REPORT ON EXAMINATION

OF

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2004

DATE OF REPORT	**NOVEMBER 30, 2005**
EXAMINER	**ELSAID ELBIALLY, CFE**

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NY 10004

George E. Pataki
Governor

Howard Mills
Superintendent

November 30, 2005

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22242 dated July 29, 2004, attached hereto, I have made an examination into the condition and affairs of American Family Life Assurance Company of New York, a for-profit stock company licensed pursuant to the provisions of Article 42 of the New York Insurance Law. The following report is respectfully submitted.

The examination was conducted at the Company' home office located at 22 Corporate Woods Boulevard, Albany, New York 12211.

Whenever the term "Company" or "AFLAC-NY" appears herein without qualification, it should be understood to refer to American Family Life Assurance Company of New York.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covers the five years period from January 1, 2000, through December 31, 2004. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2004, in accordance with Statutory Accounting Principles (SAP) as adopted by the Department, a review of income and disbursements to the extent deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners (NAIC):

History of the Company
Management and control
Corporate records
Fidelity bonds and other insurance
Officers' and employers' welfare and pension plans
Territory and plan of operations
Growth of the Company
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements
Treatment of policyholders

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations made in the prior report on examination.

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

2. EXECUTIVE SUMMARY

The results of this examination revealed certain operational deficiencies that directly impacted the Company's compliance with the New York Insurance and New York Public Health Laws. Significant findings relative to this examination are as follows:

- The Company failed to use actual calls count data, and actual claims count data, that were available from telephone and claims processing systems respectively, as a basis to allocate shared telephone and claims processing expenses between the Company and its parent.

- The Company's parent overcharged the Company an estimated amount of $316,278 of shared expenses during the examination period.

- The Company failed to maintain certain agents' termination records as required by New York Insurance Department Regulation No. 152 (11 NYCRR 243).

- The Company failed to report an accurate count of claims paid in Health Insurance Claims Payable (reported and unreported), New York State business, of the New York Supplement to its 2004 annual statement.

The examination findings are described in greater detail in the remainder of this report.

3. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of New York State on March 31, 1964. It was licensed, and commenced business on December 31, 1964, as the American Health and Life Insurance Company of New York; a wholly-owned subsidiary of American Health and Life Insurance Company, which in turn was owned by Commercial

Credit Company. The Company was licensed to write life insurance, annuities and accident and health business.

On April 2, 1984, American Health and Life Insurance Company of New York was acquired and became a wholly-owned subsidiary of American Family Life Assurance Company of Columbus (the Parent). On December 11, 1984, the Company's name was changed to American Family Life Assurance Company of New York.

The company received $2,000,000 surplus contributions from its parent in year 2000. As of December 31, 2004, the Company reported paid in capital in the amount of $2,000,000 represented by 10,000 common shares issued to its parent and a surplus of $22,096,399. The Company's surplus is significantly in excess of its authorized control level Risk-Based capital of $6,284,421.

A. Management and control

Pursuant to the Company's charter and by–laws, management of the Company is vested in a board of directors of not less than nine nor more than seventeen. The number of directors shall be determined from time to time by a vote of a majority of the entire board.

As of the examination date, the board of directors was comprised of twelve members. The board meets once a year, immediately following the annual meeting of the shareholders.

As of December 31, 2004 the board of directors consisted of twelve members as set forth below:

Name and Residence	Principal Business Affiliation
Daniel P. Amos Columbus, Georgia	Chief Executive Officer, AFLAC, Inc.
Mark A. Charrette Cohoes, New York	Second Vice-President, Sales Support AFLAC-New York
Kriss Cloninger, III Columbus, Georgia	President, Chief Financial Officer, AFLAC Inc.
Elizabeth J. Hudson Montclair, New Jersey	Senior Vice President, National Geographic
Kenneth S. Janke, Sr. Bloomfield Hills, Michigan	President and Chief Executive Officer, National Association of Investor Corp.
Bradley S. Jones Niskayuna, New York	Vice-President, East Territory AFLAC-New York
Joey M. Loudermilk Ellerslie, Georgia	Senior Vice-President and General Counsel, AFLAC, Inc.
Ernest Stephen Purdom Midland, Georgia	Retired, AFLAC of Columbus
Ralph A. Rogers, Jr. Columbus, Georgia	Vice-President, Treasurer, AFLAC-New York
Glenn Vaughn, Jr. Columbus, Georgia	Retired; former Chairman of Columbus Ledger-Enquirer
Debra A. Walker Waterford, New York	Manager, Human Resources, AFLAC-New York
Robert L. Wright Alexandria, Virginia	Chairman and Chief Executive Officer, Dimensions International, Inc.

The minutes of all meetings of the Board of Directors and committees thereof held during the examination period were reviewed. During the examination period, board meetings were generally well attended; all directors attended at least half of the meetings they were eligible to attend.

The principal officers of the Company as of December 31, 2004 were as follows:

Name	Title
Daniel P. Amos	President
Joey M. Loudemilk	Executive Vice-President and Secretary
Ralph A. Rogers, Jr.	Vice-President and Treasurer
Daniel F. Skelley	Vice-President and Actuary

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 the following six states:

New York	New Jersey	North Dakota
Massachusetts	Connecticut	Vermont

The Company did not write any business in North Dakota or Vermont during the five-year period under this examination.

The Company writes supplemental health insurance products which are designed to compliment existing comprehensive health insurance. Much of the life insurance and all of the annuities that are currently in-force were issued prior to 1984. The traditional life insurance product continued to be sold until 1993, after which it has not been actively marketed.

The Company sells its products through brokers and independent general agents. The Company had 3178 brokers and general agents as of December 31, 2004.

As of December 31, 2004, the Company offered the following supplemental accident and health insurance products:

Accident/Disability	Short-Term Disability
Specified Disease/Cancer	Home Health Care
Hospital Confinement Indemnity	Hospital Intensive Care
Long-Term Care	Dental

The total written premiums during the examination period was $415,716,025 as follows:

Life insurance	$1,065,269	00.3%
Annuities	7,575	00.0%
Accident and health	414,643,181	99.7%

All life and annuities business was written in New York State. The accident and health business** was written in four states as follows:

New York	$274,197,906	66.1%
New Jersey	93,024,248	22.4%
Connecticut	35,909,630	8.7%
Massachusetts	11,511,397	2.8%
Total	$414,643,181	100.0%

**Includes the following two new products introduced during the period under examination:

Dental	on August 21, 2001
Long-term care	on May 22, 2003

The following is the premiums and net income or (loss) from operations for the years under examination:

Year	Net income or (Loss)	Premiums and Annuity	Growth of premiums between years
1999	$1,009624	$34,392,445	
2000	1,055,555	46,583,431	35.45%
2001	(29,602)	64,455,294	38.37%
2002	548,930	88,842,860	37.84%
2003	3,694,304	106,292,392	19.64%
2004	4,099,806	119,111,121	12.06%

The Company attributes the increase in net operating income in the last two years to the growth of its business coupled with tighter controls on its expenses. The majority of

the accident and health policies sold in the years 2004, 2003 and 2002 were accident/short-term disability and specified disease insurance policies.

Premium income and the growth by product line for the years ended December 31, 2004, 2003 and 2002 are shown below:

Line of business	Change between Years	2004	Change between years	2003	2002
Accident/short-term disability	5.9%	$62,783,001	13.6%	$59,272,278	$52,174,573
Specified disease	18.6%	43,128,120	26.1%	36,379,231	28,845,976
Fixed benefit dental	49.4%	5,881,119	119.4%	3,937,568	1,794,866
Hospital indemnity	45.2%	4,391,887	28.9%	3,024,489	2,346,594
Medicare supplement	-7.3%	2,461,003	-9.9%	2,655,952	2,947,480
Other accident & health	-67.9%	261,539	57.6%	816,664	518,333
Life & annuity business	-0.9%	204,452	-4.1%	206,210	215,038
Total premium income:	12.1%	$119,111,121	19.6%	$106,292,392	$88,842,860

C. Reinsurance

The Company does not assume any reinsurance business and had one ceded reinsurance treaty in effect with an authorized reinsurer as of the examination date.

On July 1, 2003, the Company entered into an automatic reinsurance agreement with General Re Life Corporation of Stamford, Connecticut (GRLC). GRLC agreed to reinsure 100% of the in-force business classified by the Company as accidental death benefits (ADB) issued or administered as supplementary benefits of individual life contracts of insurance or riders. The maximum reinsurance amount is $150,000 per

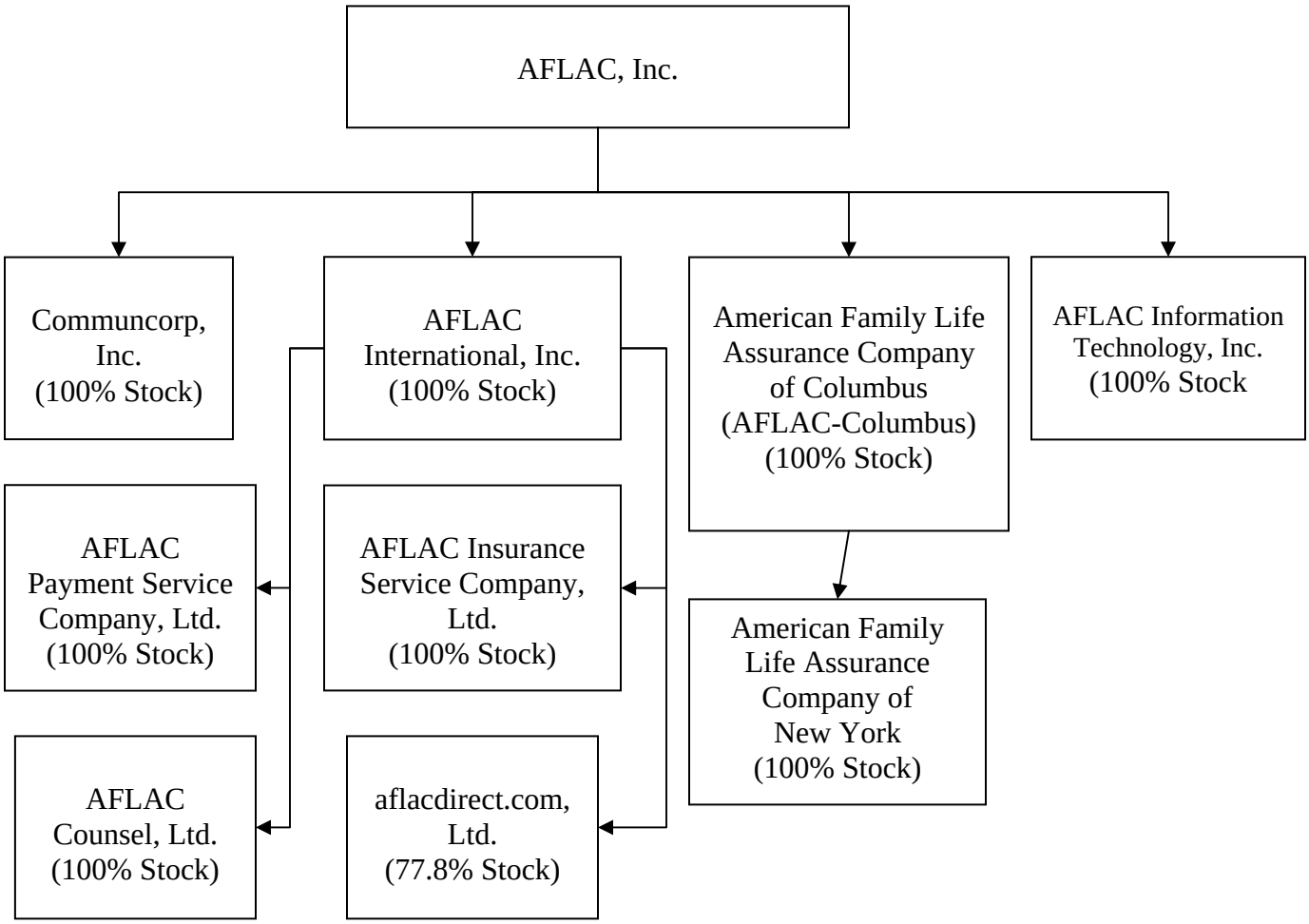
insured individual, all policies combined. The Company had no retention on the ADB ceded business.

Also, the reinsurance agreement with GRLC provides for 100% of $100,000 coverage in excess of $100,000 of the business classified as common carrier benefits under the Executive Plan of the AAIPONY100 policy form (Accidental death, injury and/or dismemberment). The maximum reinsured amount is $100,000 per insured individual.

The reinsurance agreement contained all the required standard clauses, including the insolvency clause required by Section 1308 of the New York Insurance Law.

D. Holding company system

The following chart depicts the Company in relationship to its affiliates within the holding company system. The percentages included in the chart indicate percentage of ownership.



The Company's Parent, American Family Life Assurance Company of Columbus (AFLAC-Columbus) signed a Commitment Agreement to New York Insurance Department as part of its Plan of Operation, when it purchased its wholly-owned subsidiary, AFLAC-New York in 1984. The Company's Parent made a commitment that,

it will not on behalf of the Company do, indirectly or through the medium of another entity, that which is prohibited to the Company by statute, or duly authorized regulation or administrative ruling of the New York State Insurance Department.

The Company, as of December 31, 2004, maintained the following agreements with its parent, AFLAC-Columbus:

A) Shared Facilities Agreement - whereby various expenses for personnel, property and services that are so shared are allocated between the Company and the parent in a fair and equitable manner and in conformity with New York Insurance Department Regulations.

B) Administrative Service Agreement - wherein computer services are provided to the Company by its parent, including leasing of computer time, running regularly scheduled processing cycles to support general insurance functions, technical support, software support and normal/reasonable programming services.

C) Sales and Marketing Agreement - wherein the Company provides certain services on behalf of its parent and its affiliate, AFLAC of Japan. The services provided are consultative advice in connection with the development of a sale and marketing plan of AFLAC's life and health insurance products and consultative advice in the recruitment and training of an agency force.

D) Consolidated Tax Allocation Agreement - with its immediate parent, AFLAC-Columbus and ultimate parent, AFLAC, Inc.

All of the above agreements and amendments thereof were approved by the New York Insurance Department. In addition, the Company notified the Department of its business relationship with its affiliate Communicorp, Inc. (Communicorp). Communicorp provides the Company with design and printing services related to its policy and advertising materials. Also, the Company purchases its promotional incentive items from Communicorp.

E. Significant operating ratios

The following ratios have been computed as of December 31, 2004 based upon the results of this examination:

Net premiums written (2004) to Surplus	5.4 to 1
Uncollected Premiums to Surplus	55.5%
Liabilities to Liquid assets	93.6%

The growth of premiums during the five year period under examination from $34,392,445 in 1999 to $119,111,121 in 2004 caused the first two ratios to fall outside the NAIC benchmarks.

The underwriting ratios presented below are on an earned-incurred basis and encompass the four year period covered by this examination.

	Amounts	Ratios
Claims	$241,671,331	56.8%
Commissions on premiums	110,543,265	26.0%
General administrative expenses	66,927,017	15.7%
Net underwriting gain	6,143,485	1.5%
Premium earned	$425,285,098	100.0%

F. Allocation of expenses

The Company and its parent “AFLAC-Columbus” have entered into various cost sharing agreements, such as the shared facilities, administrative service and sales & marketing agreements noted earlier in this report. The Company reimburses its parent for payments made by the parent to third parties on the Company’s behalf.

The examiners' detailed review of the allocation of expenses by cost centers revealed that the expenses allocated to the Company under the shared facilities agreement for two major cost centers, namely New York Call Center and New York Claim Team Production Center, were overstated.

The allocated expenses to AFLAC-NY for these two cost centers in Year 2004 were as follows:

Cost center number	Name of cost center	Allocable expenses	Rate	Allocated expenses to the Company
716000	NY call center	$905,773	90.00%	$815,196
726200	NY claims	669,224	87.50%	585,571
Sub-total				$1,400,767
Percentage of cost to all centers				60.00%
	All centers			$2,305,392

The Company failed to provide support for the percentage used to allocate the cost of the above two cost centers between AFLAC-NY and AFLAC-Columbus.

The New York-calling center and processing of New York-claims moved from Albany, New York to Columbus, Georgia in year 2002. AFLAC-Columbus allocated 100% of expenses of the two cost centers to AFLAC-NY in years 2002 and 2003. In 2004, AFLAC-Columbus allocated 90% and 87.5% of expenses of the two cost centers respectively to AFLAC-NY.

The examiners' review revealed that the claims system is able to generate statistical claims data for years 2002, 2003 and 2004 for claims processed by the New York Claim Team Production Center by company (AFLAC-NY and AFLAC-Columbus). The claims processed data indicated that AFLAC-NY's allocated share of claims was 96.83%, 89.37% and 79.3% for years 2002, 2003 and 2004, respectively. The examiner calculated that AFLAC-Columbus over charged AFLAC-NY $119,208 in the aggregate total for the 3 years from 2002 to 2004.

Also, the examiners' review of the New York call center revealed that the phone system was able to provide recent statistical calling data by company up to 3 months old. June, 2005 data indicated that AFLAC-NY's share of the calls was actually 75%. In years 2002, 2003 and 2004, AFLAC-Columbus allocated 100%, 100% and 90% of expenses of the NY-call center to AFLAC-NY, respectively. Using the June, 2005 calling data that was available and a lower estimate for 2002 and 2003, the examiners calculated that AFLAC-Columbus over charged AFLAC-NY Approximately $197,070 in the aggregate total for the 3 years from 2002 to 2004.

It is recommended that AFLAC-Columbus reimburse the Company for the estimated overcharges of $316,278 in the aggregate total for years 2002-2004.

Also, it is recommended that in the future the Company use actual calling and claims count generated from its systems to properly allocate the shared expenses of these two cost centers between the Company and its parent.

G. Accounts and records

The Company did not fully comply with the requirements of Part 243.2 (a) and (b) 5 of New York State Insurance Department Regulation No. 152 (11 NYCRR 243).

Part 243.2(a) of New York State Insurance Department Regulation 152 states in part;

> "…, every insurer shall maintain its claims, ratings, underwriting marketing, complaint, financial, and producer licensing records, and such other records subject to examination by the superintendent, in accordance with the provisions of this Part."

Part 243.2 (b)(5) of New York State Insurance Department Regulation 152 states in part;

> "A licensing record for six calendar years after the relationship is terminated for each Insurance Law licensee with which the insurer establishes a relationship. Licensing records shall be maintained so as to show clearly the dates of appointment and termination of each licensee."

The Company failed to provide the examiners with copies of its termination letters to some agents during the examination period.

It is recommended that the Company comply with the New York State Insurance Department Regulation No. 152 (11 NYCRR 243) relative to the maintenance of records, including maintenance of copies of the Company's termination letters to its agents.

4. FINANCIAL STATEMENT

A. Balance Sheet

The following shows the assets, liabilities and net worth as determined by this examination as of December 31, 2004. This statement is the same as the balance sheet filed by the Company.

Assets	Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	$97,858,253	$	$97,858,253
Cash and short-term investments	9,016,856		9,016,856
Contract loans	203,342		203,342
Other invested assets	2,106,607		2,106,607
Investment income due and accrued	1,682,012		1,682,012
Uncollected premiums	14,805,347	2,539,207	12,266,140
Deferred premiums	49,455		49,455
Net deferred tax asset	12,517,858	10,046,906	2,470,952
Electronic data processing equipment	158,787	158,787	-0-
Furniture and equipment	879,694	879,694	-0-
Agents receivable	6,575,491	6,575,491	-0-
Other assets not admitted	1,343,311	1,343,311	-------0--------
Total assets	$147,197,013	$21,543,396	$125,653,617

Liabilities	
Aggregate reserve for life contracts	$6,213,295
Aggregate reserve for accident and health contracts	39,185,212
Liability for deposit-type contracts	29,991
Contract claims	
Life	20,000
Accident and health	34,313,675
Premiums received in advance	962,064
Interest maintenance reserve	188,312
Commissions to agents due or accrued	2,759,494
General expenses due or accrued	2,489,902
Taxes; licenses and fees due or accrued	411,459
Current federal income taxes	6,478,942
Amounts withheld or retained by company	73,520
Amounts held for agents' account	2,740,555
Remittances and items not allocated	4,158,800
Asset valuation reserve	165,561
Payable to parent and affiliates	1,366,436
Total liabilities	$101,557,218
Capital and surplus	
Common capital stock	$2,000,000
Gross paid in and contributed surplus	30,331,688
Unassigned funds (surplus)	(8,235,289)
Surplus	$22,096,399
Total capital and surplus	$24,096,399
Total liabilities, capital and surplus	$125,653,617

Note:
The latest finalized Internal Revenue Service audit of the Company's tax returns was as of December 31, 2000. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established.

B. Statement of revenue and expenses

Capital and surplus increased by $8,232,100 during the period under this examination, January 1, 2000 through December 31 2004, detailed as follows.

Revenue			
Premiums and annuity considerations			$425,285,098
Expenses			
Disability benefits	$207,436,415		
Death benefits	282,084		
Annuity benefits	105,579		
Surrender benefits	496,762		
Interest on deposit contract funds	5,582		
Increase in aggregate reserve	33,344,909	$241,671,331	
Commissions on premiums		110,543,265	
General insurance expenses		57,403,418	
Insurance taxes; licenses and fees		9,523,599	
Total underwriting deductions			(419,141,613)
Net underwriting gain			$6,143,485
Net investment income		$18,639,223	
Net realized capital loss		(135,604)	
Miscellaneous income		58,436	
Net investment gain			$18,562,055
Net gain before federal income taxes			$24,705,540
Federal income taxes incurred			15,336,546
Net gain			$9,368,994

C. Capital and surplus account

Capital and surplus per report on examination as of December 31, 1999			$15,864,299
	Gains in Surplus	Losses in Surplus	
Net gain from operation	$9,368,994		
Change in net deferred income tax	6,492,118		
Change in non-admitted assets		$12,367,677	
Change in asset valuation reserve		107,940	
Cumulative effect of changes in accounting principles	2,846,605		
Increase in paid in capital	2,000,000	------0-------	
Total gains and losses	$20,707,717	$12,475,617	
Net increase in capital and surplus			$8,232,100
Capital and surplus per report on examination as of December 31, 2004			$24,096,399

5. AGGREGATE RESERVES AND UNPAID CLAIMS

The examination liability of $79,762,173 is the same as the amount reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

The examination liability of $79,762,173 consisted of the following components:

Aggregate reserve for life policies and contracts	$6,213,295
Aggregate reserve for accident and health policies	39,185,212
Liability for deposit-type contracts	29,991
Contract claims:	
Life policy	20,000
Accident and health policy	34,313,675
Total	$79,762,173

6. MARKET CONDUCT

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and was directed at practices of the Company in the following major areas:

A) Underwriting
B) Claims
C) Rating
D) Sales and advertising

The examiners' review revealed the following:

Claims processing

A review of claims processed during 2004, was performed by using a statistical sampling methodology covering the claims processed in 2004, in order to evaluate the overall accuracy and compliance environment of the Company's claims processing.

This statistical random sampling process, which was performed using the computer software program ACL, was devised to test various attributes deemed necessary for successful claims processing activity. The objective of this sampling process was to be able to test and reach conclusions about all predetermined attributes, individually or on a combined basis. For example, if ten attributes were being tested, conclusions about each attribute individually or on a collective basis could be drawn for each item in the sample. The review incorporated processing attributes used by the Company in its own "Quality Analysis" of claims processing. The sample size was comprised of 167 randomly selected claims.

The sample of 167 claims was comprised of 13 denied claims and 154 paid claims.

The term "claim" can be defined in a myriad of ways. The following is an explanation of the term for the purpose of this report. The receipt of a "claim," which is defined by the Company as the total number of items submitted by a single policyholder with a single claim form, is reviewed and entered into the claims processing system. This claim may consist of various lines, or procedures. It was possible, through the computer systems used for this examination, to match or "roll-up" all procedures on the original form into one line, which is the basis of the Department's statistical sample of claims or the sample unit.

The sample review revealed the following:

1. Thirty-nine claims which were "processed" incorrectly, according to the criteria used by both the Company and the Insurance Department examiners, produced an accuracy rate of 76.6%.

The Company, however gives relative weight to the errors, and as such, believes that 27 claims, which contain errors the Company deems insignificant, were correctly processed. If the errors applicable to such claims and an additional error which did not impact the payment of one other claim were not taken into consideration, the accuracy rate compiled by the examiners would have been reduced to 93.4%. The Company reported an overall accuracy standard of 95.4%

2. In the event of an underpayment on a claim, the Company's claims processing system created a new claim and issued an additional payment, rather than adjusting the original claim. In addition, for claims that were denied incorrectly, the Company's claims processing system created a new claim and paid it, rather than reopening the incorrectly denied claim.

This practice, along with the error in counting the sheets of certain claim lines (i.e.: claim service lines) instead of the claims themselves, led to an overstatement of the claims count, as reported in Health Insurance Claims Payable (reported and unreported), New York State business, of the New York Supplement to its 2004 annual statement.

It is recommended that the Company change its claims processing procedures in order to properly report an accurate count of claims paid in Health Insurance Claims Payable (reported and unreported), of the New York Supplement to the Company's annual statement.

3. The Company automatically denied payment of claims for two lines of business, namely dental and Medicare supplemental, when the premiums were not received within the 31 day grace period. However, the Company's practice was to allow a period of 45 days from the premium due date before terminating its dental and Medicare supplemental policies. Therefore, certain claims were denied relative to non-terminated dental and Medicare supplemental policies because premiums were in arrears.

It is recommended that the Company change its policy to link the denial of dental and Medicare supplemental claims upon the termination of its policies instead of premiums being in arrears.

4. The Company's policy in regard to the payment of claims (all lines except dental and Medicare supplemental) is to deduct any over due premiums in arrears from the benefit payment. A letter was generated and mailed to the policyholder advising them of the premium deduction. Also, remarks were entered into the premium system indicating a premium deduction was made.

As of June 2004, the process of deducting the over due premiums from the benefit payments only applies to the following exceptions:

A. A life insurance claim where the insured is deceased and the premium payments are not current.

B. At the policyholder's request.

C. Special request for certain groups in the State of New York.

7. FRAUD PREVENTION AND DETECTION

A review was performed of the organization and structure of the Company's special investigations unit (SIU), and their compliance with Article 4 of the New York Insurance Law, and New York Insurance Department Regulation No. 95 (11 NYCRR 86). The examination review indicated the Company's compliance with Article 4 of the New York Insurance Law and New York Insurance Department Regulation No. 95 (11 NYCRR 86).

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The examiner reviewed the Company's compliance with the following comments and recommendations from the prior report on examination. The page numbers included herein refer to the prior report:

ITEM		PAGE NO.
	Management and Controls	
A.	It is recommended that the audit committee should be pro-active and act responsibly as envisioned by Section 1202(b)(2) of New York Insurance Law. The Company has complied with this recommendation.	5
	Investments	
A.	It is recommended that the custodian agreement with Chase Manhattan Bank should be revised to fully comply with all requirements of New York Insurance Department guidelines. The Company has complied with this recommendation.	12
	Internal Controls	
A.	It is recommended that the Company should implement a policy whereby the signature of two officers, at least one being handwritten, be required for checks that exceed a reasonable amount as set by the Company. The Company has not complied with this recommendation. However, the implementation of other safeguards has mitigated this recommendation.	12
B.	It is recommended that the Company should use proper safeguards for storing unused checks and the software for signing the checks. The Company has complied with this recommendation.	13
C.	It is recommended that the Company should adopt a new procedure to properly separate the duties of its employees. The Company has complied with this recommendation.	13

ITEM		PAGE NO.
D.	It is recommended that the Company should implement a new procedure whereby a manager must sign off on all loan's request prior to processing.	13
	The Company has complied with this recommendation.	
	Accounts and Records	
A.	It is recommended that the Company should fully comply with Section 243.2 of Insurance Regulation No. 152 that imposes upon the Company the obligation to maintain in readable, accessible form all records at least until the filing of the report on examination dealing with the period for which those records are relevant.	15
	The Company has complied with this recommendation.	
	Claims	
A.	It is recommended that the Company should assign a claim number to all claims before processing them for a better control and accountability of all claims received.	20
	The Company has complied with this recommendation.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
	Allocation of expenses	
A.	It is recommended that AFLAC-Columbus reimburse the Company for the estimated overcharges of $316,278 in the aggregate total for years 2002-2004.	15
B.	Also, it is recommended that in the future the Company use actual calling and claims count generated from its systems to properly allocate the shared expenses of these two cost centers between the Company and its parent.	15
	Accounts and records	
C.	It is recommended that the Company comply with the New York State Insurance Department Regulation No. 152 (11 NYCRR 243) relative to the maintenance of records, including maintenance of copies of the Company's termination letters to its agents.	16
	Claims	
D.	It is recommended that the Company change its claims processing procedures in order to properly report an accurate count of claims paid in Health Insurance Claims Payable (reported and unreported), of the New York Supplement to the Company's annual statement.	24
E.	It is recommended that the Company change its policy to link the denial of dental and Medicare supplemental claims upon the termination of its policies instead of premiums being in arrears.	24

Respectfully submitted,

Elsaid E. Elbially
Principal Insurance Examiner, CFE

STATE OF NEW YORK)
) SS.
COUNTY OF NEW YORK)

Elsaid E. Elbially being duly sworn, deposes and says that the foregoing report submitted By him is true to the best of his knowledge and belief.

Elsaid E Elbially

Subscribed and sworn to before me

this 23rd day of March, 2006.

Charles T. Lovejoy

Charles T. Lovejoy
Notary Public, State of New York
No. 31-4798952
Qualified in New York County
Commission Expires 1-26-10

Appointment No. *22242*

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, *GREGORY V. SERIO*, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

El Said El Bially
as a proper person to examine into the affairs of the

American Family Life Assurance Company of New York

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

Company

with such information as he shall deem requisite.

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

this *29th* day of *July* *2004*

Gregory V. Serio
Superintendent of Insurance