NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

FINANCIAL REPORT ON EXAMINATION

OF THE

DEARBORN NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:	DECEMBER 31, 2017
DATE OF REPORT:	DECEMBER 9, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

FINANCIAL REPORT ON EXAMINATION

OF THE

DEARBORN NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2017

DATE OF REPORT:	DECEMBER 9, 2019
EXAMINER:	LARRY LUCAS, CFE

TABLE OF CONTENTS

May 6, 2020

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

Madam:

In accordance with instructions contained in Appointment No.31764, dated February 27, 2018 and annexed hereto, an examination has been made into the condition and affairs of Dearborn National Life Insurance Company of New York, hereinafter referred to as "the Company", at its administrative office located at 300 East Randolph Street, Chicago, Illinois 60601. The Company's home office is located at 1250 Pittsford Victor Road, Bldg. 100, Suite 116, Pittsford, New York 14534.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2018 Edition* (the "Handbook"). The examination covers the four-year period from January 1, 2014 to December 31, 2017. 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, 2017, 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.

The examination was coordinated and conducted in conjunction with the examinations of the Company's parent, Dearborn National Life Insurance Company ("DNL"), an Illinois domiciled life insurer and DNL's parent, Health Care Service Corporation ("HCSC"), an Illinois Mutual Legal Reserve Company. The Coordinated examination was led by the Illinois Department of Insurance with participation from New Mexico, New York, Oklahoma 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 2017, by the accounting firm of Ernst and Young. The Company received an unqualified opinion in all of the years under examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company relies on its parent company, HCSC, which has an internal audit department. Where applicable, internal audit workpapers and reports were reviewed, and portions were relied upon for this examination.

The examiner reviewed the corrective action taken by the Company with respect to the violation contained in the prior report on examination. The results of the examiner's review are contained in item 6 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 as a stock life insurance company under the laws of New York on May 18, 1989, under the name of Northstar Life Insurance Company ("Northstar") and was licensed and commenced business on January 9, 1991. Initial resources of $8,000,000, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $6,000,000, were provided through the sale of 200,000 shares of common stock (with a par value of $10 each) for $40 per share.

On July 1, 2007, Fort Dearborn Life Insurance Company ("FDL"), a stock life insurance company organized under the laws of the State of Illinois acquired all the outstanding shares of Northstar for cash. The acquisition was executed pursuant to a stock purchase agreement between FDL, Minnesota Life Insurance Company and Securian Life Insurance Company ("Securian"), the former parents of the Company. The cash transaction was in the amount of $25.7 million. According to the terms of the agreement, Northstar would enter into a 100% coinsurance agreement with Securian. In January 2008, FDL filed with and the Department approved a surplus contribution of $1,066,214 to the Company. As a result, as of December 31, 2008, the Company's gross paid-in and contributed surplus increased to $7,066,214 and has remained the same through the date of this examination, December 31, 2017.

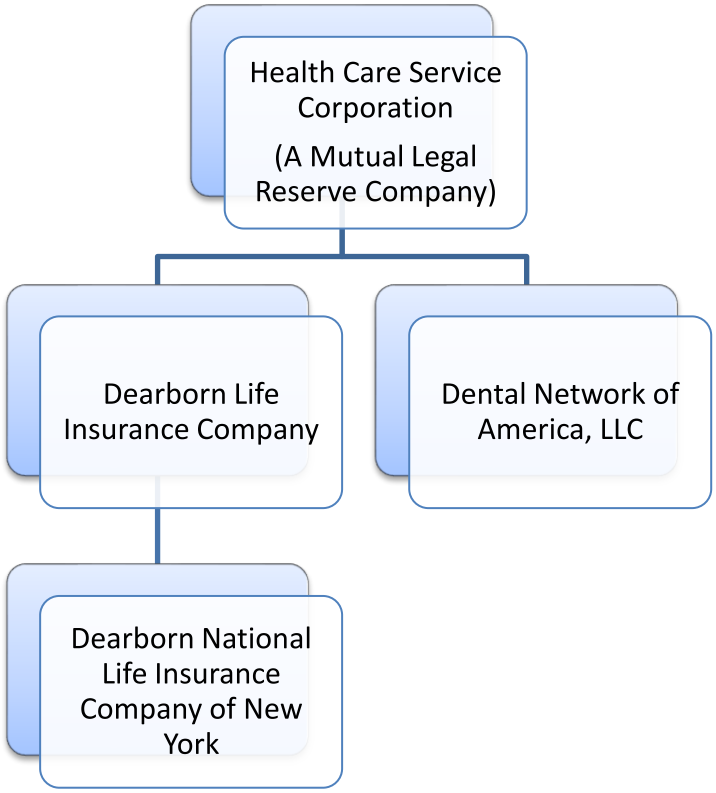
On January 1, 2012, FDL changed its name to Dearborn National Life Insurance Company and on July 24, 2012, the Company changed its name to Dearborn National Life Insurance Company of New York.

B. Holding Company

The Company is a wholly owned subsidiary of DNL, an Illinois Corporation. DNL is a wholly owned subsidiary of HCSC, an Illinois Mutual Legal Reserve Company, and the ultimate parent of the Company. On February 22, 2019, the parent company changed its name to Dearborn Life Insurance Company.

C. Organizational Chart

An organizational chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2017 follows:



D. Service Agreements

The Company had three 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
Investment Management Service Agreement File No. 43486	04/01/10	HCSC	The Company	Investment Management Services	2017 $(73,488) 2016 $(51,088) 2015 $(39,744) 2014 $(69,375)
Service Agreement File No. 40217	04/01/08	Dental Network of America	The Company	Dental Claims Services	2017 $(18,790) 2016 $(59,105) 2015 $(102,929) 2014 $(313,009)
Service Agreement File No. 37244	07/01/07	DNL	The Company	Data Processing related to IT application development, audit, risk management, tax consulting, planning, preparation, reporting and payment services	2017 $(999,210) 2016 $(992,029) 2015 $(720,681) 2014 $(811,752)

*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 shall be comprised of not less than 7 and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2017, the board of directors consisted of eight members. Meetings of the board are held from time to time as fixed by resolution of the Board of Directors.

The eight board members and their principal business affiliation, as of December 31, 2017, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Gregory S. Benesh Chicago, IL	President and CEO, Dearborn National Life Insurance Company of New York	2014
Ralph C. Folz* Westhampton Beach, NY	Retired Benefits Consultant and Insurance Broker Seabrook Benefits Consulting, Inc.	2011
Michael E. Frank Helena, Montana	Senior. Vice President, Tri-State Plans Health Care Service Corporation	2016
James F. McCann* Manhasset, NY	Chairman and Chief Executive Officer 1-800-Flowers, Inc.	2011
Carl R. McDonald Chicago, IL	Divisional Senior Vice President-Treasury, Investments and Business Development Health Care Service Corporation	2016
Colleen F. Reitan Chicago, Illinois	President, Employer Solutions Health Care Service Corporation	2012
Maurice S. Smith Chicago, IL	President, Blue Cross Blue Shield of Illinois Division Health Care Service Corporation	2012
Sherman M. Wolff* Juno Beach, FL	Retired Executive Vice President-Chief Operating Officer Health Care Service Corporation	2007

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

On February 21, 2018, Colleen F. Reitan resigned from the board and was not replaced. She had previously resigned from the board on April 17, 2014 and was reappointed by written consent of the sole shareholder (DNL) on April 29, 2015.

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, 2017:

Name	Title
Gregory S. Benesh	President and Chief Executive Officer
William R. Barnes*	Vice President, Secretary
Claire C. Burke	Vice President, Treasurer

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 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 only in New York. In 2017, all premiums (life, accident and health premiums) were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2017, the Company had $500,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants, and creditors of the Company.

B. Direct Operations

The Company's principal products in force during the examination period were ordinary life, group life and disability, group credit life and disability, and group accident and health.

The Company closed its sales office in New York as of June 30, 2013 and has stopped marketing all products in New York. All current business has been non-renewed as of the end of 2018. The Company is in runoff.

C. Reinsurance

As of December 31, 2017, the Company had reinsurance treaties in effect with two companies, of which both were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is $400,000. The total face amount of life insurance ceded as of December 31, 2017, was $3,854,000 which represents 1.6% 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, 2013	December 31, 2017	Increase (Decrease)
Admitted assets	$44,729,885	$25,019,675	$(19,760,210)
Liabilities	$23,648,327	$12,196,093	$(11,452,234)
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	7,066,214	7,066,214	0
2018 Health Insurer Fee Estimate	0	1,000	1,000
Unassigned funds (surplus)	12,065,344	3,756,368	(8,308,976)
Total capital and surplus	$21,131,558	$12,823,582	$ (8,307,976)
Total liabilities, capital and surplus	$44,779,885	$25,019,675	$(19,760,210)

The Company's admitted assets decreased from the previous period due to the decrease in invested assets, as a result of loss-related payments and a $12 million dividend paid to DNL in 2017.

Liabilities also decreased during the same period due to the decrease in reserves, resulting from decrease in premiums, policy surrenders and terminations.

The decrease in unassigned funds (surplus) is mainly due to the $12 million dividend to DNL in 2017.

The Company's invested assets as of December 31, 2017, were mainly comprised of bonds 89.7% and cash 10.2%.

The Company's entire bond portfolio, as of December 31, 2017, was comprised of investment grade obligations.

The following 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		Group Life	
Year	Issued	In Force	Issued & Increases	In Force
2014	$ 72	$ 187	$188,683	$819,270
2015	$ 71	$ 186	$ 25	$584,484
2016	$ 0	$ 145	$ 0	$544,006
2017	$ 75	$ 167	$ 0	$506,865

The group life in force decreased from 2014 to 2015 due to the Company being in runoff.

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
Ordinary:				
Life insurance	$(1,074,911)	$ 16,910	$ 11,420	$ (45,157)
Individual annuities	8,066,670	661,806	311,108	219,807
Supplementary contracts	224,906	27,792	12,758	12,306
Total ordinary	$ 7,216,665	$ 706,508	$335,286	$186,956
Group:				
Life	$(7,040,900)	$ 226,112	$195,353	$ (71,320)
Total group	$(7,040,900)	$ 226,112	$195,353	$ (71,320)
Accident and health:				
Group	$ 1,661,797	$(111,536)	$ 62,217	$262,149
Other	2,056	0	0	0
Total accident and health	$ 1,663,853	$(111,536)	$ 62,217	$262,149
Total	$ 1,839,618	$ 821,084	$592,856	$377,785

The decrease in total ordinary business from 2014 to 2015 is due to tax credits of $7.2 million in 2014 that wasn't applicable in 2015.

The increase in group life from 2014 and 2015 is due to decreased federal income taxes incurred, and a decrease in benefit payments.

The decrease in group accident and health from 2014 to 2015 is due to decreased premiums and increased federal income taxes incurred.

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
Premiums earned	100.0%	100.0%	100.0%	100.0%
Incurred losses	70.5%	99.5%	71.1%	16.3%
Commissions	11.1	11.0	10.7	9.8
Expenses	37.2	40.8	68.2	81.9
Underwriting results	(18.8)%	(51.2)%	(50.0)%	(8.0)%

The increase in expenses is due to allocated expenses not being commensurate with premiums as the Company is in run-off.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2017, as contained in the Company’s 2017 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, 2017 filed annual statement.

A. Independent Accountants

The firm of Ernst and Young, LLP, was retained by the Company to audit the Company’s combined statutory basis statements of financial position 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 and Young 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	$22,172,353
Cash, cash equivalents and short term investments	2,524,578
Contract loans	14,923
Receivable for securities	5,556
Investment income due and accrued	216,550
Premiums and considerations:	
Uncollected premiums and agents’ balances in the course of collection	31,183
Deferred premiums, agents’ balances and installments booked but deferred and not yet due	1,128
Reinsurance:	
Amounts recoverable from reinsurers	22,578
Net deferred tax asset	30,826
Total admitted assets	$25,019,675

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 7,700,982
Aggregate reserve for accident and health contracts	2,531,149
Liability for deposit-type contracts	135,499
Contract claims:	
Life	144,802
Accident and health	44,887
Premiums and annuity considerations for life and accident and health contracts received in advance	2,935
Contract liabilities not included elsewhere:	
Interest maintenance reserve	317,738
Commissions to agents due or accrued	3,512
General expenses due or accrued	172,858
Taxes, licenses and fees due or accrued, excluding federal income taxes	116,207
Current federal and foreign income taxes	321,526
Amounts withheld or retained by company as agent or trustee	(2,799)
Remittances and items not allocated	28,472
Miscellaneous liabilities:	
Asset valuation reserve	91,650
Payable to parent, subsidiaries and affiliates	177,468
Funds held under coinsurance	18,187
Unclaimed funds	391,022
Total liabilities	$12,196,093
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	7,066,214
2018 Health Insurer Fee Estimate	1,000
Unassigned funds (surplus)	3,756,368
Surplus	$10,823,582
Total liabilities, capital and surplus	$25,019,675

D. Condensed Summary of Operations

	2014	2015	2016	2017
Premiums and considerations	$ 3,162,160	$ 2,308,048	$ 1,709,715	$ 1,365,723
Investment income	2,171,312	1,853,868	1,607,177	1,465,363
Commissions and reserve adjustments on reinsurance ceded	597	839	1,041	965
Miscellaneous income	0	432	0	1,146
Total income	$ 5,334,069	$ 4,163,187	$ 3,317,933	$ 2,833,197
Benefit payments	$ 9,172,657	$ 4,329,421	$ 2,441,265	$ 2,788,230
Increase in reserves	(5,625,118)	(2,108,048)	(1,509,560)	(1,710,084)
Commissions	330,012	243,480	166,127	113,335
General expenses and taxes	1,248,458	900,857	1,251,492	1,095,292
Increase in loading on deferred and uncollected premiums	1,337	405	(953)	(172)
Miscellaneous deductions	3	0	0	0
Total deductions	$ 5,127,349	$ 3,366,115	$ 2,348,371	$ 2,286,601
Net gain (loss) from operations	$ 206,720	$ 797,072	$ 969,562	$ 546,596
Federal and foreign income taxes incurred	(1,632,898)	(24,012)	376,706	168,811
Net gain (loss) from operations before net realized capital gains	$ 1,839,618	$ 821,084	$ 592,856	$ 377,785
Net realized capital gains (losses)	(12,050)	(37,768)	(43,002)	(45,405)
Net income	$ 1,827,568	$ 783,316	$ 549,854	$ 332,380

E. Capital and Surplus Account

	2014	2015	2016	2017
Capital and surplus, December 31, prior year	$21,131,558	$22,987,521	$23,832,180	$ 24,489,396
Net income	$ 1,827,568	$ 783,316	$ 549,854	$ 332,380
Change in net deferred income tax	12,608	69,910	113,841	3,140
Change in non-admitted assets and related items	2,285	1,909	0	(60,432)
Change in asset valuation reserve	13,502	(10,475)	(6,479)	59,098
Dividends to stockholders	0	0	0	(12,000,000)
Net change in capital and surplus for the year	$ 1,855,963	$ 844,660	$ 657,216	$(11,665,814)
Capital and surplus, December 31, current year	$22,987,521	$23,832,180	$24,489,396	$ 12,823,582

The 2015 decrease in net income was due to diminishing premiums, increased federal income taxes incurred, offset by decreases in benefits paid and insurance taxes, licenses, and fees. The Company paid an extra ordinary dividend of $12 million to its parent in 2017, hence the significant decrease in surplus.

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent action taken by the Company in response to the citation:

Item	Description
A	The Company violated Section 1505(d)(4) of the New York Insurance Law by entering into a consolidated federal income tax allocation agreement with its ultimate parent and affiliates without notifying the Superintendent in writing of its intention to enter into any such transaction at least 30 days prior thereto. The Company filed a consolidated federal income tax allocation agreement with the Superintendent on August 11, 2014 and was approved.

Respectfully submitted,

/s/

Larry Lucas, CFE
INS Regulatory Insurance Services, Inc.

STATE OF NEW HAMPSHIRE)
)SS:
COUNTY OF HILLSBOROUGH)

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

/s/

Larry Lucas, CFE

Subscribed and sworn to before me Alicia Marie Clancy, notary public

this 21 day of June 2020

ALICIA MARIE CLANCY
Notary Public, State of New Hampshire
My Commission Expires Jan 23, 2024

Alicia Marie Clancy
com exp 1/23/24

Respectfully submitted,

/s/
Victor Agbu
Principal Insurance Examiner

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

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

/s/
Victor Agbu

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31764

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, 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:

LARRY LUCAS
(INS REGULATORY INSURANCE SERVICES, INC.)

as a proper person to examine the affairs of the

DEARBORN NATIONAL 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 27th day of February, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU