



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON FINANCIAL EXAMINATION
OF THE
FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

MAY 19, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

DEAN CROSS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 8, 2015

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

Sir:

In accordance with instructions contained in Appointment No. 31098, dated December 19, 2014, and annexed hereto, an examination has been made into the condition and affairs of First Reliance Standard Life Insurance Company, hereinafter referred to as “the Company,” at its administrative office located at 2001 Market Street, Philadelphia, PA 19103. The Company’s home office is located at 590 Madison Avenue, New York, NY 10022.

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, 2014 Edition* (the “Handbook”). The examination covers the three-year period from January 1, 2011 to December 31, 2013. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2013, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

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.

This examination leveraged the work resulting from the examination of Reliance Standard Life Insurance Company (RSL), the Company’s parent and an Illinois domestic life insurer. The Illinois Department of Insurance (ILDOI) conducted their examination of RSL for the period ending December 31, 2012. The IT systems, corporate governance, and control environments are essentially the same for RSL and FRSLIC. Since both states are accredited by the NAIC, the examiner leveraged the work performed by the ILDOI wherever possible throughout the examination.

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 for 2011 by Ernst & Young (E&Y) and for 2012 through 2013 by PricewaterhouseCoopers, LLC (PwC). The Company received an unqualified opinion in all years under examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. During May of 2011, the Company began to outsource the Internal Audit function to PwC. Following the acquisition by Tokio Marine Holdings, Inc., the internal audit function was assumed by E&Y in 2012. Internal Audit (E&Y) reports to the Delphi Audit Committee and is responsible for identifying, assessing, and testing all significant risks related to financial reporting, operations, compliance, and fraud.

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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 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, 2013, the Company had common capital stock of \$2,000,000 and gross paid in and contributed surplus of \$5,749,758.

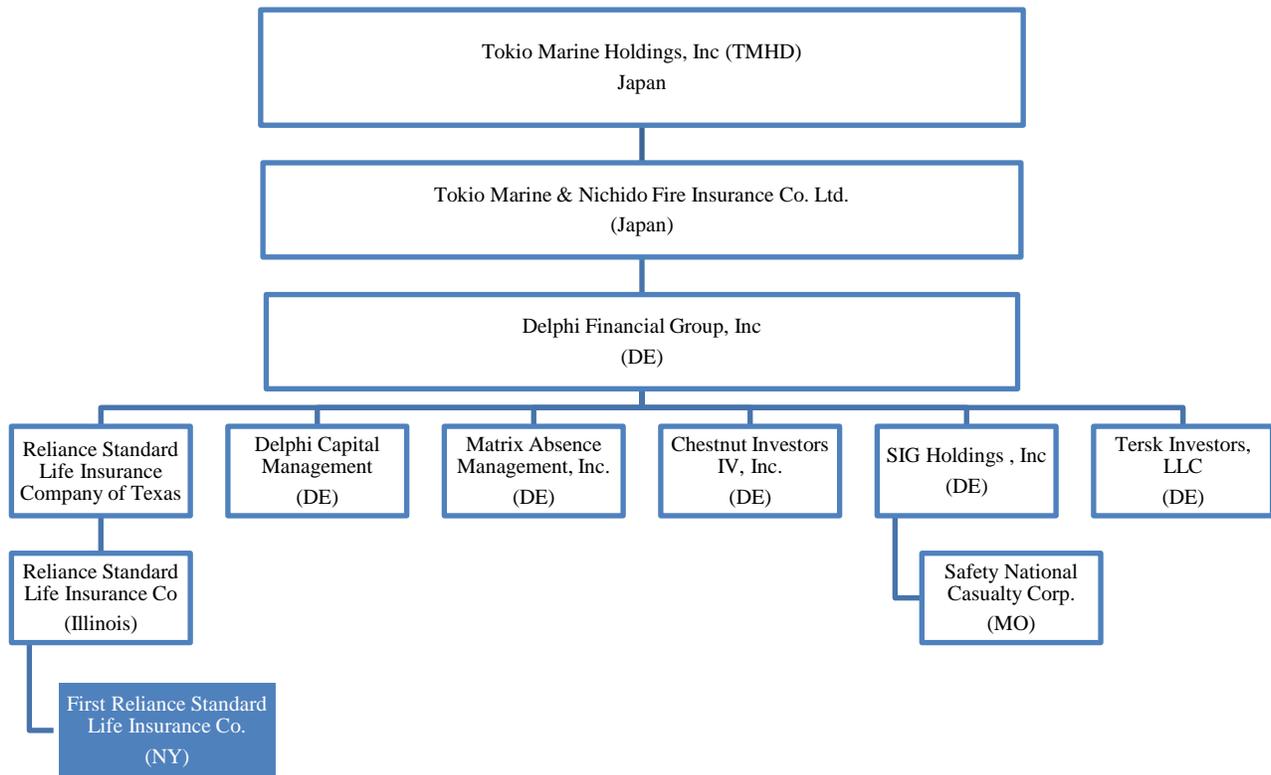
B. Holding Company

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, a holding company organized as a Delaware 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. The Company is ultimately controlled by TMHD.

C. Organizational Chart

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



D. Service Agreements

The Company had five 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 #24772	12/16/97	The Company	Safety National Casualty Corp.	Office space, furniture & equipment, office supplies	2011 - \$189,223 2012 - \$187,982 2013 - \$193,073
Cost Sharing #26603	5/11/99	Delphi Capital Management, Inc.	The Company	Office space, telephone equipment	2011 - \$(390,440) 2012 - \$(450,585) 2013 - \$(460,892)
Cost Sharing	10/8/99	Matrix Absence Management, Inc.	The Company	Office space, office equipment, clerical & support staff	2011 - \$(120,000) 2012 - \$(120,000) 2013 - \$(120,000)
Cost Sharing #27284	2/1/2000	Reliance Standard Life Insurance Company	The Company	Claims, legal, compliance, administration, office space, actuarial, Human Resources, financial, purchasing, data processing	2011 - \$(4,347,838) 2012 - \$(4,257,041) 2013 - \$(4,639,802)
Cost Sharing	2/8/2000	The Company	Reliance Standard Life Insurance Company	Sales, underwriting	2011 - \$1,481,996 2012 - \$2,590,411 2013 - \$1,970,292

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

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

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, 2013, the board of directors consisted of 10 members. Meetings of the board are held quarterly.

The 10 board members and their principal business affiliation, as of December 31, 2013, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Thomas W. Burghart Media, PA	Senior Vice President and Treasurer First Reliance Standard Life Insurance Company	2000
Lawrence E. Daurelle Lafayette Hill, PA	President and Chief Executive Officer First Reliance Standard Life Insurance Company	1995
Steven A. Hirsh* Highland Park, Illinois	President and Chairman Astro Communications, Inc.	1988
Stephan A. Kiratsous New York, NY	Executive VP & Chief Financial Officer Delphi Financial Group, Inc.	2012
James M. Litvack* Princeton, NJ	Retired-Lecturer Princeton University	1990
James N. Meehan* Arlington Heights, IL	Retired-Officer Bank of America	1993
Philip R. O'Connor* Chicago, IL	President PROactive Strategies, Inc.	2012
Robert Rosenkranz New York, NY	Chairman of the Board & CEO Delphi Financial Group, Inc.	1987
Nita I. Savage New York, NY	Vice President Finance Delphi Capital Management, Inc.	2006
Donald A. Sherman New York, NY	President and Chief Operating Officer Delphi Financial Group, Inc.	1987

* 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, 2013:

<u>Name</u>	<u>Title</u>
Lawrence E. Daurelle	President, Chief Executive Officer
Charles T. Denaro*	Vice President, Secretary and Deputy General Counsel
Thomas W. Burghart	Senior Vice President & Treasurer
Warren M. Cohen	Senior Vice President, Actuarial
Chad W. Coulter	Senior VP, General Counsel and Assistant Secretary
Andrew B. Davison	Senior Vice President, Underwriting
Daniel J. Falkenstein	Senior Vice President, Information Services
Christopher A. Fazzini	Executive Vice President
Debra G. Staples	Senior Vice President, Claims Administration

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

In December 2014, Gregory Esemplare replaced Andrew Davison as Senior Vice President, Underwriting.

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 in New York, Delaware and the District of Columbia. In 2013, 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, 2013, the Company had \$500,000 (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 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 2013, the Company's premiums were split between life insurance (42.3%) and accident and health insurance (57.7%). 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 30 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, 2013, the Company reported 1,736 independent agents and brokers.

C. Reinsurance

As of December 31, 2013, the Company had reinsurance treaties in effect with six companies, of which four 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, 2013, was \$17.3 billion, which represents 82.4% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$1,363,682, was supported by trust agreements and funds withheld.

There was no life insurance assumed as of December 31, 2013.

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 (decline) during the period under review:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$160,515,603</u>	<u>\$182,661,838</u>	<u>\$22,146,235</u>
Liabilities	\$ 99,899,573	\$118,464,542	\$18,564,969
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	304,424	0	\$ (304,424)
Unassigned funds	<u>52,561,848</u>	<u>56,447,538</u>	<u>3,885,690</u>
Total capital and surplus	<u>\$ 60,616,030</u>	<u>\$ 64,197,296</u>	<u>\$ 3,581,266</u>
Total liabilities, capital and surplus	<u>\$160,515,603</u>	<u>\$182,661,838</u>	<u>\$22,146,235</u>

The Company's invested assets as of December 31, 2013, were mainly comprised of bonds (91.3%), other invested assets (5.3%), and cash and short-term investments (3.4%).

The majority (94.6%) of the Company's bond portfolio, as of December 31, 2013, 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:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Ordinary:			
Life insurance	\$ 31,891	\$ (208,767)	\$ (287,358)
Supplementary contracts	<u>19,445</u>	<u>37,842</u>	<u>43,925</u>
Total ordinary	\$ <u>51,336</u>	\$ <u>(170,925)</u>	\$ <u>(243,433)</u>
Group:			
Life	\$1,194,254	\$2,846,350	\$3,545,207
Annuities	<u>133,760</u>	<u>99,626</u>	<u>128,798</u>
Total group	\$ <u>1,328,014</u>	\$ <u>2,945,976</u>	\$ <u>3,674,005</u>
Accident and health:			
Group	\$2,907,685	\$4,314,293	\$2,535,502
Other	<u>5,796</u>	<u>4,204</u>	<u>7,419</u>
Total accident and health	\$ <u>2,913,481</u>	\$ <u>4,318,497</u>	\$ <u>2,542,921</u>
Total	\$ <u>4,292,831</u>	\$ <u>7,093,548</u>	\$ <u>5,973,493</u>

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:

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	81.2%	79.8%	87.1%
Commissions	8.4	7.9	7.3
Expenses	<u>17.0</u>	<u>13.5</u>	<u>15.4</u>
Total expenses	<u>106.6%</u>	<u>101.2%</u>	<u>109.8%</u>
Underwriting results	<u>(6.6)%</u>	<u>(1.2)%</u>	<u>(9.8)%</u>

The Company reported underwriting losses for all of the years under examination.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2013, as contained in the Company's 2013 filed annual statement, a condensed summary of operations, and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2013, filed annual statement.

A. Independent Accountants

The firm of PricewaterhouseCoopers, LLC (PwC) was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31st 2012 and 2013, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended. Ernst & Young (E&Y) performed the audit for the year end December 31, 2011.

PwC and 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	\$159,573,901
Cash, cash equivalents and short term investments	5,970,887
Contract loans	65,193
Other invested assets	9,162,926
Investment income due and accrued	1,647,611
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,150,594
Deferred premiums, agents' balances and installments booked but deferred and not yet due	16,950
Reinsurance amounts recoverable from reinsurers	802,051
Current federal and foreign income tax recoverable and interest thereon	139,056
Net deferred tax asset	1,112,098
Receivables from parent, subsidiaries and affiliates	<u>20,571</u>
Total admitted assets	<u>\$182,661,838</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 9,126,304
Aggregate reserve for accident and health contracts	70,797,702
Liability for deposit-type contracts	1,454,742
Contract claims:	
Life	4,023,863
Accident and health	25,913,693
Premiums and annuity considerations for life and accident and health contracts received in advance	6,618
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	75,348
Interest maintenance reserve	1,598,346
General expenses due or accrued	1,017,852
Taxes, licenses and fees due or accrued, excluding federal income taxes	537,649
Amounts withheld or retained by company as agent or trustee	126,382
Amounts held for agents' account	275,890
Remittances and items not allocated	940,701
Miscellaneous liabilities:	
Asset valuation reserve	960,317
Funds held under reinsurance treaties with unauthorized reinsurers	38,741
Retained asset program liability to claimants and miscellaneous accounts payable	1,320,693
Liability for pension and postretirement benefits	<u>249,701</u>
Total liabilities	<u>\$118,464,542</u>
Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	5,749,758
Unassigned funds (surplus)	<u>56,447,538</u>
Total capital and surplus	<u>\$ 64,197,296</u>
Total liabilities, capital and surplus	<u>\$182,661,838</u>

D. Condensed Summary of Operations

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Premiums and considerations	\$48,338,493	\$53,527,151	\$56,765,467
Investment income	6,484,399	6,799,060	7,709,518
Commissions and reserve adjustments on reinsurance ceded	<u>(64,695)</u>	<u>(74,708)</u>	<u>(94,911)</u>
Total income	<u>\$54,758,197</u>	<u>\$60,251,503</u>	<u>\$64,380,074</u>
Benefit payments	\$29,746,487	\$32,055,114	\$37,489,840
Increase in reserves	4,180,612	3,870,585	4,120,576
Commissions	5,664,902	5,765,321	5,904,399
General expenses and taxes	10,762,568	9,958,643	11,420,797
Increase in loading on deferred and uncollected premium	<u>(141,909)</u>	<u>101,776</u>	<u>61,682</u>
Total deductions	<u>\$50,212,660</u>	<u>\$51,751,439</u>	<u>\$58,997,294</u>
Net gain (loss)	\$ 4,545,537	\$ 8,500,064	\$ 5,382,780
Federal and foreign income taxes incurred	<u>252,706</u>	<u>1,406,516</u>	<u>(590,713)</u>
Net gain (loss) from operations before net realized capital gains	\$ 4,292,831	\$ 7,093,548	\$ 5,973,493
Net realized capital gains (losses)	<u>(200,145)</u>	<u>(436,897)</u>	<u>(58,864)</u>
Net income	<u>\$ 4,092,686</u>	<u>\$ 6,656,651</u>	<u>\$ 5,914,629</u>

E. Capital and Surplus Account

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, December 31, prior year	<u>\$60,616,300</u>	<u>\$60,472,261</u>	<u>\$63,600,612</u>
Net income	\$ 4,092,686	\$ 6,656,651	\$ 5,914,629
Change in net unrealized capital gains (losses)	68,434	472,084	514,289
Change in net deferred income tax	(27,755)	584,326	(1,232,796)
Change in non-admitted assets and related items	(16,776)	87,023	1,749,276
Change in liability for reinsurance in unauthorized companies	2,365	0	0
Change in asset valuation reserve	(118,751)	(231,802)	(431,855)
Dividends to stockholders	(4,000,000)	(4,000,000)	(6,300,000)
Minimum pension liability adjustment	(266,676)	(12,803)	0
Change in accounting method – SSAP 10R	122,704	(427,128)	0
Unassigned funds – pension and postretirement benefits	<u>0</u>	<u>0</u>	<u>383,141</u>
Net change in capital and surplus for the year	<u>\$ (143,769)</u>	<u>\$ 3,128,351</u>	<u>\$ 596,684</u>
Capital and surplus, December 31, current year	<u>\$60,472,261</u>	<u>\$63,600,612</u>	<u>\$64,197,296</u>

Respectfully submitted,

_____/s/
Dean Cross, CFE
Consultant - RRC

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

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

_____/s/
Dean Cross

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31098

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

DEAN CROSS
(RISK & REGULATORY CONSULTING, LLC)

as a proper person to examine the affairs of the
FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY
and to make a report to me in writing of the condition of said
COMPANY

with such other information as he shall deem requisite.

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

this 19th day of December, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

