



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON MARKET CONDUCT EXAMINATION
OF THE
COMBINED LIFE INSURANCE COMPANY
OF NEW YORK

CONDITION:

December 31, 2010

DATE OF REPORT:

May 8, 2012

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON MARKET CONDUCT EXAMINATION

OF THE

COMBINED LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2010

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MAY 8, 2012

EXAMINER:

DENNIS G. BENSEN

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	4
A. History	4
B. Territory and plan of operation	4
4. Market conduct activities	10
A. Advertising and sales activities	10
B. Underwriting and policy forms	10
C. Treatment of policyholders	10
D. Actuarial Statement of Self-Support	10
5. Prior report summary and conclusions	12
6. Summary and conclusions	14



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

November 3, 2014

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

Sir:

In accordance with instructions contained in Appointment No. 30855, dated May 23, 2012 and annexed hereto, an examination has been made into the condition and affairs of Combined Life Insurance Company of New York, hereinafter referred to as “the Company,” at its home office located at 13 Cornell Road, Latham, New York 12210.

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. EXECUTIVE SUMMARY

The material violation contained in this report is summarized below.

- The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the self-support demonstrations for certain policies.

2. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2008, through December 31, 2010. As necessary, the examiner reviewed matters occurring subsequent to December 31, 2010, but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of market conduct activities and utilized the National Association of Insurance Commissioners' Market Regulations Handbook or such other examination procedures, as deemed appropriate, in such review.

The examiner reviewed the corrective actions taken by the Company with respect to the market conduct violations and recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 5 of this report.

This report on examination is confined to comments on 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 and commenced business as a stock life insurance company under the laws of New York on November 3, 1964, under the name of James Monroe Life Insurance Company. On May 12, 1971, all shares of authorized capital stock were purchased by Combined Insurance Company of America (“CICA”). The present name of the Company was adopted when the Company was purchased by CICA. On April 1, 2008, ACE acquired the Company’s parent, CICA, from Aon Corporation (“Aon”). ACE is a global insurance and reinsurance organization that provides a wide range of insurance and reinsurance products through its direct and indirect subsidiaries in more than 150 countries. Initial resources of \$800,000 were contributed through the sale of 400,000 shares of stock with a par value of \$2 per share. On February 17, 1965, the Company issued an additional 100,000 shares, with a par value of \$2 per share, which increased the authorized capital to \$1,000,000.

B. Territory and Plan of Operation

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 three states, namely New York, Florida, and Illinois. In 2010, 94% of life premiums and 98% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company’s focus is towards the sale of individual accident and health policies, but the Company also sells small face amount life policies. The targeted market for the Company’s products are lower middle income and working class groups, as well as small business owners located in small towns throughout New York State. The sales force works off Company generated “leads listings” based on its existing policyholders and telephonic solicitations of its products.

The Company’s distribution systems are divided between its individual and group operations. The Company utilizes a 100% captive field force in marketing its individual products. The Company’s agency operations are conducted on a general agency basis. The

Company introduced a new needs based sales distribution model in May 2009, known as the Enhanced Sales Model (“ESM”). The ESM combined the traditional 7th Essential and Life/Health sales divisions into a single sales distribution channel, focusing on the total coverage needs of an individual. The Worksite sales division remains a separate sales distribution channel.

The Company’s group products are solicited through the Company’s Combined Select Programs (“CSP”), a division/business unit of its parent CICA. Group vision care and employer stop loss products are marketed by CSP to employer groups located in New York State. CSP utilizes licensed brokers to market its University Health and K-12 products, and program managers to market its vision care and employer stop loss products.

The principal lines of business sold during the examination period were individual accident and health, group accident and health and individual life. The significant products marketing during the examination period are presented by distribution model.

Individual Accident and Health Products:

Traditional Sales Model – 7th Essential (Prior to May 2009)

Hospital Emergency Recovery & Outpatient Policy (“Super HERO”) – Provides accident only indemnity benefits for hospitalization, intensive care, recovery from hospitalization, recovery from outpatient surgery, emergency room visits, and physician treatment visits.

Disability Accident Policy (“DAP”) – Pays a flat amount per day for disability income protection due to accident. Policy is guaranteed renewable.

Sickness Income Policy (“SIP”) – Pays a flat amount per day for disability income protection due to sickness. Policy is guaranteed renewable.

Sickness Hospital Indemnity Plan (“SHIP”) – Pays a flat amount for each day an insured is confined to a hospital due to sickness. Policy is guaranteed renewable.

Personal Income Protector (“PIP”) – covers disability as a result of either accident or sickness.

Critical Care – Pays a lump-sum benefit upon diagnosis/treatment of specified illnesses or conditions.

Cancer Assistance Policy – Pays benefits for hospitalization, surgery, anesthesia, radiation and chemotherapy treatment for cancer related illnesses and includes a preventative care benefit.

Accidental Death and Dismemberment - (“AD&D”) – Pays a benefit for certain common carrier accidents and any accident referred to in the policy. The policy is guaranteed renewable.

Enhanced Sales Model

Income Protector – Pays disability benefits when a person is totally disabled due to sickness or injury and can’t work.

Accident & Sickness Protector – Provides a daily benefit for hospital confinement, intensive care, along with benefits for outpatient surgery, emergency room, and physician’s treatment.

Enhanced Disability Accident Policy (EDAP) – Provides indemnity accident only benefits for total disability, partial disability, and total and permanent disability.

Cancer Assistance Policy – Pays benefits for hospital confinement, surgery, anesthesia, radiation and chemotherapy treatment for cancer related illnesses and includes preventative care benefit.

Critical Care – Pays a lump-sum benefit upon diagnosis/treatment of specified illnesses or conditions.

Accidental Death and Dismemberment (AD&D) – Pays a benefit for certain common carrier accidents and any accident referred to in the policy. The policy is guaranteed renewable.

Group Accident and Health (CSP)

Group Blanket Student Accident & Sickness - (“University Health”) – Provides accident and health coverage on a blanket basis and is marketed to colleges and universities to provide coverage to students.

Student Accident Only (“K-12”) – Provides accident only coverage on a blanket basis and is marketed to primary and secondary schools to provide coverage for students during school activities.

Employer Stop Loss – Provides coverage to employers who self fund medical benefits for their employees and insures the employer against high individual medical claims (specific stop loss) and high claims for the entire group (aggregate stop loss).

Group Vision Care Insurance – Provides basic vision care benefits (e.g., for eye examinations, lenses, frames) and is marketed primarily to employer groups for the benefit of their employees.

Life Products

Traditional Sales Model – Life/Health

Whole Life Insurance Policy - coverage available from \$5,000-\$100,000, includes policy loans, accelerated death benefits WOP insured, spouse and child term rider, ADB, lump sum or life income.

Flexible Premium Adjustable Life (Universal Life) - coverage is available from \$10,000-\$250,000. Spouse and children’s coverage is available. Includes accelerated payment benefit (up to \$75,000).

Golden Advantage Life - coverage available from \$3,000 or \$5,000 includes policy loans, lump sum or life income.

Renewable Term Life Endowment - coverage includes 25-year term with partial endowment payment after 15 years and premium increase after 15 years. Coverage available from \$5,000-\$100,000 and includes policy loans, accelerated death benefit WOP, lump sum or limited term income.

Level Term Life Policy - is renewable up to age 65. Five, ten and twenty year term to age 65 coverage available from \$5,000-\$100,000 and includes policy loans, accelerated death benefit WOP, lump sum or limited term income. Conversion privilege to a permanent life plan is available at the end of the term period.

Life Enhanced Sales Model

Family Life Protector (FLP) - coverage available at \$10,000, \$15,000, \$25,000 and \$50,000 and includes policy loans, accelerated death benefit WOP, optional death benefit rider (not available over age 59), optional children's level term rider, optional children's accidental death benefit rider.

Flexible Premium Adjustable Life (Universal Life) - coverage is available from \$10,000-\$250,000. Spouse and children's coverage is available. This product includes an accelerated payment benefit (up to \$75,000).

Golden Advantage Life - coverage available at \$3,000 or \$5,000 and includes policy loans, lump sum or life income.

Level Term Life - policy is renewable to age 65. Five, ten, twenty year term or term age 65 coverage available from \$5,000-\$100,000. Includes policy loans, accelerated death benefit WOP, lump sum or limited term income. Conversion privilege to a permanent life plan is available at the end of the term period.

Summarizing, the Enhanced Sales Model markets the Income Protector, Accident & Sickness Protector, Enhanced Disability Accident Policy, Cancer Assistance Policy, Critical Care, Accidental Death and Dismemberment as well as the Family Life Protector, Flexible Premium Adjustable Life (Universal Life), Golden Advantage Life and Level Term Life. The Worksite division markets Universal Life, Term Life, AD&D, Disability Income, Accident-Only, Accident & Sickness Hospitalization and Critical Care Protector through employer payroll deduction. Combined Select Programs markets Group Blanket Student Accident and Health, Student Accident Only, Employer Stop Loss and Group Vision Care.

4. 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.

D. Actuarial Statement of Self-Support

Section 4228(h) of the New York Insurance Law states, in part:

“No company shall offer for sale any life insurance policy form or annuity contract form covered by this section or any debit life insurance policy form which shall not appear to be self-supporting on reasonable assumptions as to interest, mortality, persistency, taxes, agents' and brokers' survival and expenses resulting from the sale of the policy or contract form. For all such forms offered for sale in this state, and for all forms filed for use outside this state by domestic life insurance companies, a statement that the requirements of this subsection have been met, signed by an actuary who is a member in good standing of the

American Academy of Actuaries and meets the requirements prescribed by the superintendent by regulation shall be submitted with each such life insurance policy or annuity contract form filed pursuant to paragraph one or six of subsection (b) of section three thousand two hundred one of this chapter. A demonstration supporting each such statement, signed by an actuary meeting such qualifications, shall be retained in the company's home office, while such form is being offered in this state and for a period of six years thereafter and be available for inspection”

The examiner conducted a review of the pricing adequacy for various life insurance products subject to Section 4228(h) of the New York Insurance Law. This review included an examination of the required actuarial statements of self-support and the supporting demonstrations. The examiner requested statements and corresponding demonstrations for all of the Company’s policy forms subject to Section 4228(h).

Concerns were raised with respect to the unavailability of some of these materials. For one policy form, with 5,313 policies issued, no statement of self-support was found. For one policy form, with 218 policies issued, no demonstration of self-support was found. For two policy forms, with 7,171 policies issued prior to the dates of the demonstrations, the self-support demonstrations were prepared more than one year after the original statements of self-support were signed,. The self-support demonstrations were also not signed as required.

The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the self-support demonstrations of certain policies.

In response to the Department's concerns, the Company agreed that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support.

The Company also agreed that such demonstrations will be well organized, containing narrative descriptions of the methodologies and material assumptions used such that another actuary can make a reasonable assessment of the analyses performed.

5. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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>The Company violated Section 2112(d) of the New York Insurance Law by failing to notify the Department within thirty days of the termination of the certificate of appointment the facts relative to such termination for cause.</p> <p>The Company instituted a 10 day turnaround standard for Field Compliance to provide the Company's Licensing Department with the investigative findings on a termination for cause. The examiner did not note any instances where agents were terminated for cause during the examination period.</p>
B	<p>The Company violated Section 3207(b) of the New York Insurance Law by issuing life insurance on the lives of minors in excess of the limits permitted.</p> <p>The examiner did not note any instances where life insurance was issued on the lives of minors, in excess of the limits permitted by the insurance law, during the current examination period.</p>
C	<p>The Company violated Section 86.4(a) of Department Regulation No. 95 by failing to contain the required fraud warning statement on its life insurance claim forms that are processed by its call center.</p> <p>The Company's life insurance claim forms contain the required fraud warning statement.</p>

- D The Company violated Section 3224-a(c) of the New York Insurance law by failing to pay interest on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.

The Company conducted an audit of all health claims paid during the exam period (2004-2007) and analyzed the claim data to identify potential late payments and verify that the proper interest had been paid on any of the payments noted as late. This audit resulted in additional payments to customers totaling \$40,000.00.

- E The examiner recommends that the Company implement procedures to monitor its TPA's to assure that interest is paid on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.

The Company conducted an audit of all health claims paid during the exam period (2004-2007) and analyzed the claim data to identify potential late payments and verify that the proper interest had been paid on any of the payments noted as late. This audit resulted in additional payments to customers totaling \$40,000.00.

- F The Company violated Section 4221(c)(1) of the New York Insurance Law by using a non-forfeiture interest rate of 5.75%, which produced less favorable cash surrender values than those required.

The Company immediately ceased using the form and began corrective action immediately. A full review of the error indicated that no policyholders were adversely affected.

6. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the self-support demonstrations of certain policies.	

Respectfully submitted,

_____/s/
Dennis G. Bensen
Associate Insurance Examiner, CLU, AIE

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

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

_____/s/
Dennis G. Bensen

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 30855

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:

DENNIS BENSEN

as a proper person to examine the affairs of the

COMBINED LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

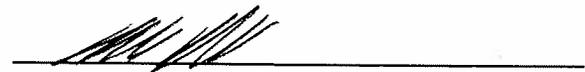
with such other information as he shall deem requisite.

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

this 23rd day of May, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

