NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2010

DATE OF REPORT: MAY 4, 2012

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EXAMINER:	JEFFREY GOOD

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 18, 2012

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

Sir:

In accordance with instructions contained in Appointment No. 30643, dated January 24, 2011 and annexed hereto, an examination has been made into the condition and affairs of First Reliance Standard Life Insurance Company of New York, hereinafter referred to as "the Company," at its administrative office located at 2001 Market Street, Philadelphia, PA 19103.

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 comment contained in this report is summarized below:

- On December 21, 2011, Tokio Marine Holdings, Inc. ("TMHD") and Delphi Financial Group, Inc. ("Delphi"), the indirect parent of First Reliance Standard Life Insurance Company, announced that they had entered into a definitive agreement under which TMHD would acquire all outstanding shares of Delphi for approximately US$2.7 billion, through TMHD's wholly owned subsidiary, Tokio Marine & Nichido Fire Insurance Co., Ltd. The acquisition was approved by the Department on March 22, 2012, and completed on May 15, 2012. (See Item 3C)

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 to 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 Ernst & Young (“E&Y”). The Company received an unqualified opinion in all the applicable years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. During the period under examination, the Internal Control Compliance Group (“ICCG”) performed the internal audit functions for the Company. ICCG consisted of nine persons. The Company's internal audit department was responsible for all GAAP work and SOX functions, assessment of risk within the Company, and identification of significant processes and activities. During May, 2011, the Company decided to pursue other opportunities and started outsourcing the ICCG work to PricewaterhouseCoopers (“PwC”). PwC will perform the internal audit functions for the Company and report to the audit committee.

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 accident and health insurance company under the laws of New York on June 16, 1983, under the name Dresser Insurance Company, was licensed on September 24, 1984 and commenced business on October 1, 1984. Initial resources of $3,000,000, consisting of common capital stock of $300,000 and paid in and contributed surplus of $2,700,000, were provided through the sale of 3,000 shares of common stock (with a par value of $100 each) for $1,000 per share.

In 1987 the Company changed its name to Reliance Standard Insurance Company. On September 26, 1989 the Company was licensed to write life insurance in New York and changed its name to its present name, First Reliance Standard Life Insurance Company. In connection with the license to sell life insurance, the Company's common capital stock was increased to $2,000,000 and paid in and contributed surplus was increased to $4,000,000. An additional contribution of $1,749,758 to gross paid in and contributed surplus was made by the parent in 1997.

As of December 31, 2010, the Company had common capital stock of $2,000,000 and gross paid in and contributed surplus of $5,749,758.

B. Holding Company

The Company is a wholly-owned subsidiary of Reliance Standard Life Insurance Company ("RSL"), a life insurance company domiciled in Illinois. The parent of RSL is Reliance Standard Life Insurance Company of Texas ("RSLT"), which is a wholly-owned subsidiary of Delphi Financial Group, Inc. ("Delphi"), a holding company organized as a Delaware corporation. The Company is ultimately controlled by Robert Rosenkranz.

C. <u>Organizational Chart</u>

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

- Robert Rosenkranz
  - R & Co. Capital Management L.L.C.
    - Rosenkranz Asset Managers, L.L.C.
    - Rosenkranz & Company L.P.
      - Delphi Financial Group, Inc.
        - Delphi Capital Management, Inc.
        - Reliance Standard Life Insurance Company of Texas
          - Reliance Standard Life Insurance Company
            - First Reliance Standard Life Insurance Company
            - TER I, L.L.C.
        - SIG Holdings, Inc.
          - Safety National Casualty Corporation
            - Safety First Insurance Company
            - Safety National Re SPC
            - Insurance Data Services Corp.
            - Greenbrook L.L.C.
        - Matrix Absence Management, Inc.
        - Chestnut Investors II, Inc.
        - Chestnut Investors III, Inc.
        - Chestnut Investor IV, Inc.
        - RSL Marketing, Inc.
        - Delphi Brokerage Company
        - Delphi Finance Trust I
        - DFG II Corporation
          - DFG Corporation

On December 21, 2011, Tokio Marine Holdings, Inc. (“TMHD”) and Delphi Financial Group, Inc. (“Delphi”), the indirect parent of First Reliance Standard Life Insurance Company, announced that they had entered into a definitive agreement under which TMHD would acquire all outstanding shares of Delphi for approximately US$2.7 billion, through TMHD’s wholly owned subsidiary, Tokio Marine & Nichido Fire Insurance Co., Ltd. The acquisition was approved by the Department on March 22, 2012, and completed on May 15, 2012.

D. Service Agreements

The Company had six 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	Income/ (Expense)* For Each Year of the Examination
Cost Sharing	12/16/97	The Company	Safety National Casualty Corporation	Office space, Furniture & Equipment, office supplies	2007- $101,042 2008- $101,937 2009- $103,319 2010- $113,477
Cost Sharing	5/11/99	Delphi Capital Management, Inc	The Company	Office space, telephone equipment	2007- $(287,335) 2008- $(335,636) 2009- $(415,554) 2010- $(335,826)
Cost Sharing	10/8/99	Matrix Absence Management, Inc	The Company	Office space, Office equipment, clerical and support staff	2007- $(120,000) 2008- $(120,000) 2009- $(120,000) 2010- $(120,000)
Cost Sharing	2/1/00	RSL	The Company	Claims, legal, compliance, administration, actuarial, human resources, financial purchasing, data processing	2007-$(3,457,663) 2008-$(3,757,097) 2009-$(3,858,251) 2010-$(3,906,262)
Cost Sharing	2/8/00	The Company	RSL	Sales, underwriting	2007- $1,537,457 2008- $1,496,295 2009- $1,468,373 2010- $2,159,274
Cost Sharing	12/1/00	RSL	The Company	Office space	2007- $(209,545) 2008- $(208,173) 2009- $(245,984) 2010- $(280,558)

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than twenty-one directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 2010, the board of directors consisted of 11 members. Meetings of the board are held annually.

The 11 board members and their principal business affiliation, as of December 31, 2010, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Thomas W. Burghart Media, PA	Senior Vice President and Treasurer First Reliance Standard Life Insurance Co.	2000
Lawrence E. Daurelle Lafayette Hill, PA	President and Chief Executive Officer First Reliance Standard Life Insurance Co.	1998
Steven A. Hirsch* Highland Park, IL	President and Chairman Astro Communications, Inc.	1988
Harold F. Ilg Naples, FL	Executive Vice President Delphi Financial Group, Inc.	2002
Bernard J. Kilkelly Lynbrook, NY	Vice President, Investor Relations Delphi Capital Management, Inc.	2002
James M. Litvack* Princeton, NJ	Lecturer Princeton University	1990
James N. Meehan* Arlington Heights, IL	Retired Banc of America Securities/Bank of America	1993
Robert Rosenkranz New York, NY	Chairman of the Board First Reliance Standard Life Insurance Co.	1987
Nita I. Savage New York, NY	Vice President Finance Delphi Capital Management, Inc.	2006
Donald Sherman New York, NY	President and Chief Operating Officer Delphi Financial Group, Inc.	2006
Robert F. Wright* Jersey City, NJ	President Robert F. Wright Association, Inc.	1989

* 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
Robert Rosenkranz	Chairman of the Board
Lawrence E. Daurelle	President & Chief Executive Officer
Christopher A. Fazzini	Executive Vice President, Sales and Marketing
Thomas W. Burghart	Senior Vice President and Treasurer
Warren M. Cohen	Senior Vice President, Actuarial
Chad W. Coulter	Senior VP, General Counsel and Assistant Secretary
Charles T. Denaro*	Vice President, Secretary and Deputy General Counsel
Danny R. Green	Senior Vice President, Underwriting
Daniel Falkenstein	Senior Vice President, Information Services
Debra G. Staples	Senior Vice President, Claims Administration
Catherine S. DeMarchis	Assistant Vice President, New York Claims

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

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 New York, Delaware, and the District of Columbia. In 2010, all life and accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2010, the Company had $500,000 (par value) of US 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 primarily writes group insurance. The Company's group products include: short-term and long-term disability, life insurance, accidental death and dismemberment, and dental insurance, which are directed at the employee benefits market. In 2010, the Company's premiums were split between life insurance (40.1%) and accident and health insurance (59.9%). The Company did not sell any individual insurance during the examination period except as a result of group conversions.

The Company's sales operations are conducted on a brokerage basis. Its distribution system includes independent agents and brokers through 29 regional offices. The market segments emphasized have historically been small to medium size companies in the service industry having 10 to 1,000 employees. As of December 31, 2010, the Company reported 1,045 independent agents and brokers.

C. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with ten non-affiliated companies, of which five were authorized or accredited. The Company's group life and group accident and health business is reinsured on a coinsurance, yearly renewable term and excess of loss basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is $300,000. The total face amount of life insurance ceded as of December 31, 2010 was $10.2 billion, which represents 81% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverables from unauthorized companies, totaling $2,363,823, was supported by trust agreements and funds withheld.

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	$120,025,504	$160,515,603	$40,490,099
Liabilities	$ 82,701,227	$ 99,899,573	$17,198,346
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	5,749,758	5,749,758	0
Change in accounting method – SSAP 10R	0	304,424	304,424
Unassigned funds (surplus)	29,574,519	52,561,848	22,987,329
Total capital and surplus	$ 37,324,277	$ 60,616,030	$23,291,753
Total liabilities, capital and surplus	$120,025,504	$160,515,603	$40,490,099

The Company's invested assets as of December 31, 2010 were mainly comprised of bonds (90.5%), cash and short-term investments (6.1%) and other invested assets (3.3%).

The majority (99.4%) of the Company's bond portfolio, as of December 31, 2010, was comprised of investment grade obligations.

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	$ (56,535)	$ 39,237	$ (5,841)	$ (24,010)
Supplementary contracts	0	4,343	8,394	8,962
Total ordinary	$ (56,535)	$ 43,580	$ 2,553	$ (15,048)
Group:				
Life	$ 453,053	$ 782,066	$1,989,133	$3,928,536
Annuities	106,160	120,891	208,453	135,515
Total group	$ 559,213	$ 902,957	$2,197,586	$4,064,051
Accident and health:				
Group	$9,057,412	$8,729,686	$6,912,385	$ 63,755
Other	3,914	3,582	3,848	4,542
Total accident and health	$9,061,326	$8,733,270	$6,916,233	$ 68,297
Total	$9,564,004	$9,679,805	$9,116,372	$4,117,300

The fluctuation in ordinary life insurance during the exam period is due to the number of claims occurring each year. Due to the size of the Company's block of business, one claim can have a significant impact on the company's net gains from operations.

The increase in group life business is due to a decrease in death claims and an increase in premiums during the examination period.

Unfavorable disability claims experience, and an increase in reserves is driving the decrease in net gains for group accident and health business during the examination period.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	2007	2008	2009	2010
Premiums earned	100.0%	100.0%	100.0%	100.0%
Incurred losses	54.2%	55.4%	64.2%	91.4%
Commissions	8.8	8.8	7.9	8.2
Expenses	13.8	14.8	15.5	15.1
Total	76.8%	79.0%	87.6%	114.7%
Underwriting results	23.2%	21.0%	12.4%	(14.7)%

The increase in disability benefits was primarily due to an increase in benefits and an increase in reserves.

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 Ernst and Young ("E&Y") was retained by the Company to audit the Company's 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.

E&Y 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	$135,342,802
Cash, cash equivalents and short term investments	9,095,780
Contract loans	44,095
Other invested assets	5,000,000
Investment income due and accrued	1,526,531
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	3,831,913
Deferred premiums, agents' balances and installments booked but deferred and not yet due	20,509
Amounts recoverable from reinsurers	305,071
Current federal and foreign income tax recoverable and interest thereon	436,632
Net deferred tax asset	878,572
Receivables from parent, subsidiaries and affiliates	4,033,698
Total admitted assets	$160,515,603

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 9,932,545
Aggregate reserve for accident and health contracts	57,819,689
Liability for deposit-type contracts	978,861
Contract claims:	
Life	2,915,000
Accident and health	20,976,037
Premiums and annuity considerations for life and accident and health contracts received in advance	3,304
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	39,898
Interest maintenance reserve	1,042,562
General expenses due or accrued	1,257,548
Taxes, licenses and fees due or accrued, excluding federal income taxes	444,700
Amounts withheld or retained by company as agent or trustee	183,740
Amounts held for agents' account	107,613
Remittances and items not allocated	787,070
Miscellaneous liabilities:	
Asset valuation reserve	177,909
Reinsurance in unauthorized companies	2,365
Funds held under reinsurance treaties with unauthorized reinsurers	46,037
Capital notes and interest thereon	306,071
Retained asset program liability to claimants and miscellaneous accounts payable	2,462,409
Minimum pension liability adjustment	416,215
Total liabilities	$ 99,899,573
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	5,749,758
Change in accounting method – SSAP 10R	304,424
Unassigned funds (surplus)	52,561,848
Total capital and surplus	$ 60,616,030
Total liabilities, capital and surplus	$160,515,603

D. Condensed Summary of Operations

	2007	2008	2009	2010
Premiums and considerations	$61,452,372	$61,516,624	$58,107,459	$52,135,305
Investment income	4,998,732	5,536,018	6,289,457	6,321,267
Commissions and reserve adjustments on reinsurance ceded	50,585	45,992	59,542	4,600
Total income	$66,501,689	$67,098,634	$64,456,458	$58,461,172
Benefit payments	$34,947,618	$36,910,256	$32,936,387	$32,295,811
Increase in reserves	3,314,629	1,795,801	4,409,109	6,986,207
Commissions	6,029,768	5,983,488	5,318,873	5,375,050
General expenses and taxes	8,774,745	8,636,884	9,299,758	9,011,282
Increase in loading on deferred and uncollected premiums	(37,710)	(111,746)	136,253	(32,013)
Total deductions	$53,029,050	$53,214,683	$52,100,380	$53,636,337
Net gain	$13,472,639	$13,883,951	$12,356,078	$ 4,824,835
Federal and foreign income taxes incurred	3,908,635	4,204,146	3,239,706	707,535
Net gain (loss) from operations before net realized capital gains	$ 9,564,004	$ 9,679,805	$ 9,116,372	$ 4,117,300
Net realized capital gains (losses)	0	(376,493)	(3,059,490)	141,370
Net income	$ 9,564,004	$ 9,303,312	$ 6,056,882	$ 4,258,670

The decrease in net gain from operations before net realized capital gains in 2010 was due to a decrease in premiums and an increase in long term disability reserves.

The net realized capital loss of $376,493 in 2008 was primarily comprised of impairments from a mortgage-backed security, partially offset by a gain from a mortgage-backed security pay down.

The net realized capital loss of $3,059,490 in 2009 was comprised of a realized loss from the sale of a corporate bond and impairments from mortgage-backed securities, partially offset by other net realized gains.

E. Capital and Surplus Account

	2007	2008	2009	2010
Capital and surplus December 31, prior year	$37,324,277	$44,397,989	$48,500,666	$56,760,136
Net income	$ 9,564,004	$ 9,303,312	$ 6,056,882	$ 4,258,670
Change in net unrealized capital gains (losses)	0	(1,307,186)	1,301,612	5,574
Change in net deferred income tax	(51,065)	14,583	1,030,856	(51,421)
Change in non-admitted assets and related items	78,407	(671,766)	(201,407)	(78,685)
Change in liability for reinsurance in unauthorized companies	50,000	0	0	(2,365)
Change in asset valuation reserve	(76,395)	517,142	0	(177,909)
Cumulative effect of changes in accounting principles	0	0	174,711	0
Dividends to stockholders	(2,500,000)	(3,500,000)	(500,000)	0
Minimum pension liability adjustment	8,761	(253,408)	110,082	(115,660)
Change in accounting method – SSAP 10R	0	0	286,734	17,690
Net change in capital and surplus for the year	$ 7,073,712	$ 4,102,677	$ 8,259,470	$ 3,855,894
Capital and surplus December 31, current year	$44,397,989	$48,500,666	$56,760,136	$60,616,030

For 2008, the change in AVR of $517,142 was primarily driven by realized losses and unrealized losses. These losses were related to the overall decrease in fixed income credit quality and valuations during 2008.

For 2010, the change in AVR of $177,909 was primarily driven by the addition of $5,000,000 from an unaffiliated private common stock investment.

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.

Respectfully submitted,

/s/
Jeffrey Good, CFE, CIE, MCM
Consultant

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

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

/s/
Jeffrey Good

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 30643

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:

JEFF GOOD

as a proper person to examine into the affairs of the

FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he 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 24th day of January, 2011

JAMES J. WRYNN
Superintendent of Insurance

Superintendent