



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

CONDITION:

DECEMBER 31, 2010

DATE OF REPORT:

MAY 4, 2012

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EXAMINER:

WILLIAM MICHAEL, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 11, 2012

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

Sir:

In accordance with instructions contained in Appointment No. 30694, dated March 17, 2011 and annexed hereto, an examination has been made into the condition and affairs of National Integrity Life Insurance Company, hereinafter referred to as “the Company,” at its home office located at 15 Matthews Street, Suite 200, Goshen, NY 10924 and its main administrative office located at 400 Broadway, Cincinnati, OH 45202..

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. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2011 Edition* (the “Handbook”). The examination covers the three-year period from January 1, 2008 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 6 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 2008 through 2010, by the accounting firm of Ernst & Young 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 which was responsible for assessing the internal control structure and compliance with the NAIC's Model Audit Rule ("MAR"). Where applicable, the Company's MAR workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 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.

2. DESCRIPTION OF COMPANY

A. History

The Company was incorporated under the name Merchants Life Insurance Company (“Merchants”), as a stock life insurance company, under the laws of New York on November 22, 1968. It was licensed and commenced business on December 30, 1968. Initial resources of \$3,000,000 consisting of common capital stock of \$1,000,000 and paid in and contributed surplus of \$2,000,000, were provided through the sale of 100,000 shares of common stock (with a par value of \$10 each) for \$30 per share.

Capital was increased to \$1,100,000 in 1972 as a result of the issuance of 10,000 additional shares of stock. Monumental Life Insurance Company acquired the Company in July 1981 and the name was changed to Monumental National Life Insurance Company of New York. The Equitable Life Assurance Society of the United States (“Equitable”) purchased the Company from Monumental Life Insurance Company in November 1985. In 1985, capital was increased to \$2,000,000 as a result of the issuance of 90,000 additional shares of stock. The Company adopted its present name on January 21, 1986. In September 1988, Equitable sold the Company to National Mutual Life Association of Australasia. In November 1993, ARM Financial Group acquired the Company and its immediate parent, Integrity Life Insurance Company (“Integrity”) from National Mutual Life Association of Australasia. The Western and Southern Life Insurance Company (“WSLIC”) acquired Integrity and the Company in March 2000 from ARM Financial Group.

Due to capital contributions received from Integrity prior to and during the examination period, capital and gross paid in and contributed surplus were \$2,000,000 and \$312,227,768, respectively, as of December 31, 2010.

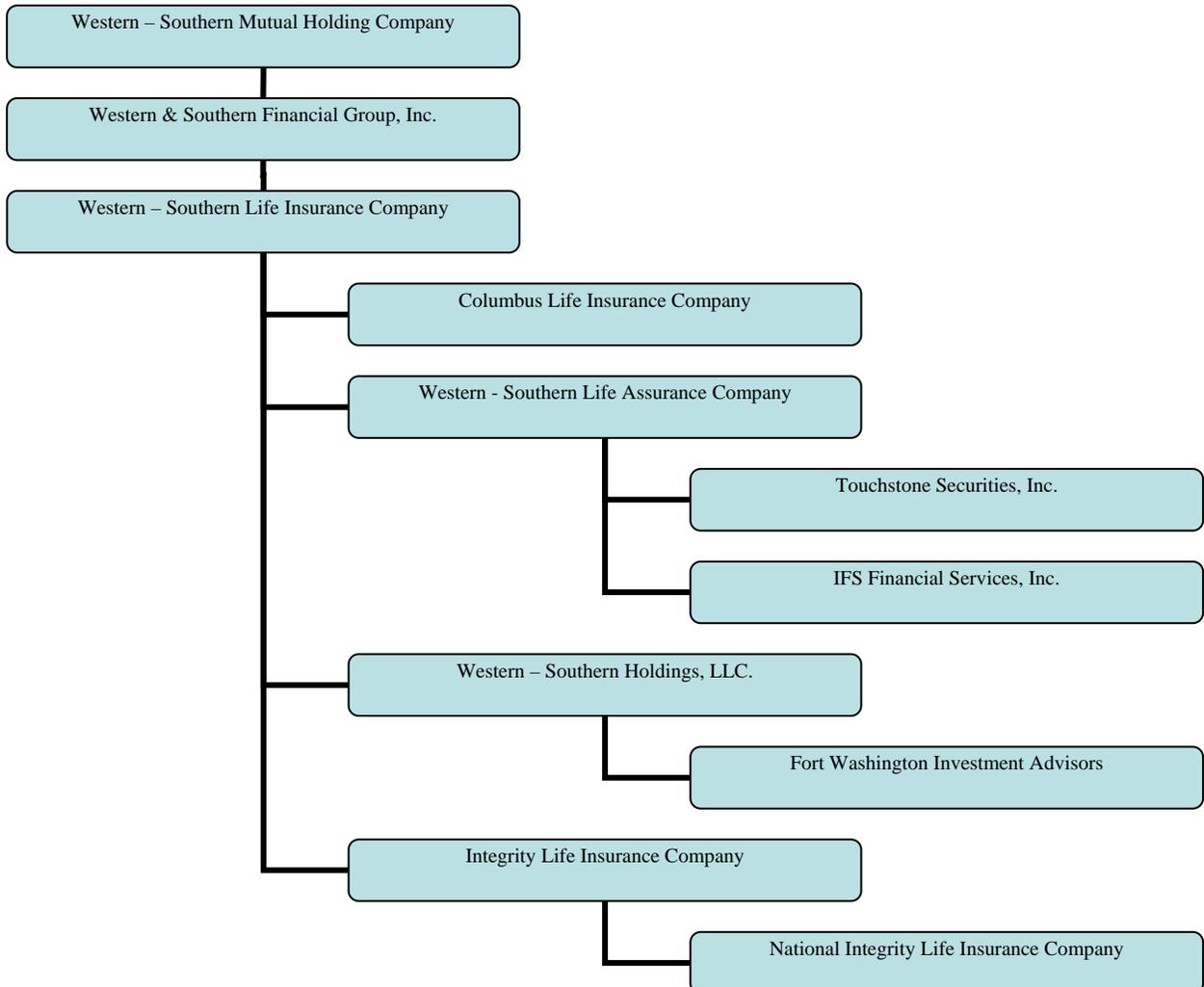
B. Holding Company

The Company is a wholly owned subsidiary of Integrity, an Ohio life insurance company. As of December 31, 2001, Integrity was owned by WSLIC, an Ohio life insurance company, which in turn is a wholly owned subsidiary of Western-Southern Financial Group, Inc. (“WSFG”), a diversified group of financial services companies offering life and health insurance, annuities, mutual funds, and a variety of other investment management products and services.

The ultimate parent of the Company is Western-Southern Mutual Holding Company, (“WSMHC”), an Ohio mutual holding company.

C. 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:



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
Administrative Services 34709	01/01/2006	IFS Financial Services, Inc.	The Company	Marketing and Distribution; Administrative and Compliance	2008 \$(5,371,700) 2009 \$(4,989,211) 2010 \$(6,213,733)
Administrative Service 34708	01/01/2006	Western & Southern Life Insurance Company	The Company	Administrative, Management, Professional and Information Technology Services, Payroll and Office Space	2008 \$(7,289,884) 2009 \$(7,660,014) 2010 \$(7,931,812)
Principal Underwriter 34710	05/01/2006	Touchstone Securities, Inc.	The Company	Distribution and Underwriting Services	2008 \$ (46,175) 2009 \$ (67,511) 2010 \$ (64,974)
Shareholder Services 38398	01/01/2008	The Company	Touchstone Advisors, Inc.	Administrative Services to Shareholders of Touchstone Funds through National Integrity Variable Annuities	2008 \$ 312,257 2009 \$ 301,906 2010 \$ 322,534
Investment Advisory 29281 Investment Advisory – Amendment 29281G	02/10/2001 01/01/2006	Fort Washington Investment Advisors, Inc.	The Company	Investment Advisory Services	2008 \$(1,330,676) 2009 \$(1,516,671) 2010 \$(1,786,808)
Broker-Dealer Sales 29517	03/17/2002	Touchstone Securities, Inc.	The Company	Sales	2008 \$0 2009 \$0 2010 \$0

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

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

E. Management

The Company's by-laws provide that the board of directors ("the board") shall be comprised of not less than seven and not more than 12 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year. As of December 31, 2010, the board of directors consisted of 12 members. Meetings of the board are held annually following the adjournment of the annual Stockholders' meeting. Other regular meetings of the board shall be fixed by the board.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Edward J. Babbitt Cincinnati, OH	Vice President & Senior Counsel Western & Southern Financial Group, Inc.	2003
John F. Barrett Cincinnati, OH	Chairman of the Board National Integrity Life Insurance Company	2000
George R. Bunn Jr.* New York, NY	Owner George R. Bunn Jr., Attorney at Law	2003
Daniel J. Downing Warwick, NY	Vice President, Independent Agent Channel National Integrity Life Insurance Company	1998
Eric C. Fast* Greenwich, CT	President & Chief Executive Officer Crane Company	2000
Dale P. Hennie Cincinnati, OH	Retired Former Senior Vice President of Western & Southern Life Insurance Company	2000
John R. Lindholm Louisville, KY	Retired Former President & Chief Executive Officer of Life Income Solutions	1997

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Cameron F. MacRae III* New York, NY	Counsel Dewey & LeBoeuf LLP	2000
Jill T. McGruder Cincinnati, OH	President & Chief Executive Officer National Integrity Life Insurance Company	2006
Newton P.S. Merrill* New York, NY	Retired Former Senior Executive Vice President of the Bank of New York	2000
Robert L. Walker Cincinnati, OH	Senior Vice President & Chief Financial Officer Western & Southern Financial Group, Inc.	2000
Donald J. Wuebbling Cincinnati, OH	Corporate Secretary & Counsel Western & Southern Financial Group, Inc.	2000

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

In November, 2011, John R. Lindholm resigned (retired) from the board. There was no replacement elected to the Board.

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:

<u>Name</u>	<u>Title</u>
John F. Barrett	Chairman of the Board
Jill T. McGruder	President and Chief Executive Officer
Nora E. Moushey	Senior Vice President and Chief Actuary
Edward J. Babbitt	Secretary
Mark E. Caner	Senior Vice President, Distribution
Clint D. Gibler	Senior Vice President, Chief Information Officer
Daniel J. Downing	Senior Vice President, Independent Agent Channel
Kevin L. Howard	Senior Vice President & General Counsel
Constance M. Maccarone	Senior Vice President, Insurance Operations
Nicholas P. Sargen	Senior Vice President and Chief Investment Officer
David T. Henderson	Vice President and Chief Risk Officer
Bradley J. Hunkler	Vice President and Chief Accounting Officer
Phillip E. King	Vice President and Auditor
Michael R. Moser*	Vice President and Chief Compliance Officer
James J. Vance	Vice President and Treasurer

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

3. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in eight states, namely Connecticut, Florida, Maine, New Hampshire, New York, Ohio, Rhode Island and Vermont; and the District of Columbia. In 2010, 94.2% of annuity considerations and all life insurance premiums were received from the state of New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2010, the Company had \$248,177 (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. As per confirmations received from the following state which was reported in Schedule E of the 2010 filed annual statement, an additional \$1,034,070 (par value) was held by the state of New Hampshire.

B. Direct Operations

The Company's principal products sold during the examination period were fixed and variable annuities that consisted of single premium deferred and immediate annuities, and flexible premium variable annuity contracts. The Company offers guaranteed rate options with both its fixed and variable annuities. The guaranteed rate option allows a fixed annuity contract holder to lock in a fixed rate for a two to ten year period. In addition, the Company offers short-term options that are available only with its variable annuity contracts. The short-term option provides the contract holder with a guaranteed interest rate on its contributions; however, contributions must be transferred to other investment options in equal monthly or quarterly installments within six months or one year.

The Company's target market for both its fixed and variable annuity products generally is middle to upper income individuals over the age of fifty who want to save for retirement with financial products that provide the benefit of tax-deferred growth.

The Company's agency operations are conducted on a general agency basis. Independent broker-dealer firms, stock brokerage firms, independent agents and financial institutions market the Company's fixed and variable annuity products.

C. Reinsurance

As of December 31, 2010, the Company had reinsurance treaties in effect with three companies, all of which were authorized or accredited. The Company's life business is reinsured on a 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 \$8,334,089, which represents 7.25% of the total face amount of life insurance in force.

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:

	December 31, <u>2007</u>	December 31, <u>2010</u>	Increase (Decrease)
Admitted assets	<u>\$3,677,508,548</u>	<u>\$4,830,605,377</u>	<u>\$1,153,096,829</u>
Liabilities	<u>\$3,535,373,484</u>	<u>\$4,578,620,270</u>	<u>\$1,043,246,786</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	206,370,849	312,227,768	105,856,919
Surplus from additional DTA	0	5,167,398	5,167,398
Unassigned funds (surplus)	<u>(66,235,785)</u>	<u>(67,410,059)</u>	<u>(1,174,274)</u>
Total capital and surplus	<u>\$ 142,135,064</u>	<u>\$ 251,985,107</u>	<u>\$ 109,850,043</u>
Total liabilities, capital and surplus	<u>\$3,677,508,548</u>	<u>\$4,830,605,377</u>	<u>\$1,153,096,829</u>

The majority (54%) of the Company's admitted assets, as of December 31, 2010, were derived from Separate Accounts.

The Company's invested assets as of December 31, 2010, exclusive of separate accounts, were mainly comprised of bonds (89.8%).

The majority (90%) 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:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Ordinary:			
Life insurance	\$ 331,185	\$ 376,853	\$ 255,397
Individual annuities	(5,325,282)	19,600,915	30,163,993
Supplementary contracts	<u>225,665</u>	<u>429,718</u>	<u>702,179</u>
Total ordinary	\$ <u>(4,768,432)</u>	\$ <u>20,407,486</u>	\$ <u>31,121,569</u>
All other lines	\$ <u>(29,291,913)</u>	\$ <u>(5,202,595)</u>	\$ <u>1,215,801</u>
Total	\$ <u>(34,060,345)</u>	\$ <u>15,204,891</u>	\$ <u>32,337,370</u>

The All other lines of business represent the capital gains or losses activity of the separate account.

5. 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 & Young LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the years then ended.

Ernst & Young LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	\$ 1,955,126,643
Stocks:	
Common stocks	17,318,550
Mortgage loans on real estate:	
First liens	27,187,902
Cash, cash equivalents and short term investments	20,809,535
Contract loans	42,431,012
Other invested assets	26,126,082
Receivable for securities	1,051,525
Securities lending reinvested collateral assets	88,486,420
Investment income due and accrued	23,645,363
Net deferred tax asset	14,698,036
Guaranty funds receivable or on deposit	841
Health care and other amounts receivable	249,561
From separate accounts, segregated accounts and protected cell accounts	<u>\$ 2,613,473,907</u>
 Total admitted assets	 <u>\$ 4,830,605,377</u>

C. <u>Liabilities, Capital and Surplus</u>	
Aggregate reserve for life policies and contracts	\$ 1,849,411,380
Liability for deposit-type contracts	81,736,781
Contract claims:	
Life	126,000
Other amounts payable on reinsurance	(30,383)
Commissions to agents due or accrued	854,031
General expenses due or accrued	273,316
Transfers to separate accounts due or accrued	(84,598,073)
Taxes, licenses and fees due or accrued, excluding federal income taxes	61,712
Current federal and foreign income taxes	2,809,020
Amounts withheld or retained by company as agent or trustee	18,816
Remittances and items not allocated	3,344,863
Miscellaneous liabilities:	
Asset valuation reserve	19,611,611
Payable to parent, subsidiaries and affiliates	1,203,202
Payable for Securities	1,700,571
Payable for Securities Lending	88,623,516
From Separate Accounts statement	<u>2,613,473,907</u>
Total liabilities	<u>\$ 4,578,620,270</u>
Common capital stock	2,000,000
Gross paid in and contributed surplus	312,227,768
Surplus from additional DTA (SSAP 10R)	5,167,398
Unassigned funds (surplus)	(67,410,059)
Surplus	<u>\$ 249,985,107</u>
Total capital and surplus	<u>\$ 251,985,107</u>
Total liabilities, capital and surplus	<u>\$ 4,830,605,377</u>

D. Condensed Summary of Operations

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Premiums and considerations	\$781,765,751	\$556,950,687	\$363,928,365
Investment income	72,707,414	98,985,148	108,859,731
Miscellaneous income	<u>8,438,885</u>	<u>6,385,681</u>	<u>7,415,646</u>
 Total income	 <u>\$862,912,050</u>	 <u>\$662,321,516</u>	 <u>\$480,203,742</u>
 Benefit payments	 \$408,802,110	 \$444,145,346	 \$417,092,949
Increase in reserves	391,879,606	337,669,242	199,457,941
Commissions	39,765,942	29,275,762	19,108,683
General expenses and taxes	13,967,765	13,370,685	14,718,400
Net transfers to (from) Separate Accounts	55,273,236	(179,310,095)	(216,289,686)
Miscellaneous deductions	<u>(35,429)</u>	<u>405,150</u>	<u>703,896</u>
 Total deductions	 <u>\$909,653,230</u>	 <u>\$645,556,090</u>	 <u>\$434,792,183</u>
 Net gain (loss)	 \$ (46,741,180)	 \$ 16,765,426	 \$ 45,411,559
Federal and foreign income taxes incurred	<u>(12,680,835)</u>	<u>1,560,535</u>	<u>13,074,189</u>
 Net gain (loss) from operations before net realized capital gains	 \$ (34,060,345)	 \$ 15,204,891	 \$ 32,337,370
Net realized capital gains (losses)	<u>(22,695,874)</u>	<u>(14,074,426)</u>	<u>(3,957,191)</u>
 Net income	 <u>\$ (56,756,219)</u>	 <u>\$ 1,130,465</u>	 <u>\$ 28,380,179</u>

E. Capital and Surplus Account

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Capital and surplus, December 31, prior year	\$ <u>142,135,064</u>	\$ <u>184,547,790</u>	\$ <u>225,589,932</u>
Net income	\$ (56,756,219)	\$ 1,130,465	\$ 28,380,179
Change in net unrealized capital gains (losses)	(7,049,374)	3,443,092	3,588,049
Change in net deferred income tax	10,035,627	(1,051,515)	(1,052,606)
Change in non-admitted assets and related items	(16,252,342)	13,519,900	9,267,493
Change in asset valuation reserve	16,471,318	(5,211,245)	(13,710,116)
Other changes in surplus in Separate Account statement	(8,308,970)	1,524,666	(6,526)
Cumulative effect of changes in accounting Principles	0	2,840,286	0
Capital changes: Paid in	94,171,919	0	0
Surplus adjustments: Paid in	0	11,685,000	0
Change in reserve on account of change in Valuation bases, Separate Account	10,100,767	0	0
Change in surplus from additional DTA (SSAP 10R)	0	5,238,696	(71,298)
Cumulative effect of change in accounting Principle, Separate Account (net of federal income tax)	<u>0</u>	<u>7,922,797</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>42,412,726</u>	\$ <u>41,042,142</u>	\$ <u>26,395,175</u>
Capital and surplus, December 31, current year	\$ <u>184,547,790</u>	\$ <u>225,589,932</u>	\$ <u>251,985,107</u>

6. 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. Sales Activities

The examiner reviewed the sales activities of the agency force including trade practices, solicitation and the replacement of annuity contracts.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files issued 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 and withdrawals. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

1. Section 216.11 of Department Regulation No. 64 states, in part:

“ . . .To enable department personnel to reconstruct an insurer's activities, all insurers subject to the provisions of this Part must maintain within each claim file all communications, transactions, notes and work papers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer . . .”

Section 216.5(a) of Department Regulation No. 64 states:

"Every insurer shall establish procedures to commence an investigation of any claim filed by a claimant's authorized representative, within 15 days of receipt of notice of claim. An insurer shall furnish to every claimant, or claimant's authorized representative, a notification of all items, statements and forms, if any, which the insurer reasonably believes will be required of the claimant, within 15

days of receiving notice of the claim. A claim filed with an agent of an insurer shall be deemed to have been filed with the insurer unless, consistent with law or contract, such agent notifies the person filing the claim that the agent is not authorized to receive notices of claim."

Section 216.6(c) of Department Regulation No. 64 states, in part:

"Within 15 business days after receipt by the insurer of a properly executed proof of loss and/or receipt of all items, statements and forms which the insurer requested from the claimant, the claimant or the claimant's authorized representative, shall be advised in writing of the acceptance or rejection of the claim by the insurer..."

The examiner reviewed the documentation files for 15 annuity death claim transactions.

The review resulted in the following:

- Seven (47%) did not include all communications, notes or work papers relating to the claim. Specifically, the files did not include one or both of the following: the date the claim was filed by the claimant with the insurer or with an agent of the insurer or the date the Company notified the claimant of all documentation required of the claimant. As a result, the examiner was not able to determine whether the Company furnished a notification of all items, statements and forms required of the claimant within 15 days of receiving notice of the claim in compliance with Section 216.5(a) of Department Regulation No. 64.
- One (7%) did not include evidence of the timely acknowledgement of the claim.

The Company violated Section 216.11 of Department Regulation No. 64 when it failed to maintain, within each death claim file, all communications, notes or work papers relating to the transaction, whether written or oral.

The Company violated Section 216.5(a) of Department Regulation No. 64 when it failed to provide evidence that a notification of all items, statements and forms required of the claimant was furnished to the claimant, within 15 days of receiving notice of the claim.

The Company violated Section 216.6(c) of Department Regulation No. 64 when it failed to provide evidence that it advised the claimant or the claimant's authorized representative of the acceptance or rejection of the claim within 15 business days of receipt of all requested items.

2. Section 403(d) of the New York Insurance Law states, in part:

“All applications for commercial insurance, individual, group or blanket accident and health insurance and all claim forms...shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

"Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation."

Pursuant to Section 403(d) of the New York Insurance Law, the Superintendent promulgated Section 86.4 of Department Regulation No. 95, which states in part:

“(a) . . . all claim forms for insurance, and all applications for commercial insurance and accident and health insurance, provided to any person residing or located in this State in connection with insurance policies for issuance or issuance for delivery in this State, shall contain the following statement:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.’ . . .

(e) . . . insurers may use substantially similar warning statements provided such warning statements are submitted to the Insurance Frauds Bureau for prior approval.”

In seven out of 15 (47%) annuity death claim cases reviewed, the Company used claim forms that did not contain the appropriate language required by Section 403 of the New York Insurance Law. The fraud language contained in the annuity cases reviewed neither conforms to Section 86.4 of Department Regulation No. 95 nor was it submitted to the Department for prior approval.

The Company violated Section 403(d) of the New York Insurance Law and Sections 86.4(a) and (e) of Department Regulation No. 95 by utilizing claim forms that failed to contain the required fraud warning statement, and further, by using language that deviated from the required fraud warning statement without obtaining prior approval from the Department’s Insurance Frauds Bureau.

D. Complaints

The examiner reviewed the Company's complaint register to ensure completeness and compliance with Company policies and procedures and Department regulatory requirements. The examiner also reviewed a sample of complaint files to ensure that adequate steps were taken by the Company to properly address consumers' complaints.

1. Department Circular Letter No. 11 (1978) advises that:

“ . . . As part of its complaint handling function, the company's consumer services department will maintain an ongoing central log to register and monitor all complaint activity. The log should be kept in a columnar form and list the following . . .

4. The responsible internal division, i.e., personal lines underwriting, property damage claims, etc.
5. The person in the company with whom the complainant has been dealing.
6. The person within the company to whom the matter has been referred for review.
7. The date of such referral.
8. Bearing in mind the appropriate regulation mandating timely substantive replies, the dates of correspondence to the Insurance Department's Consumer Services Bureau.
 - A. The acknowledgement, if any.
 - B. The date of any substantive response.
 - C. The chronology of further contacts with this Department . . .
10. The results of the complaint investigation and the action taken. . . .”

The Company's listing of complaints received from the Department did not include the following information:

- The person in the company with whom the complainant has been dealing.
- The acknowledgement of and dates of substantive responses and chronology of further contacts with the Department.
- The results of the complaint investigation and the action taken.

The Company's listing of complaints received directly from the consumer did not include the following information:

- The person in the company with whom the complainant has been dealing.
- The results of the complaint investigation and the action taken.

- The responsible internal division.
- The person in the company to whom the matter has been referred for review
- The date of such referral.

The Company maintained the complaint log but they were incomplete. As a result the examiner was unable to determine if timely and appropriate action was taken.

The examiner recommends that the Company maintain its complaint log in the format outlined in Department Circular Letter No. 11 (1978).

2. Section 216.4 (b) of Department Regulation No. 64 states:

“An appropriate reply shall be made within 15 business days on all other pertinent communications . . .”

Section 216.11 of Department Regulation No. 64 states, in part:

“ . . .To enable department personnel to reconstruct an insurer’s activities, all insurers subject to the provisions of this Part must maintain within each claim file all communications, transactions, notes and work papers relating to the claim. All communications and transactions, whether written or oral, emanating from or received by the insurer shall be dated by the insurer . . .”

The examiner reviewed the documentation files for 10 consumer complaints received by the Company from New York policyholders. The review resulted in the following:

- Three (30%) did not include evidence of acknowledgement to the complainant within 15 business days of complaint receipt.
- One (10%) did not include an acknowledgement or response by the Company.
- One (10%) did not include documentation to support comments attributed to the complainant within complaint correspondence authored by the Company.
- Two (20%) included documentation received from the Department or the complainant that was not dated as to when it was received.

The Company violated Section 216.4(b) of Department Regulation No. 64 by failing to provide an acknowledgement to the complainant within 15 business days of receipt of the complaint.

The Company violated Section 216.11 of Department Regulation No. 64 when it failed to maintain, within each complaint file, all communications, transactions, notes and work papers relating to the complaint, whether written or oral, and by not dating all communications.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the comment contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>During the Department's review of the Company's reserves, concerns were noted regarding the justification of projected interaction of credited interest rate strategy, net investment returns, and policyholder behavior. The certificate of reserve valuation for December 31, 2007 was held in abeyance pending results of the asset adequacy analysis review.</p> <p>As part of the December 31, 2008 reserve review and asset adequacy analysis, the Company committed to provide additional data to support its assumptions. The Company complied with the Department's recommendations and the reserve certificate was issued for 2007.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violations and comments contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 216.11 of Department Regulation No. 64 when it failed to maintain, within each death claim file, all communications, notes or work papers relating to the transaction, whether written or oral.	22
B	The Company violated Section 216.5(a) of Department Regulation No. 64 when it failed to provide evidence that a notification of all items, statements and forms required of the claimant was furnished to the claimant, within 15 days of receiving notice of the claim.	22
C	The Company violated Section 216.6(c) of Department Regulation No. 64 when it failed to provide evidence that it advised the claimant or the claimant's authorized representative of the acceptance or rejection of the claim within 15 business days of receipt of all requested items..	22
D	The Company violated Section 403(d) of the New York Insurance Law and Sections 86.4(a) and (e) of Department Regulation No. 95 by utilizing claim forms that failed to contain the required fraud warning statement, and further, by using language that deviated from the required fraud warning statement without obtaining prior approval from the Department's Insurance Frauds Bureau.	23
E	The examiner recommends that the Company maintain its complaint log in the format outlined in Department Circular Letter No. 11 (1978).	25
F	The Company violated Section 216.4(b) of Department Regulation No. 64 by failing to provide an acknowledgement to the complainant within 15 business days of receipt of the complaint.	25
G	The Company violated Section 216.11 of Department Regulation No. 64 when it failed to maintain, within each complaint file, all communications, transactions, notes and work papers relating to the complaint, whether written or oral, and by not dating all communications.	26

APPOINTMENT NO. 30694

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:

BILL MICHAEL

as a proper person to examine into the affairs of the

NATIONAL INTEGRITY 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 17th day of March, 2011



JAMES J. WRYNN
Superintendent of Insurance

James J. Wrynn
Superintendent