



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

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

DECEMBER 1, 2017

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EXAMINER:

ALEA TALBERT-PENCE, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

July 27, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31628, dated May 3, 2017, 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 administrative office located at 9800 Fredericksburg Rd., San Antonio, TX 78288.

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. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2017 Edition* (the “Handbook”). The examination covers the 3-year period from January 1, 2014, through December 31, 2016. 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, 2016, but prior to the date of this report, were also reviewed. The last examination of the Company covered the period of January 1, 2011, through December 31, 2013.

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 called by the Texas Department of Insurance in accordance with the Handbook guidelines, through the NAIC’s Financial Exam Electronic Tracking System. Texas served as the lead state with New York participating. Since the lead and participating state are all accredited by the NAIC, the 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 2014 through 2016, by the accounting firm of Ernst & Young LLP (“EY”). 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. USAA Life Insurance Company (“USAA Life”), the Company’s parent, has an internal audit department and a separate risk management department that has been given the task of assessing the internal control structure and compliance with the NAIC Model Audit Rule on behalf of the Company and its affiliates. 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.

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

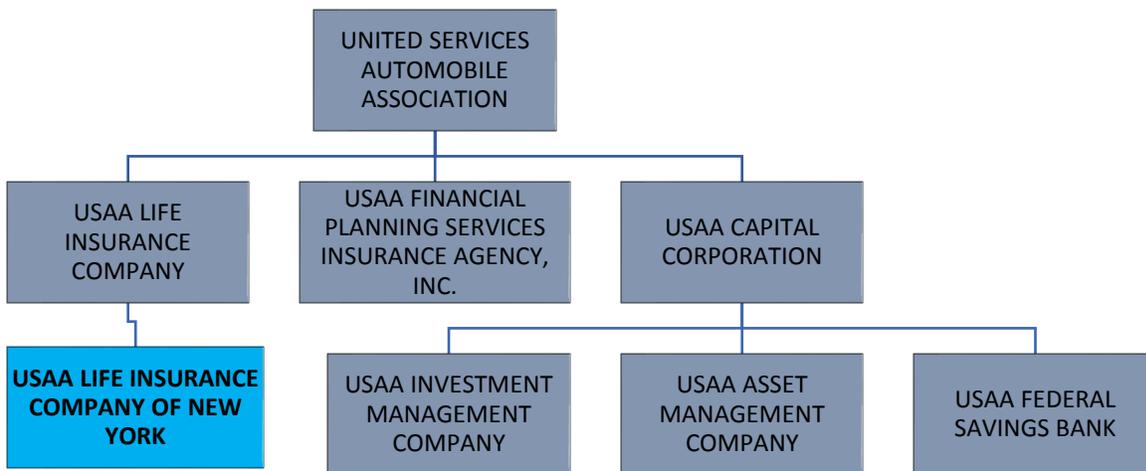
The Company was incorporated as a stock life insurance company under the laws of New York on October 1, 1997, and was licensed and commenced business on November 14, 1997. Initial resources of \$6,661,425, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,661,425,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

B. Holding Company

The Company is a wholly owned subsidiary of USAA Life, a Texas domiciled 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, 2016 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 Services	Recipient of Services	Specific Service(s) Covered	Expense* For Each Year of the Examination
Amended and Restated Administrative Services Agreement File No. 43823	12/19/2010	USAA, USAA Life, and USAA Financial Services Planning Insurance Agency, Inc.	The Company	Policyholder services, accounting, data processing, tax and auditing, underwriting and policy issuance, claims, sales, marketing and promotional services, functional support services, and reinsurance services	2016 \$(7,863,923) 2015 \$(8,265,003) 2014 \$(6,803,080)
Financial Management and Investment Advisory Agreement File No. 45739	01/01/2012	USAA Asset Management Company	The Company	Investment management and advisory services	2016 \$(456,304) 2015 \$(212,092) 2014 \$(206,843)
ACH Origination Services Agreement File No. 46000	03/01/2013	Federal Savings Bank	The Company	Automated Clearing House debit and credit origination services	2016 \$(0) 2015 \$(0) 2014 \$(0)

*Amount of Expense Incurred by the Company

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 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, 2016, the board of directors consisted of seven members. Meetings of the board are held in May and November of each year.

The seven board members and their principal business affiliations, as of December 31, 2016, 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 Automotive Policy Council	2011
Brandon D. Carter San Antonio, TX	President USAA Life Insurance Company of New York	2014
Janet E. Glover* White Plains, NY	President Green Hybrid Energy Solutions, Inc.	2013
Shawn T. Loftus San Antonio, TX	Senior Vice President and Chief Actuary USAA Life Insurance Company of New York	2007
Edgar K. Rugenstein* Poughquag, NY	Chief Operating Officer Crown Maple and Madava Farms	2013
Jeff E. Tucker San Antonio, TX	Vice President, Senior Financial Officer and Treasurer USAA Life Insurance Company of New York	2013
William S. White San Antonio, TX	Vice President and Investment Solutions Line Leader USAA Life Insurance Company of New York	2013

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

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, 2016:

<u>Name</u>	<u>Title</u>
Brandon D. Carter	President
Shawn T. Loftus	Senior Vice President and Chief Actuary
Michael Belko	Vice President and Chief Life Underwriter
David R. McDermitt	Vice President and Chief Privacy Officer
Kirsten M. Register	Vice President and Controller
Jeff E. Tucker	Vice President, Senior Financial Officer and Treasurer
Patrick Wageman	Vice President and Tax Officer
William S. White	Vice President and Investment Solutions Line Leader
Lori Massey-Brissette*	Assistant Vice President and Consumer Services Officer
Luke C. McLaren	Secretary
Peter Goodyear	Anti-Money Laundering Compliance Officer
Debbie Patteson	Life Insurance Compliance Officer

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64)

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 only in New York. In 2016, 80.6% of life premiums, 93.7% 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, 2016, the Company had \$450,000 (par value) of United States 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, 2016, the Company had reinsurance treaties in effect with 11 companies, of which 9 were authorized or accredited. The Company's whole life, universal life, and term life business is 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 \$1,000,000. The total face amount of life insurance ceded as of December 31, 2016, was \$8,013,083,514, which represents 62% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded

to unauthorized companies, totaling \$6,625,766, was supported by letters of credit and trust agreements.

The Company did not assume any reinsurance business.

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>2014</u>	December 31, <u>2016</u>	<u>Increase</u>
Admitted assets	<u>\$665,406,581</u>	<u>\$734,570,411</u>	<u>\$69,163,830</u>
Liabilities	<u>\$597,373,457</u>	<u>\$657,416,220</u>	<u>\$60,042,763</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	21,482,647	21,482,647	0
Unassigned funds (surplus)	<u>44,550,477</u>	<u>53,671,544</u>	<u>9,121,067</u>
Total capital and surplus	<u>\$ 68,033,124</u>	<u>\$ 77,154,191</u>	<u>\$ 9,121,067</u>
Total liabilities, capital and surplus	<u>\$665,406,581</u>	<u>\$734,570,411</u>	<u>\$69,163,830</u>

The Company's invested assets as of December 31, 2016 were mainly comprised of bonds (98.3%).

The majority (94.6%) of the Company's bond portfolio, as of December 31, 2016, 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>2014</u>	<u>2015</u>	<u>2016</u>
Outstanding, end of previous year	5,124	5,289	5,522
Issued during the year	337	385	330
Other net changes during the year	<u>(172)</u>	<u>(152)</u>	<u>(129)</u>
Outstanding, end of current year	<u>5,289</u>	<u>5,522</u>	<u>5,723</u>

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>2014</u>	<u>2015</u>	<u>2016</u>
Ordinary:			
Life insurance	\$ 395,313	\$ 417,146	\$ 314,303
Individual annuities	4,863,296	4,199,402	4,465,137
Supplementary contracts	<u>(58,984)</u>	<u>87,464</u>	<u>132,694</u>
Total ordinary	<u>\$ 5,199,625</u>	<u>\$ 4,704,012</u>	<u>\$ 4,912,134</u>
Total	<u>\$ 5,199,625</u>	<u>\$ 4,704,012</u>	<u>\$ 4,912,134</u>

The decrease in income from supplementary contracts in 2014 was due to an error in age data, leading to over-reserving for a contract, while the increase in 2015 was due to the adjustment for the error.

The increase in income from supplementary contracts in 2016 was due to revenue and benefit growth.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2016, as contained in the Company's 2016 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, 2016, filed annual statement.

A. Independent Accountants

EY was retained by the Company to audit the Company's 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.

EY 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	\$701,087,910
Preferred stocks	5,000,000
Cash, cash equivalents and short-term investments	1,056,276
Contract loans	4,997,418
Other invested assets	1,304,732
Receivable for securities	91,468
Investment income due and accrued	8,759,605
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	89,599
Deferred premiums, agents' balances and installments booked but deferred and not yet due	464,931
Reinsurance:	
Amounts recoverable from reinsurers	1,898,584
Other amounts receivable under reinsurance contracts	200,609
Current federal and foreign income tax recoverable and interest thereon	274,482
Net deferred tax asset	3,372,346
Guaranty funds receivable or on deposit	1,172,762
Prepaid ceded premiums	4,182,584
A/R other	7,923
State tax recoverable	<u>609,182</u>
Total admitted assets	<u>\$734,570,411</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$633,923,022
Liability for deposit-type contracts	7,623,493
Contract claims:	
Life	3,544,998
Policyholders' dividends and coupons due and unpaid	26,659
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	2,544,096
Premiums and annuity considerations for life and accident and health contracts received in advance	73,578
Contract liabilities not included elsewhere:	
Surrender values on cancelled contracts	4,116
Interest maintenance reserve	802,276
Unearned investment income	135,196
Amounts withheld or retained by company as agent or trustee	13,699
Remittances and items not allocated	815,896
Miscellaneous liabilities:	
Asset valuation reserve	5,175,545
Payable to parent, subsidiaries and affiliates	1,703,740
Payable for securities	1,000,000
Other accounts payable	20,648
Accrued interest payable on policy funds	<u>9,258</u>
 Total liabilities	 <u>\$657,416,220</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	21,482,647
Unassigned funds (surplus)	<u>53,671,544</u>
Surplus	<u>\$ 75,154,191</u>
Total capital and surplus	<u>\$ 77,154,191</u>
 Total liabilities, capital and surplus	 <u>\$734,570,411</u>

D. Condensed Summary of Operations

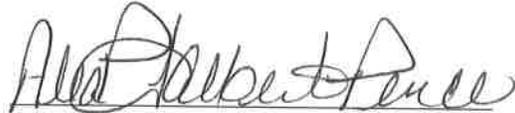
	<u>2014</u>	<u>2015</u>	<u>2016</u>
Premiums and considerations	\$39,949,257	\$37,685,934	\$44,095,071
Investment income	34,758,870	35,798,673	36,539,954
Commissions and reserve adjustments on reinsurance ceded	<u>2,731,559</u>	<u>2,649,673</u>	<u>2,554,675</u>
Total income	<u>\$77,439,686</u>	<u>\$76,134,281</u>	<u>\$83,189,701</u>
Benefit payments	\$35,139,833	\$30,752,478	\$36,114,152
Increase in reserves	23,098,674	25,844,501	28,102,356
Commissions	1,425,041	1,613,752	0
General expenses and taxes	6,969,826	7,919,157	9,269,452
Increase in loading on deferred and uncollected premium	21,332	27,416	50,430
Fines and penalties	<u>21,554</u>	<u>0</u>	<u>37</u>
Total deductions	<u>\$66,676,261</u>	<u>\$66,157,304</u>	<u>\$73,536,427</u>
Net gain (loss) from operations	\$10,763,425	\$ 9,976,977	\$ 9,653,274
Dividends	2,784,956	2,694,789	2,605,420
Federal and foreign income taxes incurred	<u>2,778,844</u>	<u>2,578,175</u>	<u>2,135,718</u>
Net gain (loss) from operations before net realized capital gains	\$ 5,199,625	\$ 4,704,012	\$ 4,912,136
Net realized capital gains (losses)	<u>533,222</u>	<u>(1,058,675)</u>	<u>798,141</u>
Net income	<u>\$ 5,732,847</u>	<u>\$ 3,645,338</u>	<u>\$ 5,710,277</u>

The decrease in net income from 2014 to 2015 was primarily due to a net realized capital loss of \$1.6 million and a decrease in pre-tax operating income, while the increase from 2015 to 2016 was primarily due to a net realized capital gain of approximately \$1.85 million.

E. Capital and Surplus Account

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus, December 31, prior year	\$ <u>62,885,071</u>	\$ <u>68,033,124</u>	\$ <u>72,498,367</u>
Net income	\$ 5,732,847	\$ 3,645,338	\$ 5,710,277
Change in net unrealized capital gains (losses)	109,052	4,805	0
Change in net deferred income tax	(46,375)	614,015	(476,122)
Change in non-admitted assets and related items	(405,075)	399,237	794,225
Change in asset valuation reserve	(242,396)	(198,152)	(1,372,556)
Net change in capital and surplus for the year	\$ <u>5,148,053</u>	\$ <u>4,465,243</u>	\$ <u>4,655,824</u>
Capital and surplus, December 31, current year	\$ <u>68,033,124</u>	\$ <u>72,498,367</u>	\$ <u>77,154,191</u>

Respectfully submitted,



Alea P. Talbert-Pence, CFE
Examiner-In-Charge
Risk & Regulatory Consulting, LLC

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

Alea P. Talbert-Pence, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.



Alea P. Talbert-Pence, CFE

Subscribed and sworn to before me

this 21st day of August, 2018



AUDREY HALL
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01HA6274900
Qualified in Kings County
Commission Expires January 28, 2021

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:

ALEA P. TALBERT-PENCE
(RISK & REGULATORY CONSULTING, LLC)

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 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 3rd day of May, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

