NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

CONDITION:	DECEMBER 31, 2010
DATE OF REPORT:	JUNE 12, 2012

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AS OF

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EXAMINER:	JOCATENA HARGROVE

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 27, 2012

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

Sir:

In accordance with instructions contained in Appointment No. 30690, dated March 17, 2011 and annexed hereto, an examination has been made into the condition and affairs of Columbian Mutual Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 4704 Vestal Parkway East, Binghamton, New York 13902.

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

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

1. EXECUTIVE SUMMARY

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

- The Company violated several sections of Department Regulation No. 60 by failing to: present a copy of the completed Disclosure Statement and Important Notice to the applicant at the time of the application; furnish the insurer whose coverage was being replaced a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed Disclosure Statement within ten days of receipt of the application; and maintain documentation indicating that the insurer being replaced was notified of the proposed replacement. A similar violation was contained in the prior report on examination. (See item 7A of this report)

- The Company violated Section 91.4(a)(2)(3) of Department Regulation No. 33 by failing to maintain records in such form as to permit ready identification between the item allocated and the basis upon which it was allocated. (See item 5 of this report)

- The Company violated Section 91.5(b) Department Regulation No. 33 by failing to file with the superintendent a full description of its plan. (See item 5 of this report)

- The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to provide a copy of the illustration to the applicant at the time of application and by not maintaining a signed copy of the illustration. (See item 7B 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, 2010 Edition (the "Handbook"). The examination covers the four-year period from January 1, 2007 through December 31, 2010. 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, 2010 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.

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 2007 through 2010, by the accounting firm of Deloitte & Touche, 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 has an internal audit department with a fully functional internal audit staff performing operational, financial and compliance reviews.

The examiner reviewed the corrective actions taken by the Company with respect to the violations, recommendation and comment 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 charitable and benevolent association under the laws of New York on November 1, 1882 under the name American Protective Association. The Company was licensed on January 25, 1883 and commenced business on February 1, 1883.

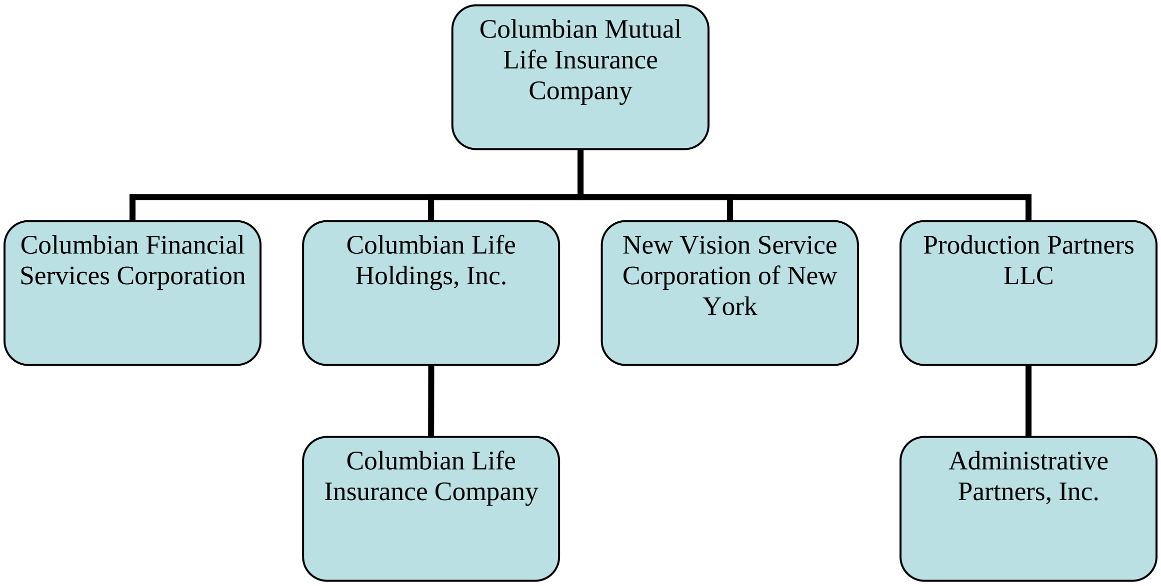
In 1907, the name was changed to Columbian Protective Association and the home office was moved to Binghamton, New York. At the same time, the Company commenced operations as a cooperative life and accident and health insurance company.

On March 11, 1952, the Company converted to a mutual life insurance company and adopted its present name. On December 30, 1996, Golden Eagle Mutual Life Insurance Corporation merged with and into the Company. On November 30, 2005, Columbian Family Life Insurance Company, (“CFLIC”) a subsidiary, merged with and into the Company. On February 28, 2006, Philanthropic Mutual Life Insurance Company (“PMLIC”), a Pennsylvania based company, merged with and into the Company.

On October 1, 2007, Farmers and Traders Life Insurance Company (“F&T”), a New York domestic life insurance company, merged with and into the Company. On November 26, 2008, Mutual of Detroit Life Insurance Company (“MoD”) merged with and into the Company. Subsequent to the examination period, on July 1, 2011, Unity Mutual Life Insurance Company merged with and into the Company.

B. Organizational Chart

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



The Company owns Columbian Life Holdings, Inc. ("CLH") which in turn wholly owns Columbian Life Insurance Company ("CLIC"), an Illinois domiciled life insurer that is also an accredited reinsurer in New York. The Company and its affiliates collectively refer to themselves and operate as the Columbian Financial Group ("CFG"). Other members of CFG include Columbian Financial Service Corporation, a general agency, and New Vision Service Corporation of New York, an administrative service company.

Although licensed in all states, the Company primarily markets participating products within New York State. CLIC markets non-participating products in other jurisdictions.

C. Service Agreements

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

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative and Management Services Agreement	March 1, 2006	The Company	National Safety Life Insurance Company (Ceased October 1, 2010)	Centralized underwriting, actuarial, legal, accounting, investment advisory, marketing, administrative, personnel and management services.	2007 - $906,341 2008 - $635,870 2009 - $629,567 2010 - $0
Intercompany Borrowing Agreement	May 1, 1996	The Company	CLIC	Make funds available to assist in managing the fluctuations of day to day cash flow.	2007 - $15,042 2008 - $0 2009 - $463 2010 - $178
Intercompany Borrowing Agreement	February 19, 2004	CLIC	The Company	Make funds available to assist in managing the fluctuations of day to day cash flow.	2007 - $(8,041) 2008 - $(669) 2009 - $0 2010 - $(1,639)
Administrative and Management Services Agreement	October 27, 1993	The Company	CLIC	Centralized underwriting, actuarial, legal, accounting, investment advisory, marketing, administrative, personnel and management services.	2007 - $12,008,885 2008 - $14,917,436 2009 - $16,143,657 2010 - $16,975,266

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

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

D. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than seven directors. Directors are elected for a period of three years at the annual meeting of the board held in May of each year. As of December 31, 2010, the board of directors consisted of 12 members. Meetings of the board are held quarterly.

The 12 board members and their principal business affiliation, as of December 31, 2010, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
William W. Atkin* Fort Myers, FL	Retired, Senior Vice President, Chief Financial Officer, Secretary and Treasurer Annuity and Life Reassurance, Ltd.	2004
Carey S. Barney* Los Angeles, CA	Attorney and Partner Lord, Bissell and Liddell, LLP	1995
Richard S. Corriero* Naples, FL	Retired, Managing Partner KPMG, LLP	2007
Paul W. DeLima* Syracuse, NY	Retired Attorney, Chief Executive Officer Paul DeLima Company	2007
Alan W. Feagin* Ellerslie, GA	Retired, President and Chief Executive Officer Assurant Preneed	2006
Isabelle C. Goossen* Winnetka, IL	Assistant Treasurer, Vice President Finance Chicago Symphony Orchestra	2007
William R. Hess* Wilmington, NC	Retired, Chairman, President and Chief Executive Officer Farmers and Traders Life Insurance Company	2007
John M. "Ian" Love Novi, MI	Senior Vice President Columbian Mutual Life Insurance Company	2008
Thomas P. Madsen* Lake Forest, IL	Retired, Managing Director UBS Global Asset Management	2010
George J. Matkov, Jr.* Chicago, IL	Attorney Ford and Harrison	1993

Name and Residence	Principal Business Affiliation	Year First Elected
Edward J. Muhl* Bonita Springs, FL	Independent Consultant	1997
Thomas E. Rattmann Binghamton, NY	Chairman, President and Chief Executive Officer Columbian Mutual Life Insurance Company	1996

* 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, 2010:

Name	Title
Thomas E. Rattmann	Chairman, President and Chief Executive Officer
Daniel J. Fischer	Senior Vice President, General Counsel and Corporate Secretary
August S. Dittemore	Senior Vice President, Sales and Marketing
Gregory J. Nilles	Vice President, Treasurer and Comptroller
Michael C.S. Fosbury	Senior Vice President, Chief Investment Officer
John M. "Ian" Love	Senior Vice President
Richard J. Pollard	Senior Vice President, Chief Actuary, Chief Financial Officer, and Assistant Secretary
Peggy M. Rubin	Senior Vice President, Operations
Richard S. Relf*	Vice President, Administration

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

In May, 2011, Thomas D. Revall replaced Gregory J. Nilles as Vice President, Treasurer and Comptroller.

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 in 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. In 2010, 60.3% of total premiums and annuity considerations were received from New York. Policies are written on a participating and non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2010:

Life Insurance Premiums

New York	60.9%
Michigan	7.2%
Pennsylvania	5.9%
New Jersey	4.3%
North Carolina	3.5%
Subtotal	81.8%
All others	18.2%
Total	100.0%

A. Statutory and Special Deposits

As of December 31, 2010, the Company had $2,853,339 (par value) of United States Treasury and general obligation bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. As per confirmations received from the following states which were reported in Schedule E of the 2010 filed annual statement, an additional $2,348,075 was being held by the states of: Arkansas, Georgia, Nevada, New Hampshire, New Mexico, North Carolina, Virginia and the U.S. Virgin Islands.

B. Direct Operations

The Company's primary business is ordinary life insurance which it sells on a monthly debit basis. These policies have low face amounts and are sold through general agents. The Company also markets a home service life insurance product which is marketed and serviced through independent agents. The agents call on customers in their homes to sell life insurance, provide service related to policies in force, and collect premiums. The Company also sells final expense products which are sold through independent marketing organizations.

The Company's agency operations are conducted on a general agency basis.

The Group's core business is managed through three divisions; pre-need insurance (not marketed in New York), home service, and final expense. Pre-need insurance is marketed through funeral homes and independent marketing organizations and is the Group's largest sales division, as measured by new annualized premiums.

C. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with 25 companies, of which 6 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, modified-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, 2010 was $651,482,568 which represents 12.4% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling $5,503,438, was supported by letters of credit, trust agreements and funds withheld.

The total face amount of life insurance assumed as of December 31, 2010 was $1,286,403,212.

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 during the period under review:

	December 31, 2006	December 31, 2010	Increase
Admitted assets	$385,179,937	$914,520,478	$529,340,541
Liabilities	$341,960,657	$826,115,700	$484,155,043
Additional admitted deferred tax assets	$ 0	$ 3,493,579	$ 3,493,579
Guaranty fund - State of Colorado	400,000	400,000	0
Unassigned funds (surplus)	42,819,280	84,511,199	41,691,919
Total capital and surplus	$ 43,219,280	$ 88,404,778	$ 45,185,498
Total liabilities and surplus	$385,179,937	$914,520,478	$529,340,541

The asset, liability and surplus increases from December 2006 through December 2010 are driven by the mergers with F&T in 2007 ($473 million in assets and $32 million in surplus), and MoD in 2008 ($76 million in assets and $18 million in surplus).

The Company's invested assets as of December 31, 2010 were mainly comprised of bonds (74.2%), mortgage loans (16.1%), and policy loans (6.7%).

The majority (98.3%) of the Company's bond portfolio, as of December 31, 2010, was comprised of investment grade obligations.

Section 91.4(a)(2) and (3) of Department Regulation No. 33 states, in part:

> "(2) Each life insurer shall maintain records with sufficient detail to show fully:
> (i) the system actually used for allocation of income and expenses;
> (ii) the actual bases of allocation;
> (iii) the actual monetary distribution of the respective items of income, salaries, wages, expenses, and taxes;
> (3) Such records shall be classified and indexed in such form as to permit ready identification between the item allocated and the basis upon which it was allocated, and shall be maintained in such a manner as to be readily accessible for examination. These records shall bear a date and shall identify the person responsible for the preparation thereof."

Section 91.5(b) of Department Regulation No. 33 states, in part:

> "A licensed life insurer proposing to adopt an investment year method in the distribution of net investment income, or to revise such a method already in effect, shall on or before November 1 of the first year for which such method or revision is to be used file with the superintendent a full description of its plan, together with its certification that the plan conforms to the foregoing rules. If the company's method includes deviations from the foregoing rules, or contemplates the use of a method other than the investment year method for assets not listed in paragraph (a)(1), such deviations or use require the approval of the superintendent as being equitable and as being necessary for reasons of feasibility before the method can be adopted."

Net investment income was distributed to major annual statement lines of business in accordance with the investment year method. However, upon review, the Company could not provide detailed records in such a manner as to show the actual bases of the allocation by lines of business. In addition, it was determined that the Company failed to file with the Superintendent a full description of the plan as required by Section 91.5(b) of Department Regulation No. 33.

The Company violated Section 91.4(a)(3) of Department Regulation No. 33 by failing to maintain records in such form as to permit ready identification between the item allocated and the basis upon which it was allocated.

The Company also violated Section 91.5(b) of Department Regulation No. 33 by failing to file with the superintendent a full description of its investment year plan.

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:

	2007	2008	2009	2010
Ordinary:				
Life insurance	$1,132,379	$7,303,761	$4,955,799	$1,143,097
Individual annuities	389,977	846,276	690,798	546,184
Supplementary contracts	55,387	176,964	251,268	165,466
Total ordinary	$1,577,743	$8,327,001	$5,897,865	$1,854,747
Industrial Life	$ 315,854	$ 831,894	$ 995,981	$1,337,523
Group:				
Life	$ (362,083)	$ (526,433)	$ (389,737)	$ (625,577)
Annuities	27,175	142,814	240,817	104,130
Total group	$ (334,908)	$ (383,619)	$ (148,920)	$ (521,447)
Accident and health:				
Group	$ 119,070	$ 235,226	$ 304,457	$ 219,388
Other	143,168	161,694	654,734	459,233
Total accident and health	$ 262,238	$ 396,920	$ 959,191	$ 678,621
Total	$1,820,927	$9,172,195	$7,704,118	$3,349,444

The increase in net gain in 2008 and 2009 is due to the mergers of F&T in 2007 and MoD in 2008 into the Company. In 2009, the underwriting requirements were revised for some products which resulted in a slower growth of ordinary life premiums. The group life insurance block of business is relatively small and does not perform well due to its high commission structure.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2010, as contained in the Company’s 2010 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner’s review of a sample of transactions did not reveal any differences which materially affected the Company’s financial condition as presented in its financial statements contained in the December 31, 2010 filed annual statement.

A. Independent Accountants

The firm of Deloitte & Touche LLP was retained by the Company to audit the combined statutory basis statements of financial position of the Company 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.

Deloitte & Touche 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	$630,436,878
Stocks:	
Common stocks	23,476,465
Mortgage loans on real estate:	
First liens	136,570,007
Real estate:	
Properties occupied by the company	3,810,853
Properties held for the production of income	486,427
Cash, cash equivalents and short term investments	(2,978,998)
Contract loans	56,970,889
Other invested assets	387,593
Investment income due and accrued	9,796,605
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	2,002,574
Deferred premiums, agents' balances and installments booked but deferred and not yet due	22,053,750
Reinsurance:	
Amounts recoverable from reinsurers	1,220,933
Other amounts receivable under reinsurance contracts	2,819,026
Current federal and foreign income tax recoverable and interest thereon	1,022,621
Net deferred tax asset	18,316,024
Electronic data processing equipment and software	412,784
Receivables from parent, subsidiaries and affiliates	4,929,617
Deferred premium assets	2,273,897
Miscellaneous assets	337,533
Security settlement receivable	$ 175,000
Total admitted assets	$914,520,478

C. Liabilities and Surplus

Aggregate reserve for life policies and contracts	$737,492,920
Aggregate reserve for accident and health contracts	1,186,547
Liability for deposit-type contracts	25,257,150
Contract claims:	
Life	9,187,468
Accident and health	145,476
Policyholders' dividends and coupons due and unpaid	101,319
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	6,663,620
Premiums and annuity considerations for life and accident and health contracts received in advance	302,868
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	16,740
Interest maintenance reserve	2,159,002
Commissions to agents due or accrued	14,872
Commissions and expense allowances payable on reinsurance assumed	2,656,262
General expenses due or accrued	825,721
Taxes, licenses and fees due or accrued, excluding federal income taxes	731,049
Unearned investment income	277,568
Amounts withheld or retained by company as agent or trustee	19,400,363
Amounts held for agents' account	20,174
Remittances and items not allocated	410,424
Miscellaneous liabilities:	
Asset valuation reserve	5,191,289
Reinsurance in unauthorized companies	49,728
Funds held under coinsurance	1,587,267
Minimum pension liability	10,225,672
Post retirement benefit obligation	904,978
Unclaimed funds	812,346
Sales conference	236,436
Interest unpaid on policy or purchase agreement	135,299
Amount payable for subsidiary purchase agreement	100,000
Amount payable on reinsurance ceded - modco reserve adjustment	23,142
Total liabilities	$826,115,700
Additional admitted deferred tax assets	$ 3,493,579
Guaranty fund - state of Colorado	400,000
Unassigned funds (surplus)	84,511,199
Total surplus	$ 88,404,778
Total liabilities and surplus	$914,520,478

D. Condensed Summary of Operations

	2007	2008	2009	2010
Premiums and considerations	$131,748,751	$143,186,113	$145,920,402	$164,026,618
Investment income	45,500,590	52,232,791	46,847,175	47,603,375
Commissions and reserve adjustments on reinsurance ceded	3,144,142	3,034,003	2,311,352	3,511,696
Miscellaneous income	1,327,313	1,088,058	667,408	692,317
Total income	$181,720,796	$199,540,965	195,746,337	$215,834,006
Benefit payments	$ 92,509,511	$ 92,756,912	$ 84,353,456	$ 79,440,434
Increase in reserves	13,167,343	16,595,018	19,728,314	37,733,661
Commissions	35,290,516	39,439,539	45,562,274	53,925,443
General expenses and taxes	31,359,466	30,103,406	26,892,076	28,575,015
Increase in loading on deferred and uncollected premiums	1,325,386	1,616,271	2,896,794	4,542,468
Miscellaneous deductions	(173,878)	0	0	0
Total deductions	$173,478,344	$180,511,146	$179,432,914	$204,217,021
Net gain	$ 8,242,452	$ 19,029,819	$ 16,313,423	$ 11,616,985
Dividends	7,006,088	6,925,624	6,621,333	6,621,104
Federal and foreign income taxes incurred	(584,565)	2,932,000	1,987,964	1,646,436
Net gain from operations before net realized capital gains	$ 1,820,929	$ 9,172,195	$ 7,704,126	$ 3,349,445
Net realized capital gains (losses)	(85,908)	(3,088,726)	(1,053,082)	(308,889)
Net income	$ 1,735,019	$ 6,083,469	$ 6,651,036	$ 3,040,555

E. Surplus Account

	*2007	*2008	2009	2010
Surplus, December 31, prior year	$92,313,410	$ 92,033,154	$79,423,572	$86,528,646
Net income	$ 2,385,778	$ 6,083,469	$ 6,651,036	$ 3,040,555
Change in net unrealized capital gains (losses)	(3,714,026)	(12,123,214)	1,478,108	(762,384)
Change in net deferred income tax	(347,246)	14,048	(650,759)	(74,855)
Change in non-admitted assets and related items	2,973,776	4,459,757	2,760,063	1,512,858
Change in liability for reinsurance in unauthorized companies	(756,664)	672,136	120,392	(10,691)
Change in reserve valuation basis	0	(2,660,015)	0	0
Change in asset valuation reserve	(980,844)	1,927,808	(1,373,252)	(798,592)
Cumulative effect of changes in accounting principles	0	0	0	(319,313)
Surplus adjustments:				
Change in surplus as a result of reinsurance	(264,000)	0	0	0
Vanguard deferred comp	225,874	1,630,610	1,027,934	(391,008)
Impairment goodwill	0	(1,725,000)	0	0
Minimum pension liability	197,096	(10,889,181)	(632,525)	(320,438)
Change in prior year surplus - correct reins calculation	0	0	(2,275,924)	0
Net change in surplus for the year	$ (280,256)	$(12,609,582)	$ 7,105,074	$ 1,876,132
Surplus, December 31, current year	$92,033,154	$ 79,423,572	$86,528,646	$88,404,778

*The figures for the years 2007 and 2008 are presented in this report as if the mergers of F&T and MoD with and into the Company had occurred as of December 31, 2006.

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.

Replacements

Section 51.5 of Department Regulation No. 60 states, in part:

> "Each agent and broker shall . . .
> (c) Where a replacement has occurred or is likely to occur . . .
> (3) Present to the applicant, not later than at the time the applicant signs the application, the "*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" and a completed "Disclosure Statement" signed by the agent or broker in the form prescribed by the Superintendent of Insurance and leave copies of such forms with the applicant for his or her records . . ."

Section 51.6 of Department Regulation No. 60 states, in part:

> ". . . (b) Where a replacement has occurred or is likely to occur, the insurer replacing the life insurance policy or annuity contract shall . . .
> (4) Within ten days of receipt of the application furnish to the insurer whose coverage is being replaced a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed "Disclosure Statement . . .
> (6) Where the required forms are received with the application and found to be in compliance with this Part, maintain copies of: any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract; proof of receipt by the applicant of the "*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts;" the signed and completed "Disclosure Statement;" and the notification of replacement to the insurer whose life insurance policy or annuity contract is to be replaced indexed by agent and broker, for six calendar years or until after the filing of the report on examination in which the transaction was subject to review by the appropriate insurance official of its state of domicile, whichever is later . . .

> (e) Both the insurer whose life insurance policy or annuity contract is being replaced and the insurer replacing the life insurance policy or annuity contract shall establish and implement procedures to ensure compliance with the requirements of this Part. These procedures shall include a requirement that all material be dated upon receipt. Such insurers shall also designate a principal officer specifically responsible for the monitoring and enforcement of these procedures. All insurers covered under this Part shall furnish the Superintendent of Insurance with these procedures and the name and title of the designated principal officer by the effective date of this Part. Any changes in these procedures or the designated principal officer shall be furnished to the Superintendent of Insurance within thirty days of such change."

In 11 of the 90 (12.2%) replacements reviewed, the Company failed to provide to the existing insurer whose coverage is being replaced a copy of any proposal, including the sales material used in the sale of the proposed life insurance policy or annuity contract, and the completed disclosure statement, within 10 days of receipt of the application.

The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to provide a copy of the sales material, proposal and disclosure statement to the existing insurer within 10 days of receipt of the application.

In 18 out of the 90 (20.0%) replacement files reviewed, the Company could not provide a copy of the notification of replacement that was sent to the insurer whose life insurance policy or annuity contract is to be replaced.

The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement. A similar violation appeared in the prior Report on Examination.

In 11 out of 90 (12.2%) replacements reviewed, the company failed to present to the applicant, not later than at the time the applicant signs the application, a completed Disclosure Statement and Important Notice.

The Company violated Section 51.6(e) of Department Regulation No. 60 by not implementing procedures that would ensure compliance with Section 51.5(c)(3) of Department Regulation No. 60 which requires an agent to present to the applicant, not later than at the time the applicant signs the application, the "*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" and a completed "Disclosure Statement" signed by the agent or broker in the form prescribed by the Superintendent of Insurance and leave copies of such forms with the applicant for his or her records.

B. Underwriting and Policy Forms

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

Section 53-3.5(a) of Department Regulation No. 74 states, in part:

> "If a basic illustration is used by an insurance producer or other authorized representative of the insurer in the sale of a life insurance policy and the policy is applied for as illustrated, a copy of that illustration, signed in accordance with this Subpart, shall be submitted to the insurer at the time of policy application. A copy also shall be provided to the applicant. If the policy is issued other than as applied for, a revised basic illustration conforming to the policy as issued shall be sent with the policy. The revised illustration shall conform to the requirements of this Subpart, shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policyowner and producer or other authorized representative of the insurer no later than the time the policy is delivered. A copy shall be provided to the insurer and the policyowner."

The examiner reviewed 55 individual life new issues that required an illustration to be provided to the applicant as part of its marketing process. In 26 out of 55 cases (47%), the Company failed to provide to the applicant a copy of the illustration at the time of application.

The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to provide a copy of the illustration to the applicant at the time of application and by not maintaining a signed copy of the illustration.

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. INFORMATION TECHNOLOGY

An examination of the Company's Information Systems was performed in which the areas of Information Technology ("IT") Governance, Logical Security, Computer Operations and Change Management were reviewed. There were multiple areas of concern noted by the examiners, which were factored into the overall examination risk assessment. Such areas of concern included the following deficiencies:

- Business Continuity Plans are not up to date and the responsibility to assure that updates are performed was not delegated. Additionally, an annual Business Impact Analysis ("BIA") is not being performed; the last BIA was performed in 2002. As significant changes in products, equipment, locations, personnel and systems have occurred since that time, a new Business Impact Analysis should be completed and business units and IT personnel should be required to maintain the plans. The BIA should be reviewed and updated annually.
- The Binghamton Business Continuity and Disaster Recovery Plan and the Syracuse (Wide Water) Disaster Recovery Plan have not been tested since 2006. Each location should be tested at least annually.
- IT personnel were named as owners of data. This presents a conflict as the person who uses the data should not be the same person who approves access to data. IT governance policies prescribe that the data owner be the Business Manager who oversees the responsibilities of the business unit and that such manager decides who has access to the programs and data that are utilized in the performance of the unit's duties.
- There are no formal IT Policies in place. Policies should be established, documented and distributed to define principles, rules, and guidelines formulated or adopted by an organization to ensure consistent application of principles and controls.
- Backups in Binghamton were noted to be stored in the warehouse with paper supplies in an open bookcase exposing them to potential environmental damage or theft. These backups are not encrypted. The storage of backups should be either offsite or in a locked fireproof waterproof vault and encrypted.

- The Company utilizes cloning for access management rather than role based access. Cloning is done by making the access for a new person the same as that for an existing profile - by person rather than role or job description. This can lead to new employees being granted inappropriate access.
- During the testing of employee terminations for the primary systems, 8 of the 28 terminated employees tested were still in the Active Directory, 5 in the ALIS System and 1 in LIDP. This indicates ineffective controls around the termination process which results in terminated individuals having inappropriate access to the Company's assets.
- The Company does not conduct any Security Awareness Training or put forth any information to update and remind personnel of new threats and the importance of security in every aspect of their jobs.
- While the Company's data center requires an authentication process for entry, the IT standard for access control to Data Centers requires a two-factor authentication, which should consist of two of the following three factors: something you have - fob or keycard, something you know - combination or PIN numbers, something you are - biometric id - fingerprint, palm scan. A two factor authentication should be implemented at all Data Centers.
- Bank Account numbers are stored in ALIS and other administrative systems but are not stored in an encrypted format. All sensitive bank numbers should be encrypted when in any database at the Company.
- It was noted in the review of access to production on the Policy Link System that 4 programmers have "Write" and "Delete" access to the data directories. The examiner recommends that the Company change the access to "Read Only" if this does not impair or impede the program performance.

Prior to the issuance of this examination report, the Company initiated steps to begin to remediate or mitigate the risks associated with these concerns. Since the remediation efforts were not fully implemented at the time of this report, the effectiveness of these mitigation strategies was not tested by the examiners.

The examiner recommends that the Company continue to take steps to mitigate the risks and areas of concern as noted by the examiners relative to its Information Technology Systems.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Sections 125.5(b)(1) and 125.5 (b)(4) of Department Regulation No. 125 when it took a reserve credit of $3.8 million in excess of amounts held by eight unauthorized assuming insurers and when it failed to obtain the required quarterly reports certified by the unauthorized assuming insurers.
	The examination revealed that the Company now requests signed quarterly reports from all reinsurers with trusts be received within 30 days of the end of each quarter.
B	Comment that the Department is not issuing the certificate of reserve valuation for December 31, 2006 reserves at this time, pending results of a targeted review of an issue regarding Company expenses.
	The Department issued a certificate of valuation for December 31, 2006.
C	The Company violated Section 219.5(a) of Department Regulation No. 34-A when it did not maintain records indicating the manner and extent of distribution of all advertisements disseminated in this state.
	The examination revealed that the Company has added a mechanism to track the manner and extent of all advertisements disseminated in this state.
D	The Company violated Section 51.6(e) of Department Regulation No. 60 by failing to establish and implement procedures to ensure that all replacement material is dated upon receipt and by failing to file revised replacements procedures with the Superintendent of Insurance within thirty days of such changes.
	Revised Regulation 60 procedures were sent to the Department on March 20, 2009. The examination revealed that the changes requested were incorporated into the revision and that replacement material was date stamped.
E	The Company violated Section 51.6 (b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement.

Item	Description
	The Company failed to take corrective action in response to this prior report recommendation. (See item 7A of this report)
F	The Company violated Section 51.8 of Department Regulation No. 60 by using a modified disclosure statement different than its approved specimen or the forms set forth in appendix 10A of Department Regulation No. 60. The examination revealed that the Company has a new disclosure statement, Form 1460NY, which is in compliance with appendix 10A of Department Regulation No. 60.
G	The examiner recommends that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control. The examination revealed that the Company has a fully functional internal audit staff performing operational, financial and compliance reviews.

10. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 91.4(a)(2)(3) of Department Regulation No. 33 by failing to maintain records in such form as to permit ready identification between the item allocated and the basis upon which it was allocated.	13
B	The Company violated Section 91.5(b) of Department Regulation No. 33 by failing to file with the superintendent a full description of its plan for the allocations of income and expenses.	13
C	The Company violated Section 51.6(b)(4) of Department Regulation No. 60 by failing to provide the sales material, proposal and disclosure statement to the existing insurer within 10 days of receipt of the application.	21
D	The Company violated Section 51.6(b)(6) of Department Regulation No. 60 by failing to maintain documentation indicating that the insurer being replaced was notified of the proposed replacement. A similar violation was contained in the prior report on examination.	21
E	The Company violated Section 51.6(e) of Department Regulation No. 60 by not implementing procedures that would ensure compliance with Section 51.5(c)(3) of Department Regulation No. 60 which requires an agent to present to the applicant, not later than at the time the applicant signs the application, the "*IMPORTANT* Notice Regarding Replacement or Change of Life Insurance Policies or Annuity Contracts" and a completed "Disclosure Statement" signed by the agent or broker in the form prescribed by the Superintendent of Insurance and leave copies of such forms with the applicant for his or her records.	21
F	The Company violated Section 53-3.5(a) of Department Regulation No. 74 by failing to provide a copy of the illustration to the applicant at the time of application and by not maintaining a signed copy of the illustration.	22
G	The examiner recommends that the Company continue to take steps to mitigate the risks and areas of concern as noted by the examiners relative to its Information Technology Systems.	25

Respectfully submitted,

/s/
JoCatena Hargrove
Senior Insurance Examiner

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

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

/s/
JoCatena Hargrove

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 30690

STATE OF NEW YORK

INSURANCE DEPARTMENT

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

JO CATENA HARGROVE

as a proper person to examine into the affairs of the

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

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

COMPANY

with such other information as she shall deem requisite.

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

this 17th day of March, 2011

JAMES J. WRYNN
Superintendent of Insurance

James J. Wrynn
Superintendent