



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL CONDITION REPORT ON EXAMINATION
OF THE
AAA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2018

DATE OF REPORT:

AUGUST 16, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

KINGS ANKRAH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

July 7, 2020

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

Madam:

In accordance with instructions contained in Appointment No. 31869, dated February 25, 2019, and annexed hereto, an examination has been made into the condition and affairs of AAA Life Insurance Company of New York, hereinafter referred to as “the Company,” at its main administrative office located at 17900 N. Laurel Park Drive Livonia, MI 48152. The Company’s home office is located at 500 Mamaroneck Avenue, Suite 320 Harrison, NY 10528.

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 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. (See item 5 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 three-year period from January 1, 2016, to 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.

The examination was conducted in conjunction with the coordinated examination of the Company’s parent, AAA Life Insurance Company (“AAA Life”). The examination was led by the State of Michigan with participation from the states of California and New York. 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 2016 through 2018, by the accounting firm of Ernest and 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 shares an internal audit department with the parent which was given the task of assessing the internal control structure and compliance with the Model Audit Rule (“MAR”). Where applicable, MAR workpapers and reports were reviewed and portions were relied upon for this examination.

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

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

3. DESCRIPTION OF COMPANY

A. History

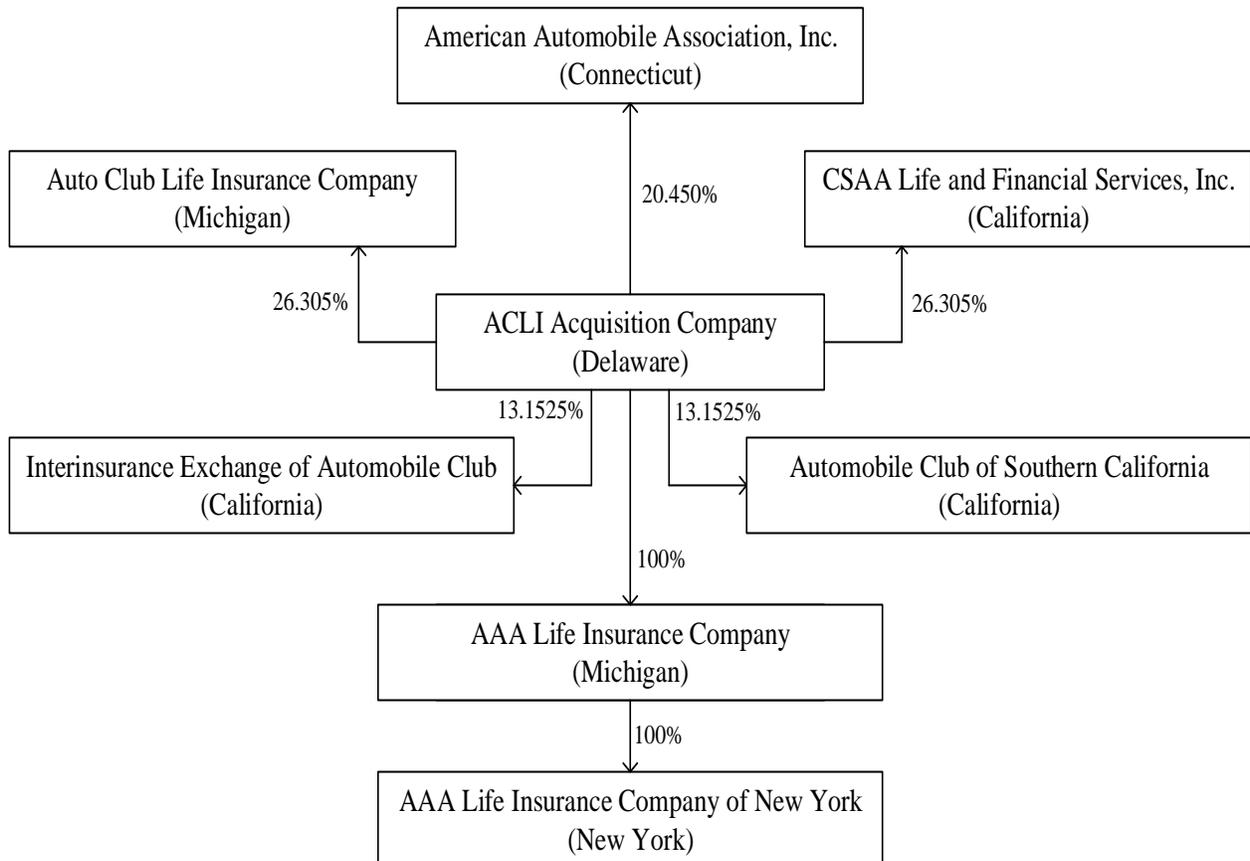
The Company was incorporated as a stock life insurance company under the laws of the State of New York on March 10, 2011, and was licensed and commenced business on July 25, 2013. Initial resources of \$9,000,000, consisting of capital stock of \$2,000,000 and paid in and contributed surplus of \$7,000,000 were provided through the sale of 200,000 shares of common stock (with a par value of \$10 each) for \$45 per share.

B. Holding Company

The Company is a wholly owned subsidiary of AAA Life, a Michigan domestic life insurer. AAA Life is in turn a wholly owned subsidiary of ACLI Acquisition Company (“ACLI Acquisition”), a Delaware corporation. The following five companies collectively own more than 99.00% shares of ACLI Acquisition: CSAA Life and Financial Services, Inc., a California corporation, owns 26.305%; American Automobile Association, Inc. (“AAA”), a Connecticut corporation, owns 20.450%; Automobile Club of Southern California, a California corporation owns 13.1525%; and Interinsurance Exchange of the Automobile Club, a California corporation, owns 13.1525%. The remaining less than 1.00% is owned by eight independent AAA clubs.

C. Organizational Chart

An organization 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 two service agreements in effect with affiliates 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
Administrative Service Agreement File No. 44450	08/09/2013	AAA Life Insurance Company	The Company	Policy Administrative Services	2016 \$(430,723) 2017 \$(485,366) 2018 \$(620,297)
Investment Service Agreement File No. 44451	08/09/2013	AAA Life Insurance Company	The Company	Investment Management Services	2016 \$(1,914) 2017 \$(1,950) 2018 \$(1,642)

*Amount of Expense Incurred by the Company

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

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, 2018, the board of directors consisted of eight members. Meetings of the board are held at such times as may from time to time be fixed by the resolution of the board of directors.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John W. DuBose III Farmington Hills, Michigan	President and Chief Executive Officer AAA Life Insurance Company of New York	2013
Latrina M. Edwards West Bloomfield, Michigan	Vice President and Secretary AAA Life Insurance Company of New York	2018
Kenneth A. Johnson* Chesterfield, Missouri	Chief Executive Officer and President (Retired) AAA Missouri	2013
Christopher W. Lane Plymouth, Michigan	Vice President and Treasurer AAA Life Insurance Company of New York	2014
James T. Lucas Milford, Michigan	Vice President and Chief Actuary AAA Life Insurance Company of New York	2013
James C. Phelps* Amsterdam, New York	President and Chief Executive Officer AAA Northway	2013
Betty Schick Saline, Michigan	Vice President AAA Life Insurance Company of New York	2014
Anthony B. Spada, Jr.* Williamsville, New York	President and Chief Executive Officer AAA Western and Central New York	2015

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

Effective December 31, 2017, Diane L. Coudurier resigned from the board. Latrina M. Edwards was appointed to the board effective January 1, 2018.

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:

<u>Name</u>	<u>Title</u>
John W. DuBose.	President and Chief Executive Officer
Latrina M. Edwards*	Vice President and Secretary
Christopher W. Lane	Vice President and Treasurer

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64)

Effective December 31, 2017, Diane L. Coudurier resigned as Vice President and Secretary. Effective January 1, 2018, Latrina M. Edwards was appointed as Vice President and Secretary.

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 the State of New York. In 2018, 97.9% of life 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, 2018, the Company had \$400,000 (par value) of United States Treasury Bond 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

Since 2013, the Company has been issuing simplified issue term life insurance and guaranteed issue graded benefit whole life insurance through direct mail distribution.

C. Reinsurance

As of December 31, 2018, the Company had reinsurance treaties in effect with six companies, of which five were authorized or accredited. The Company's life business is reinsured on a yearly renewable term basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for individual life contracts is \$250,000. The total face amount of life insurance ceded as of December 31, 2018, was \$462,101,000, which represents 55.2% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized company totaling \$11,456 was supported by letter of credit.

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 growth (decline) during the period under review:

	December 31, <u>2015</u>	December 31, <u>2018</u>	Increase (Decrease)
Admitted assets	\$ <u>8,019,898</u>	\$ <u>8,151,341</u>	\$ <u>131,443</u>
Liabilities	\$ <u>1,106,998</u>	\$ <u>3,181,089</u>	\$ <u>2,074,091</u>
Common capital stock	\$2,000,000	\$2,000,000	\$ 0
Gross paid in and contributed surplus	7,000,000	7,000,000	0
Unassigned funds (surplus)	<u>(2,087,100)</u>	<u>(4,029,749)</u>	<u>(1,942,649)</u>
Total capital and surplus	\$ <u>6,912,900</u>	\$ <u>4,970,251</u>	\$ <u>(1,942,649)</u>
Total liabilities, capital and surplus	\$ <u>8,019,898</u>	\$ <u>8,151,341</u>	\$ <u>131,443</u>

The Company's invested assets as of December 31, 2018, were mainly comprised of bonds 91.1%, and cash and short-term investments 8.7%.

The majority 94.4% of the Company's bond portfolio, as of December 31, 2018, 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):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
2016	\$5,180	\$12,577	\$202,425	\$490,275
2017	\$5,536	\$16,495	\$250,875	\$661,676
2018	\$7,015	\$21,607	\$244,975	\$815,675

The ordinary lapse ratio for each of the examination years was 16.0% in 2016, 13.4% in 2017, and 12.0% in 2018.

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>2016</u>	<u>2017</u>	<u>2018</u>
Ordinary:			
Life insurance	\$(884,045)	\$(558,313)	\$(561,327)
Total ordinary	<u>\$(884,045)</u>	<u>\$(558,313)</u>	<u>\$(561,327)</u>
Total	<u>\$(884,045)</u>	<u>\$(558,313)</u>	<u>\$(561,327)</u>

The Company recorded losses on its life insurance business during the examination period due to the strain from acquisition costs, related to new sales, as the Company grows its in force block of business.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and 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

The firm of Ernest & 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.

Ernest & 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	\$6,822,539
Cash, cash equivalents and short-term investments	649,426
Contract loans	13,110
Investment income due and accrued	45,338
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	12,391
Deferred premiums, agents' balances and installments booked but deferred and not yet due	422,051
Reinsurance:	
Amounts recoverable from reinsurers	128,000
Current federal and foreign income tax recoverable and interest thereon	56,576
Electronic data processing equipment and software	34
Receivables from parent, subsidiaries and affiliates	1,876
 Total admitted assets	 <u>\$8,151,341</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$2,251,702
Contract claims:	
Life	179,490
Premiums and annuity considerations for life and accident and health contracts received in advance	14,999
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	141,155
General expenses due or accrued	290,141
Taxes, licenses and fees due or accrued, excluding federal income taxes	23,976
Remittances and items not allocated	217,498
Payable to parent, subsidiaries and affiliates	59,733
Unclaimed property	2,396
 Total liabilities	 <u>\$3,181,089</u>
 Common capital stock	 2,000,000
Gross paid in and contributed surplus	7,000,000
Unassigned funds (surplus)	(4,029,749)
Surplus	<u>\$2,970,251</u>
Total capital and surplus	<u>\$4,970,251</u>
 Total liabilities, capital and surplus	 <u>\$8,151,341</u>

D. Condensed Summary of Operations

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Premiums and considerations	\$ 2,412,639	\$3,232,150	\$4,058,256
Investment income	152,853	152,324	128,845
Miscellaneous income	<u>0</u>	<u>0</u>	<u>1,101</u>
Total income	<u>\$ 2,565,492</u>	<u>\$3,384,474</u>	<u>\$4,188,202</u>
Benefit payments	\$ 432,722	\$ 761,874	\$ 956,010
Increase in reserves	388,702	567,773	699,603
General expenses and taxes	2,878,979	2,756,534	3,085,047
Increase in loading on deferred and uncollected premiums	115,011	26,362	55,143
Miscellaneous deductions	<u>0</u>	<u>371</u>	<u>0</u>
Total deductions	<u>\$ 3,815,414</u>	<u>\$4,112,914</u>	<u>\$4,795,803</u>
Net gain (loss)	\$(1,249,922)	\$ (728,440)	\$ (607,601)
Federal and foreign income taxes incurred	<u>(365,875)</u>	<u>(170,127)</u>	<u>(46,274)</u>
Net gain (loss) from operations before net realized capital gains	\$ (884,047)	\$ (558,313)	\$ (561,327)
Net realized capital gains (losses)	<u>0</u>	<u>(21,015)</u>	<u>(24,026)</u>
Net income	<u>\$ (884,045)</u>	<u>\$ (579,328)</u>	<u>\$ (585,353)</u>

E. Capital and Surplus Account

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capital and surplus, December 31, prior year	\$ <u>6,912,900</u>	\$ <u>6,086,584</u>	\$ <u>5,608,248</u>
Net income	\$ (884,045)	\$ (579,328)	\$ (585,353)
Change in net unrealized capital gains (losses)	414	51,087	(79,680)
Change in net deferred income tax	62,016	(7,062)	77,881
Change in non-admitted assets and related items	(57,900)	19,174	(96,047)
Change in asset valuation reserve	29,563	37,793	45,202
Correction of errors - prior year life insurance reserves	<u>23,636</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(826,316)</u>	<u>(478,336)</u>	<u>(637,997)</u>
Capital and surplus, December 31, current year	\$ <u>6,086,584</u>	\$ <u>5,608,248</u>	\$ <u>4,970,251</u>

Respectfully submitted,

/s/

Kings Ankrah
Senior Insurance Examiner

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

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

/s/

Kings Ankrah

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 31869

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **LINDA A. LACEWELL**, Acting 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:

KINGS ANKRAH

as a proper person to examine the affairs of the
AAA 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 25th day of February 2019

LINDA A. LACEWELL
Acting Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

