NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

NATIONAL INCOME LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2012

DATE OF REPORT: MAY 16, 2014

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EXAMINER:	EDEN SUNDERMAN

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Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 29, 2018

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 30817, dated June 26, 2013, and annexed hereto, an examination has been made into the condition and affairs of National Income Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 1020 Seventh North Street, Liverpool, NY 13088.

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 violations and comment contained in this report are summarized below.

- The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from affiliates on a regular and systematic basis without notifying the Superintendent in writing of its intention to do so at least 30 days prior thereto. (See item 3D of this report)
- The Company violated Section 226.3(b) of Department Regulation No. 200 by failing to take all steps necessary to have each affiliate, parent, subsidiary, or other entity perform the search required by Section 226.3(a) of the Regulation. (See item 7C of this report)
- The Company had also not implemented procedures to collect and obtain, at a minimum, the name, address, date of birth, social security number, and telephone number of every beneficiary of new or existing business. (See item 7C of this report)
- The Company violated Section 226.4(a)(1) of Department Regulation No. 200 by failing to request information, at no later than policy delivery or the establishment of an account and upon any change of insured, owner, account holder, or beneficiary, sufficient to ensure that all benefits or other monies are distributed to the appropriate persons upon the death of the insured or account holder. (See item 7C of this report)
- The Company violated Section 226.4(b)(1) of Department Regulation No. 200 by failing to use the latest available updated version of the death index to cross-check every policy and account at least quarterly. (See item 7C 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, 2013 Edition* (the "Handbook"). The examination covers the four-year period from January 1, 2009, to December 31, 2012. 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, 2012, 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 leveraged from the examination of the Company's parent, American Income Life Insurance Company ("AILIC"), which was performed by the State of Indiana. Since the insurer and its parent share common controls and management, and Indiana is accredited by the NAIC, the examiner deemed it appropriate to rely on the work performed by Indiana, as necessary.

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 2009 through 2012, by the accounting firm of Deloitte & Touche 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's ultimate parent, Torchmark Corporation ("TMK"), has an internal audit department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX") on behalf of the Company. 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 violation and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 9 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 May 14, 1996, was licensed on October 16, 2000, and commenced business on November 16, 2000. 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 100 shares of common stock (with a par value of $20,000 each) for $80,000 per share. On April 5, 2002, a surplus contribution was made in the amount of $5,000,000 bringing the paid in and contributed surplus to $11,000,000, which is the amount of paid in and contributed surplus as of December 31, 2012.

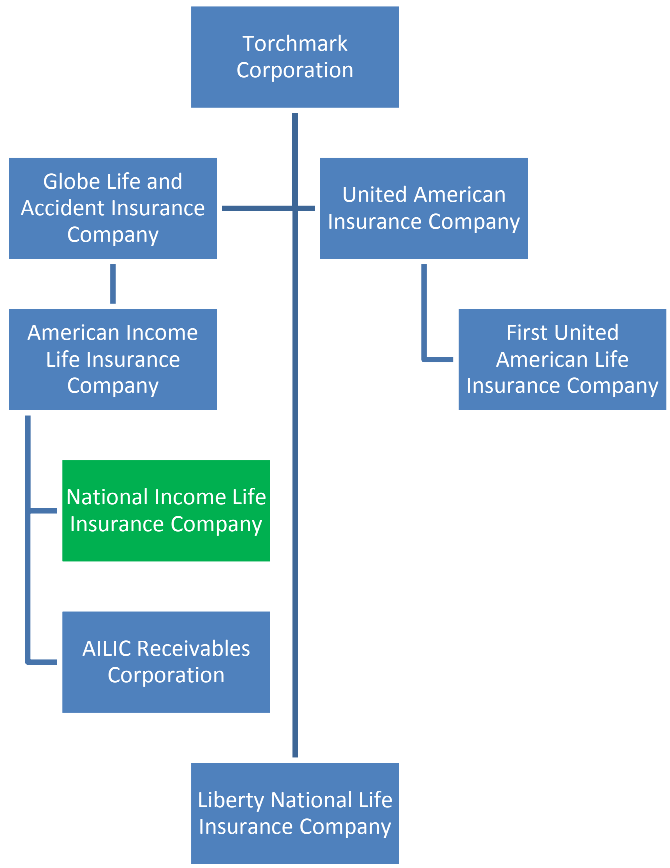
B. Holding Company

The Company is a wholly owned subsidiary of AILIC, a Texas life insurance company. AILIC is in turn a wholly owned subsidiary of Globe Life and Accident Insurance Company ("GLAIC"), a Texas life insurance company. The ultimate parent of the Company is TMK, a Delaware investment advisory company.

First United American Life Insurance Company ("FUALIC") is an affiliate company which is also domiciled in the State of New York.

C. <u>Organizational Chart</u>

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2012, follows:



D. Service Agreements

The Company had seven 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 Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Administrative File No. 31379A	05/17/2000 Amended 03/01/2001 Amended 06/01/2003 Amended 01/01/2006	AILIC	The Company	Distribution/producer management, marketing support/development, reinsurance and underwriting, policyowner and contractholder services, claims processing and payment, actuarial/financial services, information technology, legal and human resources	2009 $(2,686,119) 2010 $(2,944,056) 2011 $(2,607,159) 2012 $(3,156,766)
Administrative	5/17/2000 Amended 11/01/2003	FUALIC	The Company	Supervisory, managerial, oversight and support services for the Company's business and operations. Provision of services by making available a senior officer with expertise and experience in managing the operations of the life insurance business of the Company	2009 $(4,550) 2010 $(4,550) 2011 $(4,550) 2012 $(4,550)
Investment File No. 31300	3/24/2003	TMK	The Company	Investment advisory services	2009 $(133,701) 2010 $(165,994) 2011 $(238,268) 2012 $(304,240)
Sale and Assignment	12/31/2012	The Company	TMK	Selling and assignment of qualified debit balances of the Company's insurance agents	2009 $ 0 2010 $ 0 2011 $ 0 2012 $13,514,480
Sublease File No. 31377	3/5/2007 Extended 4/29/2012	FUALIC	The Company	Sublease of office space	2009 $ (2,009) 2010 $ (2,009) 2011 $ (2,009) 2012 $ (2,009)

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Temporary Advances File No. 30284	8/27/2012	AILIC	The Company	To allow for temporary advance of funds in order to meet cash flow needs	2009 $0 2010 $0 2011 $0 2012 $0
Fraud Agreement File No. 31670	2/24/2004	TMK	The Company	Provide audit staff to carry out the Company's fraud prevention plan	2009 $0 2010 $0 2011 $0 2012 $0

* Amount of Income or (Expense) Incurred by the Company

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

Section 1505(d) of the New York Insurance Law states, in part:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period: . . .
> (3) rendering of services on a regular or systematic basis . . ."

During the examination period, the Company received the following services from affiliates on a regular and systematic basis, but these services were not provided pursuant to a service agreement that is on file with the Department:

- GLAIC provides non-automatic renewal premium processing services
- Liberty National Life Insurance Company and United American Insurance Company provided underwriting services
- TMK provided legal, investment accounting, actuarial, and tax services

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from affiliates on a regular and systematic basis without notifying the Superintendent in writing of its intention to do so at least 30 days prior thereto.

The examiner recommends that the Company enters into written contracts for all transactions between affiliates and notify the Superintendent in writing of its intention to enter into any such transactions.

The examiner recommends that senior management reviews related party transactions to ensure that all transactions are at arm's-length and that service agreements with affiliates accurately reflect current operations.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 9 and not more than 21 directors. The number of directors, however, shall be increased to not less than 13 within one year following the end of the calendar year in which the Company exceeds $500 million in admitted assets. Directors are elected for a period of one year at the annual meeting of the shareholders held in April of each year. The annual board meeting is held immediately following the annual meeting of the shareholders. As of December 31, 2012, the board of directors consisted of nine members.

The nine board members and their principal business affiliation, as of December 31, 2012, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Kevin A. Dattellas* Warners, NY	Chief Financial Officer Solvay Bank	2005
Jerry M. Greenspan* Harrison, NY	Retired RBC Dain Rauscher Corp.	2005
Ben W. Lutek McKinney, TX	Senior Vice President and Appointed Actuary National Income Life Insurance Company	2010
Jules O. Pagano Jamesville, NY	Retired American Income Life Insurance Company	2009
James A. Savo Liverpool, NY	Vice President National Income Life Insurance Company	2002
Joel P. Scarborough Frisco, TX	Senior Vice President and Associate General Counsel National Income Life Insurance Company	2012
Roger C. Smith Frisco, TX	Chief Executive Officer National Income Life Insurance Company	2005

Name and Residence	Principal Business Affiliation	Year First Elected
Scott A. Smith McKinney, TX	President National Income Life Insurance Company	2012
Frank M. Svoboda Grapevine, TX	Executive Vice President and Chief Financial Officer Torchmark Corporation	2012

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

In October 2013, Jules O. Pagano was replaced by Denis M. Hughes, an unaffiliated director.

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, 2012:

Name	Title
Scott A. Smith	President
Roger C. Smith	Chief Executive Officer
Robert F. Falvo	Executive Vice President
Michael S. Henrie	Senior Vice President, Chief Financial Officer and Treasurer
Robert B. Mitchell	Senior Vice President, General Counsel and Secretary
Ben W. Lutek	Senior Vice President and Chief Actuary
Diana Crosby*	Senior Vice President, Administration
Joel P. Scarborough	Senior Vice President, Associate General Counsel
James A. Savo	Vice President
James S. Hawke	Assistant Vice President and Appointed Actuary

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

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 only licensed to write business in New York. In 2012, all life premiums and 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, 2012, the Company had $400,000 (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

During the examination period, the Company primarily sold life insurance and accident and health products. The life insurance line included ordinary and term life insurance. The accident and health line included individual and group accident policies. The Company's emphasis is on selling basic individual life coverage and fixed-benefit accident and health insurance to low and middle-income wage earners through the cooperation of labor unions, credit unions, and other associations in the State of New York.

The Company's agency operations are conducted on a general agency basis. The structure of its sales force is a four level system whereby an agent is contracted under a general agent. The general agent reports to a managing general agent who, in turn, reports to a state general agent. The state general agent is responsible for marketing the Company's products, contracting managing general agents, general agents, and agents to work under his or her state general agent structure. The state general agent does not personally produce any business.

During the examination period, two state general agents, Durhon Oldham and Jim Bianchi Partnership and Theodore Pappas, produced 20% or more of the Company's business.

C. Reinsurance

As of December 31, 2012, the Company had no reinsurance treaties in effect.

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 during the period under review:

	December 31, 2008	December 31, 2012	Increase
Admitted assets	$43,446,265	$110,936,250	$67,489,985
Liabilities	$33,502,057	$ 80,751,792	$47,249,735
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	11,000,000	11,000,000	0
Unassigned funds (surplus)	(3,055,792)	17,184,458	20,240,250
Total capital and surplus	$ 9,944,208	$ 30,184,458	$20,240,250
Total liabilities, capital and surplus	$43,446,265	$110,936,250	$67,489,985

The Company's invested assets as of December 31, 2012, were mainly comprised of bonds (93.3%), cash and short-term investments (3.9%) and policy loans (2.7%).

The majority (99.4%) of the Company's bond portfolio, as of December 31, 2012, was comprised of investment grade obligations.

Pursuant to an agreement approved by the Department on December 31, 2012, TMK purchased agent debit balances from the Company totaling $13,514,480. As a result of this transaction, the Company reported $13,075,259 as amounts due from TMK on December 31, 2012. The agent debit balances were classified as non-admitted assets in 2009, 2010 and 2011.

The ordinary lapse ratio for each of the examination years was 33.1% in 2009, 33.7% in 2010, 24.2% in 2011 and 26.2% in 2012.

In 2009 and 2010, the focus of the agents in charge of the agency offices was primarily on new sales. There was also a decrease in the number of agents in 2010, so fewer agents were available to service in-force policies. During the examination period, the Company embarked on a significant conservation effort with agents that resulted in an increase in reinstatements. In addition, the customer service area on the administrative side has a conservation unit that discusses nonforfeiture options with policyholders who call in regarding cancellation or surrender.

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:

	2009	2010	2011	2012
Ordinary:				
Life insurance	$1,718,418	$3,940,307	$4,315,256	$ 4,546,559
Accident and health:				
Group	$ (104,256)	$ (379,979)	$ (71,193)	$(1,411,145)
Other	425,642	1,555,504	733,341	1,265,759
Total accident and health	$ 321,386	$1,175,525	$ 662,148	$ (145,386)
Total	$2,039,804	$5,115,832	$4,977,404	$ 4,401,173

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:

	2009	2010	2011	2012
Premiums earned	100.0%	100.0%	100.0%	100.0%
Incurred losses	52.9%	46.0%	57.2%	80.6%
Commissions	15.3	17.3	16.1	17.0
Expenses	19.1	20.3	15.4	10.2
	87.2%	83.7%	88.7%	107.8%
Underwriting results	12.8%	16.3%	11.3%	(7.8)%

The Company offers group accidental death and dismemberment coverage to unions, credit unions or associations in New York at no cost as a lead source to generate new sales of its voluntary whole life and individual accident insurance to members covered under the group policy. At the beginning of the examination period, the premium associated with the group accidental death and dismemberment policy was paid by the agent and the agency was responsible for contacting the groups and writing the accidental death and dismemberment coverage to generate the leads.

In 2012, the responsibility for generating agency leads was transitioned to the home office and the Company started issuing an accidental death and dismemberment group policy (policy form SGADD NP NY) at no cost. The incurred losses for the group accidental death and dismemberment policy, which has no earned premium, produced negative underwriting results in 2012.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2012, as contained in the Company's 2012 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, 2012, filed annual statement.

A. Independent Accountants

The firm of Deloitte & Touche 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 year then ended.

Deloitte & Touche 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	$ 80,199,411
Cash, cash equivalents and short term investments	3,391,288
Contract loans	2,346,034
Investment income due and accrued	1,080,829
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	703,102
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,140,327
Receivables from parent, subsidiaries and affiliates	13,075,259
Total admitted assets	$110,936,250

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 70,179,713
Aggregate reserve for accident and health contracts	4,755,079
Contract claims:	
Life	977,574
Accident and health	1,059,357
Premiums and annuity considerations for life and accident and health contracts received in advance	17,066
Contract liabilities not included elsewhere:	
Interest maintenance reserve	917,709
Commissions to agents due or accrued	28,711
Taxes, licenses and fees due or accrued, excluding federal income taxes	114,286
Current federal and foreign income taxes	336,686
Net deferred tax liability	290,000
Amounts withheld or retained by company as agent or trustee	21,655
Amounts held for agents' account	149,539
Remittances and items not allocated	160,268
Miscellaneous liabilities:	
Asset valuation reserve	400,449
Payable to parent, subsidiaries and affiliates	1,291,319
Uncashed drafts and checks pending escheatment	52,381
Total liabilities	$ 80,751,792
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	11,000,000
Unassigned funds (surplus)	17,184,458
Surplus	$ 28,184,458
Total capital and surplus	$ 30,184,458
Total liabilities, capital and surplus	$110,936,250

D. Condensed Summary of Operations

	2009	2010	2011	2012
Premiums and considerations	$33,856,955	$36,651,433	$42,703,317	$49,923,445
Investment income	1,941,684	2,307,097	3,149,508	3,878,195
Miscellaneous income	2,251	2,117	2,891	3,543
Total income	$35,800,890	$38,960,647	$45,855,716	$53,805,183
Benefit payments	$ 5,150,817	$ 6,275,403	$ 7,296,910	$ 8,207,136
Increase in reserves	7,946,213	9,766,657	11,176,631	15,411,459
Commissions	11,230,794	12,817,576	13,041,242	16,163,964
General expenses and taxes	4,683,743	5,789,988	5,942,321	5,637,393
Increase in loading on deferred and uncollected premiums	1,745,679	(254,327)	1,852,510	1,423,306
Total deductions	$30,757,246	$34,395,297	$39,309,614	$46,843,258
Net gain (loss)	$ 5,043,644	$ 4,565,350	$ 6,546,102	$ 6,961,925
Federal and foreign income taxes incurred	3,003,840	(550,482)	1,568,698	2,560,752
Net gain (loss) from operations before net realized capital gains	$ 2,039,804	$ 5,115,832	$ 4,977,404	$ 4,401,173
Net realized capital gains (losses)	(1,151)	(1,927)	(756)	65,396
Net income	$ 2,038,653	$ 5,113,905	$ 4,976,648	$ 4,466,569

During 2010, the Company experienced a significant decrease (18%) in the production of new business sales when compared with 2009 levels. However, renewal premiums in 2010 were $4.6 million higher than in 2009, offsetting the decrease in production of new business. First year loading on new business was much higher than loading in renewal years; the decrease in loading on deferred and uncollected premium in 2010 had a positive effect on the Company's net gain from operations in 2010.

In 2009, the Company made an error calculating the deduction for agent advances that resulted in an overstatement of the deferred tax asset. The error was corrected on the tax return, but was not correctly accounted for on the year-end tax provision. The prior year tax adjustment totaling $2,601,808 was reported in the Notes to Financial Statements of the 2010 filed annual statement. The return to provision adjustment distorts the comparison of federal and foreign income taxes incurred in 2009, 2010 and 2011.

E. Capital and Surplus Account

	2009	2010	2011	2012
Capital and surplus, December 31, prior year	$ 9,944,208	$11,341,644	$15,338,165	$17,538,358
Net income	$ 2,038,653	$ 5,113,905	$ 4,976,648	$ 4,466,569
Change in net deferred income tax	2,485,000	(2,469,000)	404,000	(3,664,000)
Change in non-admitted assets and related items	(3,097,252)	1,419,844	(3,091,699)	11,928,977
Change in asset valuation reserve	(28,965)	(68,228)	(88,756)	(85,446)
Net change in capital and surplus for the year	1,397,436	3,996,521	2,200,193	12,646,100
Capital and surplus, December 31, current year	$ 9,944,208	$11,341,644	$15,338,165	$17,538,358

The change in non-admitted assets and related items between 2011 and 2012 was due to the sale of the Company's agent debit balances to TMK, resulting in a receivable from TMK totaling $13,075,259 at December 31, 2012. The $10,649,895 decrease in statutory non-admitted other receivable assets, resulting from the sale of the agent debit balances to TMK, had a direct impact on net deferred income taxes in 2012.

The difference in net deferred income tax between 2010 and 2011 is directly related to the 2009 error in calculating the deduction for agent advances that was recognized as a prior year adjustment in 2010, causing an overstatement of the deferred tax asset.

7. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company’s market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company’s advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Section 226.3 of Department Regulation 200 states:

> “(a) Upon receiving notification of the death of an insured or account holder or in the event of a match made by a death index cross-check pursuant to section 226.4 of this Part, an insurer shall search every policy or account subject to this Part to determine whether the insurer has any other policies or accounts for the insured or account holder.
> (b) An insurer that receives a notification of death of an insured or account holder, or identifies a death index match, shall notify each United States affiliate, parent, or subsidiary, and any entity with which the insurer contracts that may maintain or control records relating to policies or accounts covered by this Part of the notification or verified death index match. An insurer shall take all steps necessary to have each affiliate, parent, subsidiary, or other entity perform the search required by subdivision (a) of this section.”

Section 226.4 of Department Regulation No. 200 states, in part:

> "(a)(1) Except as set forth in paragraph (2) of this subdivision, at no later than policy delivery or the establishment of an account and upon any change of insured, owner, account holder, or beneficiary, an insurer shall request information sufficient to ensure that all benefits or other monies are distributed to the appropriate persons upon the death of the insured or account holder, including, at a minimum, the name, address, date of birth, social security number, and telephone number of every owner, account holder, insured and beneficiary of such policy or account, as applicable . . .
> (b)(1) An insurer shall use the latest available updated version of the death index to cross-check every policy and account subject to this Part, except as specified in subdivision (h) of this section. The cross-checks shall be performed no less frequently than quarterly. . . .
> (e) Every insurer shall implement reasonable procedures to account for common variations in data that would otherwise preclude an exact match with a death index, including:
> (1) nicknames, initials used in lieu of a first or middle name, use of a middle name, compound first and middle names, and interchanged first and middle names;
> (2) compound last names, and blank spaces or apostrophes in last name;
> (3) incomplete date of birth data, and transposition of the 'month' and 'date' portions of the date of birth;
> (4) incomplete social security number; and
> (5) common data entry errors in name, date of birth and social security data. . . ."

During the examination period and through the last day of fieldwork, the Company was still in the process of implementing procedures and processes to comply with Department Regulation No. 200.

The Company had not implemented procedures to notify its affiliates or parent when it receives notification of death of an insured or account holder or identifies a death index match.

The Company violated Section 226.3(b) of Department Regulation No. 200 by failing to take all steps necessary to have each affiliate, parent, subsidiary, or other entity perform the search required by Section 226.3(a) of the Regulation.

The Company had also not implemented procedures to collect and obtain, at a minimum, the name, address, date of birth, social security number, and telephone number of every beneficiary of new or existing business.

The Company violated Section 226.4(a)(1) of Department Regulation No. 200 by failing to request information, at no later than policy delivery or the establishment of an account and upon any change of insured, owner, account holder, or beneficiary, sufficient to ensure that all benefits or other monies are distributed to the appropriate persons upon the death of the insured or account holder.

The Company violated Section 226.4(b)(1) of Department Regulation No. 200 by failing to use the latest available updated version of the death index to cross-check every policy and account at least quarterly.

The Company's last cross-check submission pursuant to the Section 308 Letter, dated July 5, 2011, was in May 2012, when it was no longer required to complete monthly reporting to the Department. No quarterly cross-checks were performed after May 2012.

The Company had not established written and auditable procedures to locate beneficiaries so that prompt payments or distributions could be made in the event of a positive match.

8. INVESTMENT POLICIES AND PROCEDURES

The examiner's review of documents related to the Company's investment policies and procedures revealed that the Company does not maintain robust written investment policies and procedures. In addition, the Company has not established an independent and objective risk management function that identifies, measures, aggregates and manages enterprise-wide risk exposures within predetermined tolerance levels, including prospective solvency risks.

Similar findings were identified and communicated to the Company during the prior examination of the Company. Since the prior examination, the Company has not developed a comprehensive investment policy that delineates the Company's risk/reward framework, risk tolerance levels and risk limits and has not incorporated more effective controls designed to identify, quantify, and manage risks to which the Company may be exposed.

The investment policies and procedures do not address many key functions normally associated with managing an investment portfolio, including pre-determined risk tolerance limits (for example, permitted asset classes; credit quality; sector limits; specifically defined statutory limits; strategic objectives such as portfolio duration, benchmark or composite returns; and liquidity management).

Lack of an integrated investment risk management function may cause risk exposures to go undetected and/or exposures to not be quantified in a timely manner, leading to investment or other risk exposures that exceed the company's risk tolerance levels, inadequate data for making informed managerial decisions pertaining to the investment portfolio, and day-to-day strategic decision-making processes relating to insurance, underwriting, asset-liability matching, credit, market, operational, reputational, liquidity and any other significant risks. The Company should consider a risk and capital management process that is designed to monitor the level of its financial resources relative to its economic capital and the regulatory capital requirements. The enterprise risk management function should incorporate investment policy, asset-liability management policy, effective controls on internal models, longer-term continuity analysis, and feedback loops to update and improve enterprise risk management continuously.

The examiner recommends that the Company enhances and revises its written investment policies and procedures to better describe the functional and operational processes the Company has in place and to have the revised policies and procedures approved by the board of directors and/or the investment committee. The same recommendation appeared in the prior report on examination.

The examiner recommends that the Company establishes an independent risk management function, separate and distinct from the business lines that take risk, that is headed by an appropriately experienced individual who has access to the board of directors and senior management. The investment risk management function should make regular reports to the board of directors and should identify any material risks or developments within the holding company system that could pose enterprise risk to the Company and to any insurer within the TMK system. A similar recommendation appeared in the prior report on examination.

9. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The examiner recommends that the Company's board of directors meet in person or via teleconference at a minimum of once every calendar year, and more frequently as necessary, to promote open discussion and better communication among directors. This is a repeat recommendation. The examiner's review of the minutes of the meetings of the board of directors and committees thereof held in 2012 and 2013 demonstrated that the board met via teleconference at least annually.
B	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to have its independent committee of the board fulfill its responsibilities under such section, during 2007. The examiner's review of the Company's 2012 and 2013 audit and evaluation committee minutes demonstrated enhanced oversight by the independent directors since the prior examination.
C	The examiner recommends that the Company replace those committee members who fail to attend a majority of the meetings. The Company replaced the independent director who failed to attend the board and committee meetings during the last examination period.

10. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from affiliates on a regular and systematic basis without notifying the Superintendent in writing of its intention to do so at least 30 days prior thereto.	8
B	The examiner recommends that the Company enters into written contracts for all transactions between affiliates and notify the Superintendent in writing of its intention to enter into any such transactions.	8
C	The examiner recommends that senior management reviews related party transactions to ensure that all transactions are at arm's-length and that service agreements with affiliates accurately reflect current operations.	9
D	The Company violated Section 226.3(b) of Department Regulation No. 200 by failing to take all steps necessary to have each affiliate, parent, subsidiary, or other entity perform the search required by Section 226.3(a) of the Regulation.	21
E	The Company violated Section 226.4(a)(1) of Department Regulation No. 200 by failing to request information, at no later than policy delivery or the establishment of an account and upon any change of insured, owner, account holder, or beneficiary, sufficient to ensure that all benefits or other monies are distributed to the appropriate persons upon the death of the insured or account holder.	21
F	The Company violated Section 226.4(b)(1) of Department Regulation No. 200 by failing to use the latest available updated version of the death index to cross-check every policy and account at least quarterly.	22
G	The examiner recommends that the Company enhances and revises its written investment policies and procedures to better describe the functional and operational processes the Company has in place and to have the revised policies and procedures approved by the board of directors and/or the investment committee. The same recommendation appeared in the prior report on examination.	23

Item	Description	Page No(s).
H	The examiner recommends that the Company establishes an independent risk management function, separate and distinct from the business lines that take risk, that is headed by an appropriately experienced individual who has access to the board of directors and senior management. The investment risk management function should make regular reports to the board of directors and should identify any material risks or developments within the holding company system that could pose enterprise risk to the Company and to any insurer within the TMK system. A similar recommendation appeared in the prior report on examination.	24

Respectfully submitted,

____________/s/____________
Eden Sunderman
Associate Insurance Examiner

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

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

____________/s/____________
Eden Sunderman

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 30817

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

EDEN SUNDERMAN

as a proper person to examine the affairs of the

NATIONAL INCOME LIFE INSURANCE COMPANY

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 26th day of June, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU