



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
NIAGARA LIFE AND HEALTH INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

FEBRUARY 9, 2018

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OF THE

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AS OF

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EXAMINER:

JAMES ROBINSON, CFE
JOCATENA HARGROVE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 30, 2018

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

Madam:

In accordance with instructions contained in Appointment Nos. 31669 and 31670, dated September 7, 2017, and annexed hereto, an examination has been made into the condition and affairs of Niagara Life and Health Insurance Company, hereinafter referred to as “the Company”.

The financial examination took place at the statutory home office of the Company’s parent, Companion Life Insurance Company, located at 7909 Parklane Road, Suite 200, Columbia, SC 29223.

The market conduct examination took place at the Company’s statutory home office, located at 300 Corporate Parkway, Amherst, NY 14226.

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 contained in this report are summarized below.

- The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from its parent and affiliates without notifying the Superintendent in writing at least 30 days prior to its intention to enter into such transaction. This is a repeat violation. (See item 3D of this report)
- The Company violated Section 1202(b)(2) of the New York Insurance Law when its independent committee failed to recommend to the board of directors the compensation of its principal officers. This is a repeat violation. (See item 3E of this report)
- The Company violated Section 4230(a) of the New York Insurance Law by paying its principal officers a compensation that was not authorized by a vote of the board of directors of the Company. This is a repeat violation. (See item 3E 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, 2017 Edition* (the “Handbook”). The examination covers the 4-year period from January 1, 2013, through December 31, 2016. 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, 2016, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

In the course of the examination, a review was also made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The results of this review are contained in item 7 of this report.

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 of the Company was conducted as part of a coordinated multi-state group examination of the Blue Cross and Blue Shield of South Carolina’s holding company system. The examination was led by the State of South Carolina 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.

Following are the participating companies and their respective states of domicile:

- Blue Cross and Blue Shield of South Carolina (“BCBSSC”), South Carolina
- Companion Life Insurance Company (“Companion”), South Carolina
- BlueChoice HealthPlan of South Carolina, Inc., South Carolina

- InStil Health Insurance Company, South Carolina
- Niagara Life and Health Insurance Company, New York
- Companion Life Insurance Company of California, California

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 2013 through 2016, 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 does not have an internal audit department. BCBSSC, the Company's ultimate parent, is subject to the NAIC's Model Audit Rule ("MAR") which requires all insurance companies with an annual premium of \$500 million or more to issue a management's report on the effectiveness of internal control over financial reporting. Where applicable, MAR 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 violations, recommendations and comments contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 24, 2000, was licensed and commenced business on July 21, 2005, as Forethought Life Insurance Company of New York (“FLICNY”). Initial resources of \$6,250,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,250,000, were provided through the sale of 400 shares of common stock (with a par value of \$5,000 each) for approximately \$15,625 per share. The ultimate parent of the Company was Forethought Financial Group, Inc. (“FFG”).

On June 29, 2007, the Department approved an application for the acquisition of control of FFG, including FLICNY, by Century Capital Partners III, L.P., a private equity fund, and a number of its affiliated entities, as well as several individuals.

On September 9, 2009, the Department approved an application for the acquisition of control of FLICNY by Companion, a South Carolina domiciled stock life insurance company and a wholly owned subsidiary of BCBSSC. Companion acquired all of the issued and outstanding common shares of FLICNY from its direct parent, Forethought Life Insurance Company (“FLIC”), an Indiana domiciled stock life insurance company, for \$300,000, which was the sum of the aggregate amount of the Company’s capital and surplus. FLICNY had no policies in force when it was acquired by Companion. On October 20, 2009, FLICNY’s name was changed to the Company’s current name.

In November 2010, Companion invested in the Company through a cash contribution of \$300,000. Companion also invested in the Company in August 2015 and June 2016 through a cash contribution of \$300,000 and \$2,000,000, respectively.

B. Holding Company

The Company is a wholly owned subsidiary of Companion, a South Carolina domiciled stock life insurance company, which is in turn a wholly owned subsidiary of BCBSSC, a South Carolina domiciled mutual insurance company which provides health insurance, health benefits and administration, and government program services to the State of South Carolina Employee Health Plan and the Department of Defense. BCBSSC also provides life insurance, information

technology and investment services through its subsidiaries. BCBSSC is the Company's ultimate parent.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2016, follows:



D. Service Agreements

The Company had eight 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
Services Agreement File No. 43852 File No. 46897	12/01/2010 Amended 06/03/2013	Companion	The Company	Administrative, underwriting, compliance, accounting, actuarial, marketing, communications, and claims processing	2013 \$ (34,459) 2014 \$ (21,135) 2015 \$ (57,743) 2016 \$(106,145)
Services Agreement File No. 46898	04/01/2013	BCBSSC	The Company	Administrative—telephone and data lines, access to electronic databases, IT and technical support, human resources, tax filing and reporting, employee oversight, facilities and audit—and compliance services	2013 \$(298,524) 2014 \$(571,619) 2015 \$(427,403) 2016 \$(410,831)
Investment Management Agreement File No. 47238	05/01/2013	BCBSSC	The Company	Investment accounting services and treasury and cash management functions	2013 \$(8,722) 2014 \$(6,934) 2015 \$(6,759) 2016 \$(7,743)
Managing General Underwriter Agreement File No. 46735	03/01/2013	International Specialty Underwriters, Inc.	The Company	Underwriting, solicitation of insurance, advertisements, compliance, benefits, rate and reinsurance, underwriting guidelines, policy issuance, premium collection and distribution, payment of claims, and policyholder services	2013 \$ (4,561) 2014 \$(17,348) 2015 \$(19,904) 2016 \$(14,939)
General Managers Agreement File No. 48801	08/01/2014	Montgomery Management Corporation	The Company	Underwriting, solicitation of insurance, advertisements, compliance, benefits, rate and reinsurance, underwriting guidelines, policy issuance, premium collection and distribution, payment of claims, and policyholder services	2013 \$ 0 2014 \$ (41,305) 2015 \$(295,058) 2016 \$(444,346)

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
General Managers Agreement File No. 48070	08/01/2017	Intermediary Insurance Services, Inc.	The Company	Underwriting, solicitation of insurance, advertisements, compliance, benefits and rates, underwriting guidelines, policy issuance, premium collection and distribution, payment of claims, and policyholder services	2013 \$(149,978)** 2014 \$(175,640) 2015 \$(103,406) 2016 \$ (62,218)
Managing General Underwriter Agreement File No. 48068	11/01/2014	Summit Reinsurance Services, Inc.	The Company	Underwriting, solicitation of insurance, advertisements, compliance, benefits, rate and reinsurance, underwriting guidelines, policy issuance, premium collection and distribution, payment of claims, and policyholder services	2013 \$ (28,436)** 2014 \$ (36,970) 2015 \$ (92,034) 2016 \$(105,901)
General Managers Agreement File No. 48069	11/01/2014	ASG Risk Management, Inc.	The Company	Underwriting, solicitation of insurance, advertisements, compliance, benefits, rate and reinsurance, underwriting guidelines, policy issuance, premium collection and distribution, payment of claims, and policyholder services	2013 \$ (64,205)** 2014 \$ (42,880) 2015 \$(147,598) 2016 \$(262,558)

* Amount of Expense Incurred by the Company

** The prior report on examination contained a recommendation that the Company enters into written contracts for all transactions between affiliates and notifies the Superintendent in writing of its intention to enter into any such transactions. The Company filed these agreements with the Department on December 31, 2013, and the agreements were non-disapproved on their respective dates shown.

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 with regard to reinsurance treaties or agreements at least forty-five days prior thereto, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period: . . .

(3) rendering of services on a regular or systematic basis . . .”

New York Insurance Circular Letter No. 33 (1979) advises, in part:

“ . . . Every domestic insurer which is a party to a consolidated federal income tax filing must have a definitive written agreement, approved by its Board of Directors, governing its participation therein. . . . To help assure the domestic insurer's enforceable right to recoup federal income taxes in the event of future net losses [,] an escrow account consisting of assets eligible as an investment for the domestic insurer shall be established and maintained by the parent in an amount equal to the excess of the amount paid by the domestic insurer to the parent for federal income taxes over the actual payment made by the parent to the Internal Revenue Service. . . .”

The Company files its federal income taxes on a consolidated basis with its parent and affiliates pursuant a tax allocation agreement between the Company and its ultimate parent, BCBSSC. The Company participated in the tax allocation agreement beginning in tax year 2015. This agreement was not approved by the Company's board of directors and was not filed with the Superintendent for non-disapproval. The agreement also did not provide for establishing and maintaining an escrow account consisting of eligible investment assets for the Company in an amount equal to the excess of the amount paid by the Company to BCBSSC for federal income taxes over the amount paid by BSBSSC to the Internal Revenue Service to ensure the Company's enforceable right to recoup federal income taxes in the event of future net losses.

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from its parent and affiliates without notifying the Superintendent in writing at least 30 days prior to its intention to enter into such transaction. This is a repeat violation.

The Company failed to comply with Insurance Circular Letter No. 33 (1979) when its board of directors failed to approve its tax allocation agreement and failed to establish and maintain an escrow account consisting of eligible investment assets for the Company to ensure the Company's enforceable right to recoup federal income taxes in the event of future net losses.

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 12 directors. Directors are elected to hold office until their successors are chosen at the annual meeting of the stockholders held in April or May of each year. As of December 31, 2016, the board of directors consisted of nine members. Meetings of the board are held annually.

The nine board members and their principal business affiliation, as of December 31, 2016, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
L. Kennedy Boggs* Columbia, SC	Retired Senior Vice President, Legal and Compliance Colonial Life & Accident Insurance Company	2014
Stephen T. Carter* Columbia, SC	Retired Actuary and Assistant Secretary Companion Life Insurance Company	2009
Diane Fischer Columbia, SC	Vice President, Treasurer and Secretary Niagara Life and Health Insurance Company	2015
James T. Helton, III Columbia, SC	Actuary and Assistant Secretary Niagara Life and Health Insurance Company	2015
Trescott N. Hinton, Jr. Columbia, SC	Chairman and President Niagara Life and Health Insurance Company	2009
Catherine G. Huddle* San Antonio, TX	Vice President, Sales and Marketing Conceptual Mind Works, Inc.	2009
Duncan S. McIntosh Columbia, SC	Vice President and General Counsel Blue Cross Blue Shield of South Carolina	2009
Michael J. Mizeur Columbia, SC	Executive Vice President, Chief Financial Officer and Treasurer Blue Cross Blue Shield of South Carolina	2011
Mark R. Rozeen* Port Washington, NY	Proprietor MRStat LLC	2009

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

Effective January 1, 2017, Stephen T. Carter resigned from the board of directors and Trescott N. Hinton, Jr. retired from the Company and its board of directors. They were replaced by Jill R. Davis and Philip J. Gardham.

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.

Section 1202(b)(2) of the New York Insurance Law states, in part:

"The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee or committees shall have responsibility for recommending the selection of independent certified public accountants, reviewing the company's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed by such committee or committees to be principal officers of the company, and recommending to the board of directors the selection and compensation of such principal officers..."

Section 4230(a) of the New York Insurance Law states, in part:

"No domestic life insurance company shall pay any salary, compensation or emolument in any amount to any officer, deemed by a committee or committees of the board to be a principal officer . . . unless such payment be first authorized by a vote of the board of directors of such company.

The examiner reviewed the board of directors and the independent audit committee's minutes for meetings held during the examination period. The audit committee's minutes did not indicate that a review of the principal officers' compensation was performed and a recommendation was presented to the board of directors, and the board of directors did not approve the principal officer's compensation. The Company's board of directors only approved non-specific percentage-based pay raises for the principal officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law when its independent committee failed to recommend to the board of directors the compensation of its principal officers. This is a repeat violation.

The Company violated Section 4230(a) of the New York Insurance Law by paying its principal officers a compensation that was not authorized by a vote of the board of directors of the Company. This is a repeat violation.

The following is a listing of the principal officers of the Company as of December 31, 2016:

Name	Title
Trescott N. Hinton, Jr.	Chairman and President
Diane Fischer	Vice President, Treasurer and Secretary
James T. Helton, III	Actuary and Assistant Secretary
F. David Wythe*	Director of Compliance

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

Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64) states:

“Every insurer shall establish an internal department specifically designated to investigate and resolve complaints filed with the Department of Financial Services and to take action necessitated as a result of its complaint investigation findings. Such internal department is to operate in a staff capacity to the entire company with authority to question and change the position taken in individual instances or company practices generally. Responsibility for such department is to be vested in a corporate officer who is also to be entrusted with the duty of executing the Department of Financial Services’ directives. If the Department of Financial Services requests the appearance of an insurer representative to discuss a pending matter, the individual whom the company sends shall be authorized to make any determination warranted after all the facts are elicited at such conference. Each insurer must furnish the superintendent with the name and title of the corporate officer responsible for its internal consumer services department.”

The Company identified F. David Wythe, Director of Compliance, as the Company's designated consumer services officer pursuant to Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64.) Upon review, it was also identified that F. David Wythe is not a corporate officer of the Company.

The Company violated Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64) by failing to appoint a corporate officer as the Company’s consumer services officer.

On November 9, 2017, the Company designated J. Philip Gardham, a corporate officer, as the Company’s consumer services officer. The appointment was processed electronically through the Department’s online portal.

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in two states, namely New York and Connecticut. In 2016, all accident and health premiums were received from New York (82.2%), and Connecticut (17.8%).

A. Statutory and Special Deposits

As of December 31, 2016, the Company had \$439,410 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

B. Direct Operations

When the Company commenced business in 2005 as FLICNY, the Company sold life insurance linked with pre-arranged funerals through financial planners. From 2006 to 2010, the Company had no product sales. The Company started writing direct premiums again on June 1, 2011, after it was purchased by Companion. The products offered consisted of group medical excess loss (stop loss) insurance and student blanket medical insurance.

During the examination period, the Company marketed stop loss insurance, student accident insurance and supplemental prescription expense insurance products. The group stop loss insurance comprises 56% of the Company's total net premium while the other group accident and health products comprise 43% of total net premium. The Company's product lines are categorized into two separate lines, the core products line and the specialty markets products line.

The core products line includes employer group insurance benefit plans designed to complement an employer's group health benefit plan issued by other carriers. These products include both employer group dental insurance and employer group short-term disability insurance. These products are managed directly by Companion's staff pursuant to a previously described services agreement.

The specialty markets products line includes stop loss coverage, student blanket medical insurance, and group supplemental prescription expense coverage. These products are sold

through strategic partners, which act as managing general underwriters, and by third-party administrators.

C. Reinsurance

As of December 31, 2016, the Company had reinsurance treaties in effect with 14 companies, of which 9 were authorized or accredited. The Company's accident and health business is reinsured on a coinsurance basis. Reinsurance is provided on an automatic and/or facultative basis.

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, <u>2012</u>	December 31, <u>2016</u>	<u>Increase</u>
Admitted assets	\$ <u>7,110,062</u>	\$ <u>17,971,198</u>	\$ <u>10,861,136</u>
Liabilities	\$ <u>748,549</u>	\$ <u>9,209,016</u>	\$ <u>8,460,467</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	4,578,190	6,878,190	2,300,000
Unassigned funds (surplus)	<u>(216,676)</u>	<u>(116,007)</u>	<u>100,669</u>
Total capital and surplus	\$ <u>6,361,514</u>	\$ <u>8,762,183</u>	\$ <u>2,400,669</u>
Total liabilities, capital and surplus	\$ <u>7,110,062</u>	\$ <u>17,971,198</u>	\$ <u>10,861,136</u>

The Company's invested assets as of December 31, 2016, were comprised of cash and short-term investments (55%) and bonds (45%).

The Company's entire bond portfolio, as of December 31, 2016, was comprised of investment grade obligations.

The Company's increase in admitted assets and liabilities during the examination period was attributed to an increase in premiums written during the examination period.

The Company's paid in and contributed surplus increased due to Companion investing in the Company through cash contributions of \$300,000 in August 2015 and \$2,000,000 in June 2016.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

	<u>Group</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Outstanding, end of previous year	2,016	104,992	105,075	97,829
Issued during the year	48,534	104,321	92,186	20,209
Other net changes during the year	<u>(27,161)</u>	<u>(104,238)</u>	<u>(99,432)</u>	<u>(3,103)</u>
Outstanding, end of current year	<u>104,992</u>	<u>105,075</u>	<u>97,829</u>	<u>114,935</u>

As a result of a financial review, the Company restated its 2013 number of group policies outstanding, end of previous year.

The Company's unaffiliated partner, Commercial Travelers Insurance Company ("CTIC,") which administers the student medical and accident business, considered each school year as a new business. Therefore, in 2014 and 2015, CTIC incorrectly reported its newly issued certificates and corresponding deductions. In 2016, CTIC altered its approach to only include newly issued certificates actually issued during the year.

The following table reflects the Company's actual number of group accident and health issued and outstanding policies and certificates for each of the years under review:

	<u>Group</u>			
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Outstanding, end of previous year	83,619	104,992	105,075	97,829
Issued during the year	48,534	20,628	20,877	20,209
Other net changes during the year	<u>(27,161)</u>	<u>(20,545)</u>	<u>(28,123)</u>	<u>(3,103)</u>
Outstanding, end of current year	<u>104,992</u>	<u>105,075</u>	<u>97,829</u>	<u>114,935</u>

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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Group life	\$ 0	\$ (66,842)	\$ (61,220)	\$ (30,910)
Group accident and health	<u>(204,149)</u>	<u>(142,052)</u>	<u>198,508</u>	<u>162,259</u>
Total	<u>\$(204,149)</u>	<u>\$(208,896)</u>	<u>\$137,287</u>	<u>\$131,349</u>

The Company experienced significant growth in its group accident and health line of business, specifically the group stop loss and the group supplemental prescription expense insurance.

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:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	78.1%	73.1%	80.6%	81.9%
Commissions	(7.3)	(12.7)	(14.4)	(8.2)
Expenses	<u>68.8</u>	<u>61.5</u>	<u>29.6</u>	<u>20.0</u>
	<u>139.6%</u>	<u>121.9%</u>	<u>95.8%</u>	<u>93.7%</u>
Underwriting results	<u>(39.6%)</u>	<u>(21.9%)</u>	<u>4.2%</u>	<u>6.3%</u>

The Company experienced significant growth in its group accident and health line of business, specifically the group stop loss and the group supplemental prescription expense insurance. As a result of the increase in premiums, administrative costs did not grow at the same rate as premiums are earned, resulting in favorable expense ratios in the most recent years.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2016, as contained in the Company's 2016 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, 2016, 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	\$ 4,933,536
Cash, cash equivalents and short term investments	6,036,642
Investment income due and accrued	45,892
Reinsurance:	
Other amounts receivable under reinsurance contracts	1,970,145
Net deferred tax asset	26,407
Guaranty funds receivable or on deposit	9,943
Receivables from parent, subsidiaries and affiliates	21,116
A/R-Funds withheld	3,046,230
A/R-Stop loss	<u>\$ 1,881,286</u>
Total admitted assets	<u>\$17,971,198</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for accident and health contracts	\$ 96,768
Contract claims:	
Life	191
Accident and health	831,892
General expenses due or accrued	168,708
Taxes, licenses and fees due or accrued, excluding federal income taxes	381,121
Miscellaneous liabilities:	
Asset valuation reserve	20,202
Reinsurance in unauthorized companies	6,576
Funds held under reinsurance treaties with unauthorized reinsurers	205,998
Payable to parent, subsidiaries and affiliates	94,382
Funds held under coinsurance	2,802,692
Stop loss payable	<u>4,600,485</u>
 Total liabilities	 \$ <u>9,209,016</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	6,878,190
Unassigned funds (surplus)	(116,007)
Surplus	<u>6,762,183</u>
Total capital and surplus	\$ <u>8,762,183</u>
 Total liabilities, capital and surplus	 \$ <u>17,971,198</u>

D. Condensed Summary of Operations

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Premiums and considerations	\$1,022,314	\$1,323,925	\$1,715,930	\$3,219,588
Investment income	89,235	83,319	103,995	118,635
Commissions and reserve adjustment on reinsurance ceded	212,164	343,717	456,920	636,874
Miscellaneous income	<u>(63)</u>	<u>972</u>	<u>45,646</u>	<u>27</u>
Total income	<u>\$1,323,650</u>	<u>\$1,751,933</u>	<u>\$2,322,491</u>	<u>\$3,975,124</u>
Benefit payments	\$ 638,292	\$1,104,834	\$1,390,246	\$2,600,068
Increase in reserves	205,171	(191,092)	(19,832)	31,919
Commissions	152,241	151,142	207,696	378,382
General expenses and taxes	<u>562,002</u>	<u>1,000,402</u>	<u>584,382</u>	<u>706,798</u>
Total deductions	<u>\$1,557,706</u>	<u>\$2,065,286</u>	<u>\$2,162,492</u>	<u>\$3,717,167</u>
Net gain (loss)	\$ (234,056)	\$ (313,353)	\$ 159,999	\$ 257,957
Federal and foreign income taxes incurred	<u>(29,907)</u>	<u>(104,457)</u>	<u>22,711</u>	<u>126,609</u>
Net gain (loss) from operations				
before net realized capital gains	\$ (204,149)	\$ (208,896)	\$ 137,288	\$ 131,348
Net realized capital gains (losses)	<u>55,541</u>	<u>187,294</u>	<u>0</u>	<u>0</u>
Net income	<u>\$ (148,608)</u>	<u>\$ (21,602)</u>	<u>\$ 137,287</u>	<u>\$ 131,349</u>

E. Capital and Surplus Account

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital and surplus, December 31, prior year	\$ <u>6,361,514</u>	\$ <u>6,343,752</u>	\$ <u>6,285,421</u>	\$ <u>6,582,021</u>
Net income	\$ (148,608)	\$ (21,602)	\$ 137,287	\$ 131,349
Change in net unrealized capital gains (losses)	89,725	(160,092)	0	0
Change in net deferred income tax	54,845	(10,721)	(20,628)	(20,375)
Change in non-admitted assets and related items	4,217	8,713	(117,314)	77,310
Change in liability for reinsurance in unauthorized companies	0	0	0	(6,576)
Change in asset valuation reserve	(17,940)	125,370	(2,745)	(1,546)
Surplus adjustments:				
Paid in	<u>0</u>	<u>0</u>	<u>300,000</u>	<u>2,000,000</u>
Net change in capital and surplus for the year	<u>(17,761)</u>	<u>(58,332)</u>	<u>296,600</u>	<u>2,180,162</u>
Capital and surplus, December 31, current year	\$ <u>6,343,752</u>	\$ <u>6,285,421</u>	\$ <u>6,582,021</u>	\$ <u>8,762,183</u>

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.

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

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended that the Company provides notice to the Superintendent of any surplus contribution from the Company's parent.</p> <p>The examiner's review indicated that the Company provided notices to the Superintendent of the two surplus contributions made by the Company's parent during the examination period.</p>
B	<p>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 enter into any such transaction.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 3D of this report)</p>
C	<p>The examiner recommended 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.</p> <p>The Company failed to take corrective action in response to this prior report violation.</p>
D	<p>The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its charter, by-laws and books of account at its principal office in this State.</p> <p>The Company maintain its charter, by-laws and books of account at its principal office in this State.</p>
E	<p>The examiner recommended that the Company complies with the terms of its services agreement with Companion by instituting a process whereby copies of the Company's corporate records (charter, by-laws, minutes, etc.) and records constituting the Company's books of account are forwarded to the Company on a monthly basis and maintained in an accessible medium at the Company's principal office in Amherst, New York.</p> <p>The Company has taken the corrective action necessary to comply with the terms of its services agreement with Companion.</p>

<u>Item</u>	<u>Description</u>
F	<p>The examiner recommended that the Company complies with the terms of its services agreement with Companion by establishing a permanent computer terminal(s) at the Company's home office in Amherst, New York which would be linked to the electronic system that generates the electronic records that constitute the Company's books of account.</p> <p>The Company has taken the corrective action necessary to comply with the terms of its services agreement with Companion.</p>
G	<p>The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to have its independent committee recommend the selection and evaluate the performance of employees deemed to be principal officers of the Company and by failing to recommend to the board of directors the compensation of such principal officers.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 3E of this report)</p>
H	<p>The Company violated Section 4230(a) of the New York Insurance Law by paying principal officers a compensation that was not authorized by a vote of the board of directors of the Company.</p> <p>The Company failed to take corrective action in response to this prior report violation. (See item 3E of this report)</p>
I	<p>The Company violated Section 1411(a)(1) of the New York Insurance Law by making investments that were neither authorized nor approved by its board of directors or a committee of the board.</p> <p>The examiner's review indicated that the Company's investments were authorized and approved by its board of directors.</p>
J	<p>The examiner recommended that the Company's board of directors reviews and approves the Corporate Investment Policy.</p> <p>The examiner's review indicated that the Company's board of directors reviewed and approved the Corporate Investment Policy.</p>

<u>Item</u>	<u>Description</u>
K	<p>The Company violated Section 4206 of the New York Insurance Law by failing to deposit securities with a par value totaling \$400,000 with the State of New York for the benefit of all policyholders, claimants, or creditors of the Company.</p> <p>The examiner's review indicated that the Company deposited securities with par value greater than \$400,000 with the State of New York for the benefit of all policyholders, claimants, or creditors of the Company.</p>
L	<p>The Company violated Section 215.13(a) of 11 NYCRR 215 (Insurance Regulation 34) by failing to identify the corresponding policy form number(s) on the group dental and group short term disability advertisements that were disseminated in New York during the examination period.</p> <p>The Company has revised its advertisements to incorporate the corresponding form numbers.</p>
M	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms that were not approved by the Department for use in New York.</p> <p>The forms were submitted to and approved by the Department, and the Company is now using the New York approved policy forms.</p>
N	<p>The Company violated Section 3204(a)(1) of the New York Insurance Law by failing to deliver a policy containing the entire contract between the group and the Company.</p> <p>The Company has addressed this oversight with the managing general agent to assure this failure does not reoccur. The examiner's review also did not reveal any group that did not receive its entire contract from the Company.</p>
O	<p>The Company violated Section 3221(a)(6) of the New York Insurance Law by failing to deliver to the groups, for delivery to each covered student, a certificate setting forth, in summary form, a statement of the essential features of the insurance coverage.</p> <p>The Company has addressed this oversight with the managing general agent to assure this failure does not reoccur. The examiner's review also did not reveal any group that did not receive a certificate setting forth, in summary form, a statement of the essential features of the insurance coverage for each covered student.</p>

<u>Item</u>	<u>Description</u>
P	<p>The Company violated Section 3234(b)(7) of the New York Insurance Law by failing to provide the time limit, place and manner in which an appeal of a denial of benefits must be brought under the policy or certificate and a notification that failure to comply with such requirements may lead to forfeiture of a consumer's right to challenge a denial or rejection.</p> <p>The Company has revised and implemented the explanation of benefits to include the requirements of Section 3234(b)(7) of the New York Insurance Law.</p>
Q	<p>The examiner recommended that the Company revises the EOB to include detailed information about the appeals procedures for the dental plan.</p> <p>The Company has revised the explanation of benefits to include detailed information about the appeals procedures for the dental plan.</p>
R	<p>The Company violated Section 4235(h)(3) of the New York Insurance Law by exceeding the maximum expense assumption limits on file with the Department, paying administrative expenses that were not on file with the Department and paying commissions that exceeded the maximum allowable commission rate on file with the Department.</p> <p>The Company refiled its memorandum with the Department to clearly identify administrative fees associated with the administration of its student medical insurance policy. The Company did not pay any expense or commission in excess of the amounts that are on file with the Department.</p>
S	<p>The examiner recommended that the Company, the Corporate Audit Division of BCBSSC, and the Company's board of directors take measures to ensure that Company's policies and transactions are taken into account when performing audits of shared services within the BCBSSC group of companies.</p> <p>The examiner's review indicated that the Corporate Audit Division of BCBSSC considered the Company's policies and transactions when audits of shared services were performed within the BCBSSC group of companies.</p>
T	<p>The examiner recommended that the Company implements a process to require regular reporting of the scope and results of internal audits conducted by the Corporate Audit Division of BCBSSC that have an impact on the Company to the Company's audit committee.</p> <p>The examiner's review indicated that the scope and results of internal audits conducted by the Corporate Audit Division of BCBSSC affecting the Company were reported to the Company's audit committee.</p>

<u>Item</u>	<u>Description</u>
U	<p>The Company violated Section 33.6(c) of 11 NYCRR 33 (Insurance Regulation 120) by failing to conduct on-site reviews of the underwriting and claims processing operations outsourced to MGAs at least semi-annually.</p> <p>The examiner's review indicated that the Company performed on-site reviews of underwriting and claims processing operations outsourced to managing general agents as least semi-annually.</p>
V	<p>The examiner recommended that the Company develops and implements effective procedures to ensure that it can produce policy level detail that can be reconciled to the various policy exhibits reported in the Company's filed annual statements.</p> <p>The Company has developed and implemented effective procedures to ensure that it can produce policy level detail that can be reconciled to the various policy exhibits reported in the Company's filed annual statements.</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from its parent and affiliates without notifying the Superintendent in writing at least 30 days prior to its intention to enter into such transaction. This is a repeat violation.	9
B	The Company failed to comply with New York Insurance Circular Letter No. 33 (1979) when its board of directors failed to approve its tax allocation agreement and failed to establish and maintain an escrow account consisting of eligible investment assets for the Company to ensure the Company's enforceable right to recoup federal income taxes in the event of future net losses.	9
C	The Company violated Section 1202(b)(2) of the New York Insurance Law when its independent committee failed to recommend to the board of directors the compensation of its principal officers. This is a repeat violation.	11
D	The Company violated Section 4230(a) of the New York Insurance Law by paying its principal officers a compensation that was not authorized by a vote of the board of directors of the Company. This is a repeat violation.	12
E	The Company violated Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64) by failing to appoint a corporate officer as the Company's consumer services officer.	12

Respectfully submitted,



James Robinson, CFE

INS Regulatory Insurance Services, Inc.

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

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



James Robinson

Subscribed and sworn to before me

this 8th day of MAY, 2018



CHARLES T LOVEJOY
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01LO4798952
Qualified in New York County
Commission Expires January 26, 2022

Respectfully submitted,

/s/

JoCatena Hargrove
Senior Insurance Examiner

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

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

/s/

JoCatena Hargrove

Subscribed and sworn to before me

this_____ day of _____

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

JAMES ROBINSON
(INS REGULATORY INSURANCE SERVICES, INC.)

as a proper person to examine the affairs of the

NIAGARA LIFE AND HEALTH INSURANCE COMPANY

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 7th day of September, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU



NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

JOCATENA HARGROVE

as a proper person to examine the affairs of the

NIAGARA LIFE AND HEALTH INSURANCE COMPANY

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 7th day of September, 2017

MARIA T. VULLO
Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

