NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

FINANCIAL CONDITION REPORT ON EXAMINATION

OF THE

PAVONIA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:	DECEMBER 31, 2018
DATE OF REPORT:	JUNE 17, 2020

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<u>AS OF</u>

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<u>EXAMINER</u>:	<u>MARY B. PACKARD, CFE</u>

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Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

June 17, 2020

The Honorable Linda A. Lacewell
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 32038, dated January 29, 2020 and annexed hereto, an examination has been made into the condition and affairs of Pavonia Life Insurance Company of New York, hereinafter referred to as "the Company," at its administrative office located at 412 Mt. Kremble Avenue, Morristown, NJ 07960. The Company's statutory home office is located at 411 Fifth Avenue 5th Floor, New York, NY 10016.

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 findings, violations, and comment contained in this report are summarized below.

- The Company violated Section 325(a) of the New York Insurance Law by failing to maintain several statutorily required records at its home office. (See item 3F of this report.)
- The Company violated Section 243.2(b)(8) of 11 NYCRR 243 (Insurance Regulation No. 152) by failing to maintain a signed copy of the 2017 Shareholder meeting minutes and a copy of the 2018 Shareholder meeting minutes. (See item 3G of this report.)
- The Company violated Section 1202(b)(1)(a) of the New York Insurance Law and Section 5.4 of its by-laws by failing to have at least one-third of the members of the Investment Committee be persons who are not officers or employees of the Company or any entity controlling, controlled by, or under common control with the Company. (See item 3H of this report.)
- The extent to which COVID-19 may affect the Company's financial condition or results of operations will depend on future developments, including the duration, spread, and intensity of the pandemic. The extent of these future developments is uncertain and not readily determinable as of the date of this report, considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall effect of COVID-19 on the Company's business. The Department, along with all insurance regulators and the NAIC, are closely monitoring the evolving situation and the insurance industry through a coordinated effort to assess the effects of the pandemic on various types of insurance, individual insurers, and the insurance industry as a whole. (See item 7 of this report.)
- Effective March 29, 2019, as a result of a corporate reorganization, Kenmare holdings Ltd., a Bermuda company that is a wholly owned subsidiary of Enstar Group Limited, became the direct parent company of the Company. (See item 7 of this report.)

2. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2019 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2014 through December 31, 2018. 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, 2018 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 is a coordinated examination with Delaware serving as the lead state. Also participating with Delaware and New York are the states of Oklahoma, Rhode Island and Texas. Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other's work.

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 2014 through 2018, by the accounting firm of KPMG, LLP ("KPMG"). The Company received an unqualified audit opinion for each year of the examination period. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company's ultimate parent, Enstar Group Limited ("Enstar"), has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, SOX 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 financial condition violations and comment contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on September 30, 1971, under the name of American Republic Life Insurance Company of New York and was licensed and commenced business on November 9, 1971. 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 10,000 shares of common stock (with a par value of $100 each) for $300 per share.

On November 9, 1981, Penn Mutual Life Insurance Company of Philadelphia acquired the Company. On November 18, 1986, Western National Life Holding Company Inc. ("Western National"), whose ultimate parent was Beneficial Corporation ("Beneficial"), acquired the Company. On December 11, 1986, the Company changed its name to American Western National Life Insurance Company.

On March 19, 1990, Western National was dissolved and the ownership of the Company was transferred to The Central National Life Insurance Company of Omaha. On January 6, 1992, the Company's name was changed to First Central National Life Insurance Company of New York.

On June 30, 1998, Household International, Inc. ("HI") acquired Beneficial. In December 1999, HI sold The Central National Life Insurance Company of Omaha, and transferred the ownership of the Company to Household Life Insurance Company ("HLIC"), a life insurance subsidiary of HI domiciled in Michigan.

On March 28, 2003, HI was acquired by HSBC Holdings, plc ("HSBC"). HSBC became the ultimate parent of the Company. On December 15, 2005, HI merged with Household Finance Corporation ("HFC") and its name was changed to HSBC Finance Corporation ("HSBC Finance").

On December 7, 2012, the Department's approval was given to the Company to declare and pay an extraordinary dividend up to $12.0 million to its parent companies. The purpose of the dividend was to distribute excess capital to the Company's upstream parent companies. On February 15, 2013, the Company paid a dividend of $9.0 million to HLIC.

On March 31, 2013, Pavonia Holdings (US), Inc. ("Pavonia Holdings") acquired all shares of Pavonia Life Insurance Company of Delaware ("PLIC DE"), previously known as Household Life Insurance Company of Delaware ("Household DE") a subsidiary of HSBC. Household DE owned all the shares of stock of HLIC, which in turn owned all the shares of stock of the Company. Pavonia Holdings is a Delaware corporation and is a member of Enstar"). Enstar is a Bermuda company that acquires and manages insurance and reinsurance companies in run-off, and provides management, consulting, and other services to the global insurance and reinsurance industry.

In September 2013, HLIC changed its name to Pavonia Life Insurance Company of Michigan ("PLIC MI").

In December 2013, the Company changed its name from First Central National Life Insurance Company of New York to Pavonia Life Insurance Company of New York.

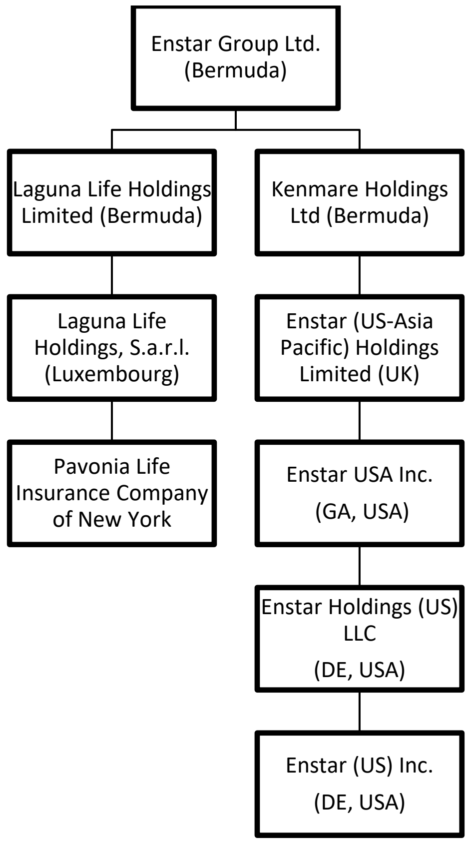
On December 29, 2017, PLIC MI sold all of the issued and outstanding stock of the Company to Laguna Life Holdings, SARL ("Laguna Life"), a Luxembourg limited liability company, which is wholly owned by Laguna Life Holdings Limited, a non-insurance holding company incorporated in Bermuda ("Laguna Life Holdings"). Laguna Life Holdings is wholly owned by Enstar. Simultaneously, Enstar sold Pavonia Holdings to GBIG Holdings Inc., a third party.

B. Holding Company

The Company is a wholly owned subsidiary of Laguna Life. Laguna Life is a wholly owned subsidiary of Laguna Life Holdings Limited, a non-insurance holding company incorporated in Bermuda, whose ultimate parent is Enstar.

C. Organizational Chart

An organizational chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2018 follows:



D. Service Agreements

The Company had an intercompany service agreement in effect with Enstar (US) Inc. during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Services Covered	(Expense)* For Each Year of the Examination
Service Agreement Department File No. 46686	04/01/2013	Enstar (US) Inc.	The Company	Provide or arrange for the provision of all services necessary or appropriate in connection with the management and operation of the Company and the insurance business including legal, data processing, treasury, corporate secretarial, premium collection and refunds, claims, investment management, record keeping and reporting and other services	2014 $(951,906) 2015 $(852,634) 2016 $ (74,048) 2017 $(838,243) 2018 $(181,434)

* Amount of (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 seven directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year or as may be fixed by the board of directors. As of December 31, 2018, the board of directors consisted of seven members. Meetings of the board are held quarterly.

The seven board members and their principal business affiliation, as of December 31, 2018, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Paul Brockman St. Petersburg, Florida	President Enstar (US) Inc.	2015
John Dore* Northfield, Illinois	Consultant and Manager Sheridan Ridge Advisers, LLC	2017
Jennifer Miu Brooklyn, New York	Senior Vice President and Chief Financial Officer Enstar (US) Inc.	2017
Daniel O'Brien* Naples, Florida	Retired President and Chief Executive Officer First Central National Life Insurance Company	1992
Robert Redpath Weston, Connecticut	Senior Vice President, Corporate Legal Counsel Enstar (US) Inc.	2013
Richard Seelinger Sammamish, Washington	Senior Vice President and Chief Operating Officer Enstar (US) Inc.	2017
Phillip Toohey* Orchard Park, New York	Retired Senior Executive Vice President and Secretary HSBC USA, Inc.	2006

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

Ann Lagomarsino was appointed to the board of directors on March 11, 2019.

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, 2018:

Name	Title
Paul Brockman	Chairman of the Board, Chief Executive Officer and President
Louis Dimopoulos	Senior Vice President, Tax Officer
Richard Seelinger	Senior Vice President
Jennifer Miu	Vice President, Treasurer
Robert Redpath*	Vice President
Thomas Balkan	Secretary
Nadja Stavenhagen	Assistant Secretary

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation No. 64)

Louis Dimopoulos resigned as Senior Vice President, Tax Officer, on June 14, 2019. Vyacheslav Kolker was appointed as Senior Vice President, Tax Officer, on December 12, 2019.

F. Books and Records

Section 325(a) of the New York Insurance Law states, in part:

> "Every domestic insurer . . . shall, except as hereinafter provided, keep and maintain at its principal office in this state its charter and by-laws, (in the case of a United States branch a copy thereof) and its books of account, and if a domestic stock corporation, a record containing the names and addresses of its shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof, and if a domestic corporation the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof . . . "

On January 29, 2020, the examiner visited the Company's statutory home office located at 411 Fifth Avenue, New York, NY to inspect its books and records. The physical inspection revealed that the Company did not maintain, at its home office: (i) 2014, 2016 and 2017 annual statements; and (ii) other books of account, including, quarterly statements, general ledger, transaction registers, subsidiary ledger transaction detail (investments, claims, etc.), cash books, and detailed workpapers supporting its quarterly and annual statements, for the examination period. In addition, except for the exhibits and materials presented during the September 5, 2014 board meeting, the Company did not maintain copies of the exhibits and materials presented during meetings of the board of directors, audit committee, and investment committee.

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain several statutorily required records at its home office.

G. Record Retention

Section 243.2(b) of 11 NYCRR 243 (Insurance Regulation No. 152) states, in part:

"Except as otherwise required by law or regulation, an insurer shall maintain: . . .

(8) Any other record for six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review."

The Company provided a copy of the 2017 Shareholder meeting minutes which were not signed and did not provide a copy of the 2018 Shareholder meeting minutes. The Company was unable to provide a signed copy of the 2017 Shareholder meeting minutes and it did not have a copy of the 2018 Shareholder meeting minutes.

The Company violated Section 243.2(b)(8) of 11 NYCRR 243 (Insurance Regulation No. 152) by failing to maintain a signed copy of the 2017 Shareholder meeting minutes and a copy of the 2018 Shareholder meeting minutes.

H. Non-Affiliated Committee Member

Section 1202(b)(1)(a) of the New York Insurance Law states, in part:

" . . . not less than one-third of the directors . . . and not less than one-third member of each committee . . . shall be persons who are not officers or employees of such company or of any entity controlling, controlled by or under common control . . ."

The Company's Investment Committee is comprised of three members who are officers of Enstar (US) Inc., an affiliate.

The Company violated Section 1202(b)(1)(a) of the New York Insurance Law and Section 5.4 of its by-laws by failing to have at least one-third of the members of the Investment Committee be persons who are not officers or employees of the Company or any entity controlling, controlled by, or under common control with the Company.

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 two states, New York and Delaware. In 2018, 97.0% of life premiums, 100.0% of accident and health premiums, and 65.5% of deposit-type funds were received from New York. Policies are written on a non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2018:

Life Insurance Premiums		Deposit Type Funds	
New York	97.0%	New York	65.5%
Florida	0.6	Florida	14.0
New Jersey	0.5	Maryland	5.5
California	0.3	New Jersey	3.4
Pennsylvania	0.3	California	2.7
Subtotal	98.7%	Subtotal	91.1%
All others	1.3	All others	8.9
Total	100.0%	Total	100.0%

A. Statutory and Special Deposits

As of December 31, 2018, the Company had $250,000 (par value) of United States Treasury Notes 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 has been in run-off since 2012.

C. Reinsurance

As of December 31, 2018, the Company had reinsurance treaties in effect with two companies, of which one was authorized or accredited. The Company’s life business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is $500,000. The total face amount of life insurance ceded as of December 31, 2018, was $84,577,889, which represents 9.9% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies totaling $325,598 was reported as a liability in the Company's 2018 Annual Statement.

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 decline during the period under review:

	December 31, 2013	December 31, 2018	(Decrease)
Admitted assets	$36,174,910	$29,775,043	$(6,399,867)
Liabilities	$23,012,475	$20,403,909	$(2,608,566)
Common capital stock	$ 1,000,000	$ 1,000,000	$ 0
Gross paid in and contributed surplus	9,200,000	9,200,000	0
Unassigned funds (surplus)	2,962,435	(828,866)	(3,791,301)
Total capital and surplus	$13,162,435	$ 9,371,134	$(3,791,301)
Total liabilities, capital and surplus	$36,174,910	$29,775,043	$(6,399,867)

The Company's invested assets as of December 31, 2018, were mainly comprised of bonds (86.3%) and cash and short-term investments (13.7%).

The Company's bond portfolio, as of December 31, 2018, was comprised of 97% investment grade obligations.

The decreases in assets, liabilities, and capital and surplus were primarily due to the Company's business being in run-off.

The following table indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

	Individual Whole Life		Individual Term		Credit Life	
Year	Issued	In Force	Issued	In Force	Issued	In Force
2014	$775	$1,986	$0	$1,162,530	$0	$141,195
2015	$500	$2,118	$0	$1,082,316	$0	$113,348
2016	$625	$2,658	$0	$1,023,136	$0	$ 91,988
2017	$325	$2,900	$0	$ 938,098	$0	$ 33,741
2018	$375	$2,984	$0	$ 821,378	$0	$ 27,092

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	Ordinary Annuities				
	2014	2015	2016	2017	2018
Outstanding, end of previous year	4	3	3	3	3
Issued during the year	0	0	0	0	0
Other net changes during the year	(1)	(0)	(0)	(0)	(0)
Outstanding, end of current year	3	3	3	3	3

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:

	2014	2015	2016	2017	2018
Ordinary:					
Life insurance	$ 604,678	$1,214,906	$ 821,626	$(1,582,770)	$610,285
Individual annuities	4,673	(4,352)	(3,561)	(5,370)	(5,467)
Total ordinary	$ 609,351	$1,210,554	$ 818,065	$(1,588,140)	$604,818
Credit life	$ 120,437	$ 349,568	$ 244,700	$ (968,484)	$ 90,702
Accident and health:					
Credit	$ 383,695	$ (149,278)	$ 28,596	$ (66,083)	$(87,916)
Total accident and health	$ 383,695	$ (149,278)	$ 28,596	$ (66,083)	$(87,916)
Total	$1,113,483	$1,410,845	$1,091,361	$(2,622,708)	$607,603

Total ordinary life increased from 2014 to 2015 primarily due to lower benefits incurred (paid and changes in policy reserves) in 2015. Total ordinary life decreased from 2015 to 2016 due to an increase in benefits incurred and by the commutation of reinsurance on the term life product resulting in an increase in premiums offset by a ceding fee paid. Total ordinary life decreased from 2016 to 2017 due to the higher benefits incurred in 2017 and the decline in premiums received as the business is in run-off. The decrease is also due to higher management fees that were approved by the Department. The increase in total ordinary life from 2017 to 2018 was due to a decrease in benefits incurred, the commutation of reinsurance, the decline in premiums, and lower management fees.

The increase in credit life from 2014 to 2015 was due to a decline in incurred claims. The decrease in credit life from 2015 to 2016 was due to higher claims and lower premiums as the business is in run-off. The decrease in credit life from 2016 to 2017 was due to the cancellation of the HSBC group master policies. The decrease in credit life from 2017 to 2018 was due to lower premiums as the business is in run-off.

The decrease in credit accident and health ("A&H") from 2014 to 2015 was due to the increase in incurred claims driven by an increase in claim reserves. The increase in A&H from 2015 to 2016 was due to the decrease in claim reserves that followed the claim experience after the increase in reserves in 2014 and the business continuing to decline due to the run-off. The decrease in A&H from 2016 to 2017 was due to the cancellation of the HSBC group master policies. The decrease in A&H from 2017 to 2018 was due to the business being in run-off.

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:

	2014	2015	2016	2017	2018
Premiums earned	100.0%	100.0%	100.0%	100.0%	100.0%
Incurred losses	(157.8)%	97.9%	8.7%	(25.9)%	49.3%
Expenses	83.9	76.8	62.7	224.4	249.4
	73.9%	174.7%	71.4%	198.5%	298.7%
Underwriting results	174.0%	(74.6)%	28.5%	(98.5)%	(198.7)%

The accident & health ("A&H") loss ratio for 2014 was affected by the Company's transition from HSBC to the Enstar ownership which impacted claim payment activity during 2013 and impacted claim triangle lag factors used to set claim reserves. This led to excess margin in the year-end 2013 claim reserve accrual that was released during 2014 as claim activity normalized. The A&H loss ratio in 2015 increased due to increase in claim reserves related to the change in discount factor and the switch to use lag factors based on a 1-year period instead of a 3-year period. For 2016 and 2017, the decrease in the loss ratio was due to a decrease in claim reserve that was driven by a decline in claim activity. For 2018, the loss ratio was driven mostly by changes in claim reserves.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2018, as contained in the Company's 2018 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, 2018 filed annual statement.

A. Independent Accountants

KPMG was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31 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.

KPMG 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	$23,927,005
Cash, cash equivalents and short term investments	3,807,942
Contract loans	1,577
Investment income due and accrued	161,471
Premiums and considerations:	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,522,924
Reinsurance:	
Amounts recoverable from reinsurers	17,555
Net deferred tax asset	309,262
Miscellaneous receivables	390
Premium remittance in transit	26,916
Total admitted assets	$29,775,043

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$18,549,536
Aggregate reserve for accident and health contracts	17,374
Contract claims:	
Life	542,181
Accident and health	31,487
Premiums and annuity considerations for life and A&H contracts received in advance	65
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	13,401
Interest maintenance reserve	380,506
General expenses due or accrued	181,212
Remittances and items not allocated	9,771
Miscellaneous liabilities:	
Asset valuation reserve	64,313
Reinsurance in unauthorized companies	332,341
Payable to parent, subsidiaries and affiliates	21,027
Uncashed checks pending escheatment	260,696
Total liabilities	$20,403,909
Common capital stock	1,000,000
Gross paid in and contributed surplus	9,200,000
Unassigned funds (surplus)	(828,866)
Surplus	$ 8,371,134
Total capital and surplus	$ 9,371,134
Total liabilities, capital and surplus	$29,775,043

D. Condensed Summary of Operations

	2014	2015	2016	2017	2018
Premiums and considerations	$5,325,746	$5,474,850	$5,475,827	$3,720,453	$3,324,609
Investment income	1,087,731	931,313	817,089	907,121	742,050
Commissions and reserve adjustments on reinsurance ceded	151,462	128,221	128,786	104,053	103,936
Miscellaneous income	289	331	254	25,180	4,613
Total income	$6,565,228	$6,534,715	$6,421,956	$4,756,807	$4,175,208
Benefit payments	$4,500,594	$2,932,130	$3,258,200	$5,156,966	$2,386,555
Increase in reserves	(322,124)	735,664	803,235	690,411	157,174
General expenses and taxes	1,231,073	1,359,717	621,293	1,301,715	1,076,466
Increase in loading on deferred and uncollected premiums	2,292	(7,398)	(107,896)	18,897	(52,589)
Ceding fee for commuted reinsurance	0	0	283,785	0	0
Total deductions	$5,411,835	$5,020,113	$4,858,617	$7,167,989	$3,567,606
Net gain (loss) from operations	$1,153,393	$1,514,602	$1,563,339	$(2,411,182)	$ 607,602
Federal and foreign income taxes incurred	39,910	103,758	471,979	211,526	0
Net gain (loss) from operations before net realized capital gains	$1,113,483	$1,410,844	$1,091,360	$(2,622,708)	$ 607,602
Net income	$1,113,483	$1,410,845	$1,091,361	$(2,622,708)	$ 607,603

The decrease in premium revenue from 2016 to 2017 was due to the cancellation of the HSBC loan portfolio, the group master policies which are in run-off, and the lapses on the 10-year term life policies.

The decrease in investment income from 2017 to 2018 was due to the Company investing available cash into U.S. treasuries, which are earning lower yields than other securities.

The decrease in benefit payments from 2014 to 2015 was due to lower payments on credit life and credit A&H claims.

The increase in benefit payments from 2016 to 2017 was due to higher claims on the term life product in 2017.

The decrease in benefit payments from 2017 to 2018 was due to fewer claim payments.

The changes in reserves from 2014 to 2015, from 2015 to 2016 and from 2016 to 2017 were driven by assumptions needed to keep reserve levels adequate to pay remaining benefits.

The decrease in reserves from 2017 to 2018 was due to the impact of the HSBC termination of the group master policies and the reduction of the deficiency reserve and the additional cash flow testing reserve that was established.

The decrease in general expenses and taxes in 2016 was due to decreases in salaries, group service fees, and the franchise tax. In 2016, the Company was charged a management fee directly from Enstar rather than an allocation of all shared costs as in 2015. The shared costs included the salaries and group services. The higher franchise tax paid in 2015 was an adjustment for three years.

The increase in general expenses and taxes from 2016 to 2017 was due to increased salary and benefit charges allocated through the management fee from Enstar.

The decrease in general expenses and taxes from 2017 to 2018 was due to the Company entering into the administrative service agreement with Global Bankers Insurance Group.

The increase in federal and foreign income taxes incurred from 2014 to 2015 was due to lower permanent and temporary tax differences between pretax and taxable income.

The increase in federal and foreign income taxes incurred from 2015 to 2016 was primarily due to a lower tax difference related to reserves that was offset by higher permanent differences related to the amortization of the interest maintenance reserve.

The decrease in federal and foreign income taxes incurred in 2017 was due to the Company incurring no taxes on its operating loss and the tax expense was a result of a true-up of the 2016 recoverable.

In 2018, the Company reported taxable income, but the Company was able to utilize the net operating loss carry forwards to offset the tax resulting in zero tax expense.

E. Capital and Surplus Account

	2014	2015	2016	2017	2018
Capital and surplus, December 31, prior year	$13,162,435	$10,007,849	$10,475,429	$11,401,654	$8,658,932
Net income	$ 1,113,483	$ 1,410,845	$ 1,091,361	$ (2,622,708)	$ 607,603
Change in net deferred income tax	(1,472,564)	(100,759)	(13,150)	(148,662)	(147,443)
Change in non-admitted assets and related items	1,155,236	51,403	(183,190)	10,286	205,310
Change in liability for reinsurance in unauthorized companies	50,937	11,574	43,294	3,150	22,406
Change in asset valuation reserve	(1,678)	(4,698)	(12,090)	15,212	24,327
Dividends to stockholders	(4,400,000)	(900,785)	0	0	0
Net change in capital and surplus for the year	$ (3,154,586)	$ 467,580	$ 926,225	$ (2,742,722)	$ 712,202
Capital and surplus, December 31, current year	$10,007,849	$10,475,429	$11,401,654	$ 8,658,932	$9,371,134

7. SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus—COVID-19—was reported in Wuhan, China. The virus has subsequently spread to other parts of the world, including the United States. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and on March 13, 2020, President Donald J. Trump declared the pandemic a national emergency. The COVID-19 pandemic has disrupted the United States' economy and caused extreme volatility in the financial markets globally in an unprecedented manner.

The extent to which COVID-19 may affect the Company's financial condition or results of operations will depend on future developments, including the duration, spread, and intensity of the pandemic. The extent of these future developments is uncertain and not readily determinable as of the date of this report, considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall effect of COVID-19 on the Company's business.

The Department, along with all insurance regulators and the NAIC, are closely monitoring the evolving situation and the insurance industry through a coordinated effort to assess the effects of the pandemic on various types of insurance, individual insurers, and the insurance industry as a whole.

Effective March 29, 2019, as a result of a corporate reorganization, Kenmare holdings Ltd., a Bermuda company that is a wholly owned subsidiary of Enstar Group Limited, became the direct parent company of the Company.

8. PRIOR REPORT SUMMARY AND CONCLUSION

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

Item	Description
A	The Company violated Section 1411(a) of the New York Insurance Law when the board of directors did not authorize or approve purchases and sales of investments for the year 2013. The review of the board of directors' meeting minutes revealed that schedules of purchases and sales of investments were provided to the board of directors for their review and approval.
B	The Company violated Section 4228(h) of the New York Insurance Law by failing to have a qualified actuary sign and date the demonstrations. The Company is in run-off and has not issued any products requiring self-support since 2012.
C	Comment: 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. The Company is in run-off and has not issued any products since 2012.

9. SUMMARY AND CONCLUSIONS

Following are the violations and comment contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 325(a) of the New York Insurance Law by failing to maintain several statutorily required records at its home office.	11
B	The Company violated Section 243.2(b)(8) of 11 NYCRR 243 (Insurance Regulation No. 152) by failing to maintain a signed copy of the 2017 Shareholder meeting minutes and a copy of the 2018 Shareholder meeting minutes.	11
C	The Company violated Section 1202(b)(1)(a) of the New York Insurance Law and Section 5.4 of its by-laws by failing to have at least one-third of the members of the Investment Committee be persons who are not officers or employees of the Company or any entity controlling, controlled by, or under common control with the Company.	11
D	The extent to which COVID-19 may affect the Company's financial condition or results of operations will depend on future developments, including the duration, spread, and intensity of the pandemic. The extent of these future developments is uncertain and not readily determinable as of the date of this report, considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall effect of COVID-19 on the Company's business. The Department, along with all insurance regulators and the NAIC, are closely monitoring the evolving situation and the insurance industry through a coordinated effort to assess the effects of the pandemic on various types of insurance, individual insurers, and the insurance industry as a whole.	24

Respectfully submitted,

Mary B. Packard

Mary Packard, CFE, CPA
Examiner-in-Charge

STATE OF ALABAMA)
)SS:
COUNTY OF JEFFERSON)

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

Mary B. Packard

Mary Packard, CFE, CPA

Subscribed and sworn to before me

this 17th day of June 2020

Seretha Jolly

SERETHA JOLLY
COMM. EXP.
NOTARY
PUBLIC
JULY 2, 2023
ALABAMA STATE AT LARGE

Respectfully submitted,

/s/
Mostafa Mahmoud
Principal Insurance Examiner

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

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

/s/
Mostafa Mahmoud

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 32038

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, LINDA A. LACEWELL, 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:

MARY B. PACKARD
(NOBLE CONSULTING SERVICES, INC.)

as a proper person to examine the affairs of the

PAVONIA 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 she 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 29th day of January 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU