EXAMINER:

JULIUS ASUBONTENG

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Shirin Emami  
Acting Superintendent

December 7, 2015

Honorable Shirin Emami  
Acting Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31110, dated December 1, 2014, and annexed hereto, an examination has been made into the condition and affairs of USAA Life Insurance Company of New York, hereinafter referred to as “the Company,” at its home office located at 529 Main Street, Highland Falls, New York 10928.

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 contained in this report are summarized below:

- The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date the statements of self-support were signed for 196 annuity contracts sold between 2000 - 2011. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2014 Edition* (the “Handbook”). The examination covers the 3-year period from January 1, 2011, through December 31, 2013. 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, 2013, 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 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 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 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 leveraged from the examination of the Company’s parent, USAA Life Insurance Company (“USAA Life”) which was performed by the State of Texas (“Texas”). Since the insurer and its parent share common controls and management, and Texas is accredited by the NAIC, the examiner deemed it appropriate to rely on the work performed by Texas, as necessary.

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 2011 through 2013, by the accounting firm of Ernst & Young, LLP. The Company received an unqualified opinion in all the years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. USAA Life, the Company's parent, has an internal audit department and a separate risk management department which was given the task of assessing the internal control structure and voluntary compliance with the Sarbanes-Oxley Act of 2002 ("SOX"), although the Company and its parent were not subject to SOX. USAA Life was subject to the NAIC Market Audit Rule ("MAR"). However, the Company was under the \$500 million premium threshold for MAR. USAA Life utilizes Governance, Risk and Compliance ("GRC") software to document and manage risk and control information relating to information technology, statutory reserving, accounting and reporting processes. Where applicable, GRC control testing workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 9 of this report.

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

### 3. DESCRIPTION OF COMPANY

#### A. History

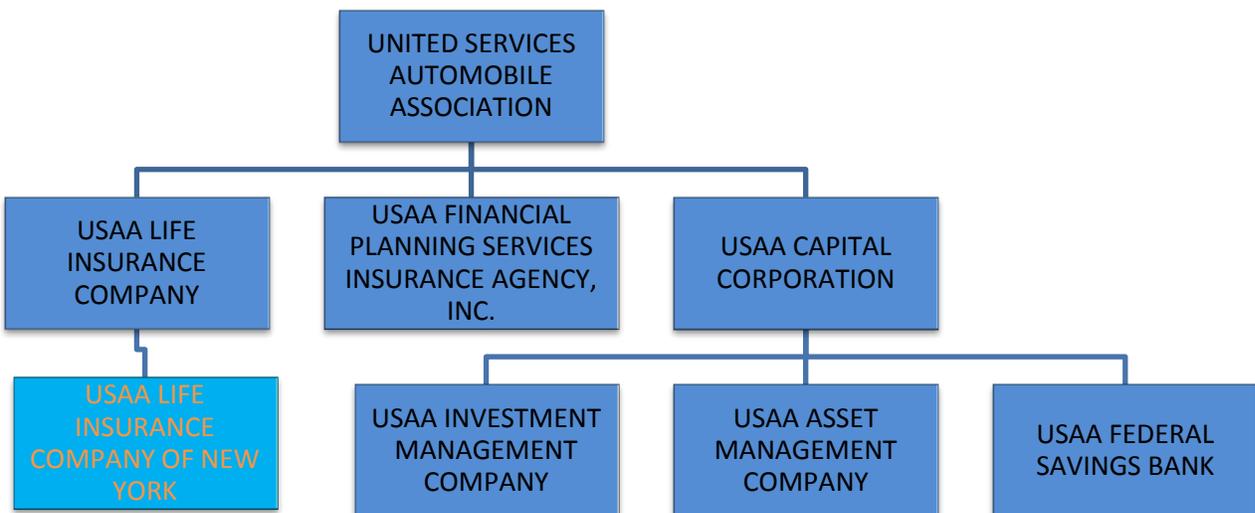
The Company was incorporated as a stock life insurance company under the laws of New York on October 1, 1997, was licensed and commenced business on November 14, 1997. Initial resources of \$6,661,425, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,661,425, were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) for \$333.07 per share. As of December 31, 2013, the Company reported total common capital stock and paid in and contributed surplus in the amounts of \$2,000,000 and \$21,482,647, respectively.

#### B. Holding Company

The Company is a wholly owned subsidiary of USAA Life, a Texas life insurance company. USAA Life is in turn a wholly owned subsidiary of United Services Automobile Association (“USAA”), a Texas reciprocal inter-insurance exchange.

#### C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2013 follows:



#### D. Service Agreements

The Company had three service agreements 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	(Expense)* For Each Year of the Examination
Financial Management and Investment Advisory Agreement	11/14/1997	USAA Investment Management Company	The Company	Investment management and advisory services	2011 \$(117,287) 2012 \$(142,770) 2013 \$(182,531)
Amended** (Department File No. 45739)	01/01/2012	USAA Asset Management Company			
Administrative Services Agreement (Department File No. 33399)	09/01/2005	USAA; USAA Life; USAA Financial Planning Services Insurance Agency, Inc.	The Company	Policyholder Services; Accounting, Data Processing, Tax and Auditing; Underwriting and Policy Issues; Claims; Sales; Marketing and Promotional Services; Functional Support Services; Reinsurance Services	2011 \$(5,923,660) 2012 \$(6,168,322) 2013 \$(5,984,420)
Amendment No. 1 (Department File No. 37240)	04/01/2007				
Amendment No. 2 (Department File No. 40328)	05/01/2008				
Restated/Amended (Department File No. 43823)	12/19/2010				
Automated Clearing House Origination Services Agreement (Department File No. 46000)	03/01/2013	USAA Federal Savings Bank	The Company	ACH credit and debit entry services through the ACH network, or internal funds transfer services	2013 \$(11,854)

\* Amount of Expense incurred by the Company

\*\* On January 1, 2012, USAA Asset Management Company became the Company's investment manager.

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

### 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 18 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in September of each year. As of December 31, 2013, the board of directors consisted of seven members. Meetings of the board are held in April and September of each year.

In July 2011, the Department approved an amendment to the Company's charter for the purpose of reducing the minimum number of directors from "not less than nine and not more than 18" to "not less than seven and not more than 18." In addition, the amended Charter reduced the number of New York resident directors from "not less than two" to "not less than one."

The seven board members and their principal business affiliation, as of December 31, 2013, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Mathew R. Blunt* Middleburg, VA	President American Automobile Policy Council	2011
Janet E. Glover* White Plains, NY	President Green Hybrid Energy Solutions	2013
Shawn T. Loftus San Antonio, TX	Senior Vice President and Chief Actuary USAA Life Insurance Company of New York	2007
Daniel S. McNamara San Antonio, TX	President USAA Life Insurance Company of New York	2013
Edgar K. Rugenstein* Poughquag, NY	Chief Operating Officer Crown Maple and Madava Farms	2013
Jeff E. Tucker San Antonio, TX	Assistant Vice President and Treasurer USAA Life Insurance Company of New York	2013
William S. White San Antonio, TX	Vice President, Life and Annuity Product Line Leader USAA Life Insurance Company of New York	2013

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

In April 2014, Daniel S. McNamara resigned from the board and was replaced by Brandon Carter.

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, 2013:

<u>Name</u>	<u>Title</u>
Daniel S. McNamara	President
Shawn T. Loftus	Senior Vice President and Chief Actuary
Robert J. Schaffer*	Vice President and Consumer Affairs Officer
Kirsten M. Register	Vice President and Controller
Jeff E. Tucker	Assistant Vice President and Treasurer
Michael W. Foley	Assistant Vice President and Compliance Officer
James G. Whetzel	Secretary

\* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

In April 2014, Brandon Carter replaced Daniel S. McNamara as President.

#### 4. 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 only in New York. In 2013, 82.8% of life premiums, 96.3% of annuity considerations and all deposit type funds were received from New York. Policies are written on a participating and non-participating basis.

##### A. Statutory and Special Deposits

As of December 31, 2013, the Company had \$450,000 (par value) of United States of America Treasury Bonds 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

The Company issues individual life insurance (whole, term and universal) and fixed annuity products. The Company's target market is the military, and spouses and dependents of military members ages 21 to 60. The Company's products and services are available to the general public. However, it does not actively solicit sales to the general public.

The Company's agency operations are conducted on a direct response basis. All life and annuity products are exclusively distributed by the Company's affiliate, USAA Financial Planning Services Insurance Agency, Inc. ("FPS"), pursuant to an administrative services agreement. All agents are salaried employees of FPS.

### C. Reinsurance

As of December 31, 2013, the Company had 45 reinsurance treaties in effect with 13 companies, of which nine were authorized or accredited. The Company's whole life, universal life, and term life business is ceded 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 \$250,000. The total face amount of life insurance ceded as of December 31, 2013, was \$8,181,651,802, which represents 73% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$5,308,394, was supported by letters of credit and trust agreements.

The Company did not assume any reinsurance business.

## 5. 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:

	December 31, <u>2010</u>	December 31, <u>2013</u>	Increase (Decrease)
Admitted assets	<u>\$489,523,706</u>	<u>\$641,105,629</u>	<u>\$151,581,923</u>
Liabilities	<u>\$443,993,165</u>	<u>\$578,220,558</u>	<u>\$134,227,393</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Preferred capital stock	0	0	0
Gross paid in and contributed surplus	21,482,647	21,482,647	0
Special surplus for expanded deferred tax asset	824,193	0	(824,193)
Unassigned funds (surplus)	<u>21,223,701</u>	<u>39,402,424</u>	<u>18,178,723</u>
Total capital and surplus	<u>\$ 45,530,541</u>	<u>\$ 62,885,071</u>	<u>\$ 17,354,530</u>
Total liabilities, capital and surplus	<u>\$489,523,706</u>	<u>\$641,105,629</u>	<u>\$151,581,923</u>

The Company's invested assets as of December 31, 2013, were mainly comprised of bonds (96.5%).

The majority (97.6%) of the Company's bond portfolio, as of December 31, 2013, was comprised of investment grade obligations.

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

	<u>Ordinary Annuities</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Outstanding, end of previous year	3,908	4,423	4,839
Issued during the year	643	538	561
Other net changes during the year	<u>(128)</u>	<u>(122)</u>	<u>(276)</u>
Outstanding, end of current year	<u>4,423</u>	<u>4,839</u>	<u>5,124</u>

For the year 2013 the number of ordinary annuities “Issued during the year,” as well as the “other net changes during the year” were incorrectly reported by the Company in its annual statement. Following is how the Exhibit of Annuities should have been reported in the annual statement for the year 2013:

	<u>Ordinary Annuities</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
Outstanding, end of previous year	3,908	4,423	4,839
Issued during the year	643	538	411
Other net changes during the year	<u>(128)</u>	<u>(122)</u>	<u>(130)</u>
Outstanding, end of current year	<u>4,423</u>	<u>4,839</u>	<u>5,120</u>

The net effect of the misstatement resulted in an understatement of 4 policies outstanding at the end of 2013.

The decrease in annuities issued during 2012 and 2013 were primarily due to the downturn of the economy and lower interest rates.

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>2011</u>	<u>2012</u>	<u>2013</u>
Ordinary:			
Life insurance	\$3,201,409	\$1,554,757	\$ (261,760)
Individual annuities	4,030,152	3,593,400	3,962,642
Supplementary contracts	<u>157,848</u>	<u>(12,976)</u>	<u>135,548</u>
Total ordinary	<u>\$7,389,409</u>	<u>\$5,135,181</u>	<u>\$3,836,430</u>
Total	<u>\$7,389,409</u>	<u>\$5,135,181</u>	<u>\$3,836,431</u>

The \$1.6 million decrease in net gain from operations on ordinary life insurance between 2011 and 2012 was primarily due to \$0.6 million increase in death benefits, \$0.8 million increase in dividends to policyholders resulting from a dividend scale increase, and an increase in general expenses and taxes.

The \$1.8 million decrease in net gain from operations on ordinary life insurance between 2012 and 2013 was primarily due to a \$1.4 million increase in death benefits and \$0.4 million increase in dividends to policyholders resulting from a dividend scale increase. The increase in death benefits was due to a death benefit on a large universal life policy.

## 6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2013, as contained in the Company's 2013 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, 2013 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 of the Company as of December 31<sup>st</sup> 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	\$598,770,992
Preferred stocks	5,873,125
Cash, cash equivalents and short term investments	9,783,456
Contract loans	4,758,532
Other invested assets	1,305,179
Receivable for securities	85,653
Investment income due and accrued	7,844,152
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	84,025
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,619,137
Reinsurance:	
Amounts recoverable from reinsurers	141,633
Other amounts receivable under reinsurance contracts	219,527
Current federal and foreign income tax recoverable and interest thereon	1,330,999
Net deferred tax asset	2,553,747
Guaranty funds receivable or on deposit	1,119,785
Receivables from parent, subsidiaries and affiliates	1,104,972
Prepaid ceded premiums	4,479,568
State Tax Recoverable	<u>31,147</u>
 Total admitted assets	 <u>\$641,105,629</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 556,877,491
Liability for deposit-type contracts	4,650,001
Contract claims:	
Life	2,366,695
Policyholders' dividends and coupons due and unpaid	55,903
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	2,783,087
Premiums and annuity considerations for life and accident and health contracts received in advance	72,370
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	1,055,268
Interest maintenance reserve	749,847
Taxes, licenses and fees due or accrued, excluding federal income taxes	(7,923)
Unearned investment income	133,799
Amounts withheld or retained by company as agent or trustee	17,959
Remittances and items not allocated	449,172
Miscellaneous liabilities:	
Asset valuation reserve	3,362,442
Payable to parent, subsidiaries and affiliates	2,650,680
Payable for Securities	3,000,000
Other account payable	191
Accrued interest payable on policy funds	<u>3,576</u>
 Total liabilities	 \$ <u>578,220,558</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	21,482,647
Unassigned funds (surplus)	39,402,424
Surplus	<u>\$ 60,885,071</u>
 Total capital and surplus	 \$ <u>62,885,071</u>
 Total liabilities, capital and surplus	 \$ <u>641,105,629</u>

D. Condensed Summary of Operations

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums and considerations	\$ 67,511,375	\$48,131,714	\$41,729,643
Investment income	30,259,657	32,295,889	33,272,902
Commissions and reserve adjustments on reinsurance ceded	3,765,783	3,519,345	3,185,076
Miscellaneous income	<u>4,514</u>	<u>(388)</u>	<u>2,403</u>
 Total income	 <u>\$101,541,329</u>	 <u>\$83,946,560</u>	 <u>\$78,190,024</u>
 Benefit payments	 \$ 25,018,015	 \$26,631,167	 \$26,970,010
Increase in reserves	55,329,821	37,708,956	33,991,589
General expenses and taxes	8,020,820	8,502,401	8,066,055
Increase in loading on deferred and uncollected premiums	70,614	(100)	66,657
Miscellaneous deductions	<u>0</u>	<u>8,500</u>	<u>0</u>
 Total deductions	 <u>\$ 88,439,270</u>	 <u>\$72,850,924</u>	 <u>\$69,094,311</u>
 Net gain from operations	 \$ 13,102,059	 \$11,095,636	 \$ 9,095,713
Dividends	1,681,119	2,460,470	2,865,859
Federal and foreign income taxes incurred	<u>4,031,532</u>	<u>3,499,985</u>	<u>2,393,424</u>
 Net gain (loss) from operations before net realized capital gains	 \$ 7,389,408	 \$ 5,135,181	 \$ 3,836,430
Net realized capital gains (losses)	<u>1,405,603</u>	<u>2</u>	<u>(31,175)</u>
 Net income	 <u>\$ 8,795,011</u>	 <u>\$ 5,135,183</u>	 <u>\$ 3,805,256</u>

The decrease in premiums and annuity considerations in 2012 and 2013 were primarily due to low sales in ordinary annuities resulting from a low interest rate environment.

The \$17.6 million decrease in “increase in reserves” between 2011 and 2012 was primarily due to \$17.0 million decrease in deferred annuities, \$2.0 million decrease in surrenders and \$1.0 million increase in annuity benefits paid.

E. Capital and Surplus Account

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, December 31, prior year	<u>\$45,530,541</u>	<u>\$54,532,125</u>	<u>\$59,559,618</u>
Net income	\$ 8,795,011	\$ 5,135,183	\$ 3,805,256
Change in net unrealized capital gains (losses)	371,883	(5,281)	(43,780)
Change in net deferred income tax	(1,219,405)	584,938	368,265
Change in non-admitted assets and related items	1,408,968	36,970	(101,223)
Change in asset valuation reserve	(1,188,015)	(724,317)	(703,065)
Prior period adjustment	833,142	0	0
Change in special surplus for expanded deferred tax asset	(34,589)	0	0
Transfer of expanded deferred tax asset to special surplus	<u>34,589</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>\$ 9,001,584</u>	<u>\$ 5,027,493</u>	<u>\$ 3,325,453</u>
Capital and surplus, December 31, current year	<u>\$54,532,125</u>	<u>\$59,559,618</u>	<u>\$62,885,071</u>

## F. Reserves

Section 4228(h) of the New York Insurance Law states, in part:

“(h) No company shall offer for sale any life insurance policy form or annuity contract form covered by this section or any debit life insurance policy form which shall not appear to be self-supporting on reasonable assumptions as to interest, mortality, persistency, taxes, agents' and brokers' survival and expenses resulting from the sale of the policy or contract form. For all such forms offered for sale in this state, and for all forms filed for use outside this state by domestic life insurance companies, a statement that the requirements of this subsection have been met, signed by an actuary who is a member in good standing of the American Academy of Actuaries and meets the requirements prescribed by the superintendent by regulation shall be submitted with each such life insurance policy or annuity contract form filed pursuant to paragraph one or six of subsection (b) of section three thousand two hundred one of this chapter. A demonstration supporting each such statement, signed by an actuary meeting such qualifications, shall be retained in the company's home office, while such form is being offered in this state and for a period of six years thereafter and be available for inspection . . . .”

The examiner conducted a review of the pricing adequacy for various products subject to Section 4228(h) of the New York Insurance Law. This review included an examination of the required actuarial statements of self-support and the supporting demonstrations.

The examiner requested statements and corresponding demonstrations for the Company's annuity forms subject to Section 4228(h) of the New York Insurance Law. Concerns were raised with respect to the unavailability of some of these materials. For six annuity forms, with 196 contracts issued, no signed and dated demonstrations of self-support could be located.

The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date the statements of self-support were signed for these 196 immediate annuity contracts sold between 2000 - 2011.

In response to the Department's concerns, the Company agreed that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support.

The Company also agreed to improve its filing procedures so that the required demonstrations will be readily available upon request.

## 7. 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.

## 8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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 3207(b) of the New York Insurance Law by issuing policies, on the lives of minors, with face values in excess of the limits allowed.</p> <p>The examiner's review indicated that the Company has implemented a systematic process, including required responses to specific questions, which would not allow the sales representatives to proceed with applications with face values in excess of the limits allowed. In addition, the Company performs quarterly reviews of juvenile applications and applications with child riders to ensure that the systematic process operates as designed.</p>
B	<p>The Company violated Section 35-3.5(e) of Department Regulation No. 74 by issuing life insurance policies with basic illustrations and failing to retain copies of such illustrations, until the later of six years after the policy is no longer in force or the next scheduled examination by the Department.</p> <p>The examiner's review indicated that the Company has changed its business model and processes regarding the handling of application packets and the documents maintained in the applicant's file to ensure that copies of illustrations are retained in compliance with Section 35-3.5(e) of Department Regulation No. 74. The illustrations were maintained on the sample of underwriting/application files that were reviewed.</p>
C	<p>The examiner recommended that the Company provide the claimant/beneficiary of death benefits the option, on the claim form, to request and/or receive such benefits by lump sum check.</p> <p>The examiner's review indicated that the Company has updated the claims form to provide the claimant/beneficiary of death benefits the option to request and/or receive such benefits by lump sum check.</p>

<u>Item</u>	<u>Description</u>
D	<p>The examiner recommended that the Company disclose, on the claim form, the wire fee that would be charged should the beneficiary choose the death claim payment option requesting that the proceeds be wired into the beneficiary's bank account.</p> <p>The examiner's review indicated that the Company has updated its claims form to disclose the wire fee that would be charged should the beneficiary choose the death claim payment option requesting that the proceeds be wired into the beneficiary's bank account.</p>
E	<p>The Company violated Section 2112(d) of the New York Insurance Law by failing to notify the Superintendent upon termination of the certificate of appointment of its producers within 30 days of such termination.</p> <p>The examiner's review did not reveal any terminations that were not reported to the Superintendent within 30 days of the termination. In addition, the review indicated that the Company utilizes a new automated process to notify the Superintendent upon termination of the certificate of appointment of its producers within 30 days of such termination.</p>

9. SUMMARY AND CONCLUSIONS

Following is the violation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date the statements of self-support were signed for 196 immediate annuity contracts sold between 2000 - 2011.	19

Respectfully submitted,

\_\_\_\_\_/s/  
Julius Asubonteng  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Julius Asubonteng

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

*APPOINTMENT NO. 31110*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, BENJAMIN M. LAWSKY, 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:*

***JULIUS ASUBONTENG***

*as a proper person to examine the affairs of the*

***USAA 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 1st day of December, 2014*

*BENJAMIN M. LAWSKY  
Superintendent of Financial Services*

*By:*



***MICHAEL MAFFEI  
ASSISTANT DEPUTY SUPERINTENDENT  
AND CHIEF OF THE LIFE BUREAU***

