

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

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

NOVEMBER 10, 2016

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EXAMINER:

ALEX QUASNITSCHKA, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

May 15, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31500, dated June 27, 2016 and annexed hereto, an examination has been made into the condition and affairs of Delaware Life Insurance Company of New York, hereinafter referred to as “the Company”, at its administrative office located at 1601 Trapelo Road, Suite 30, Waltham, MA 02451. The Company’s home office is located at 1115 Broadway, 12th Floor, New York, NY 10010.

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

On July 5, 2016, the Department received a divestiture notice from Mr. Todd L. Boehly stating that he would be divesting himself from ownership of Delaware Life Holdings Group (“DLHG”). The Company informed the Department that no funds would come from DLHG or its subsidiaries upon divestiture, but that the source of the funds was from prior dividend distributions. (See item 3F 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, 2016 Edition* (the “Handbook”). The examination covers the three-year period from January 1, 2013 through December 31, 2015. 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, 2015 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 called by the Delaware Department of Insurance (“Delaware”) in accordance with the Handbook guidelines, through the NAIC’s Financial Examination Electronic Tracking System (“FEETS”). Delaware served as the lead state with New York participating. Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other’s work.

Information about the Company’s organizational structure, business approach and control environment were utilized to develop the examination approach. The Company’s risks and management activities were evaluated incorporating the NAIC’s nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational

- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of PricewaterhouseCoopers LLP (“PwC”). The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company shares an internal audit department and an internal control department with its parent, Delaware Life Insurance Company (“DLIC”), a Delaware domiciled insurer. However, certain internal audit work is outsourced to Ernst & Young, LLP (“E&Y”) and Stowe & Degon, LLC (“Stowe”) with both E&Y and Stowe given the task of assessing the internal control structure for the parent and the Company.

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

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

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on May 25, 1983. It was licensed on April 11, 1985 and commenced business on August 15, 1985. Initial resources of \$7,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$5,000,000, were provided through the sale of 2,000 shares of common stock (par value of \$1,000 each) for \$3,500 per share.

On December 31, 2002, Keyport Benefit Life Insurance Company (“KBL”), a New York domiciled life insurer, merged with and into the Company; the Company was the surviving entity. Prior to the merger, Keyport Life Insurance Company (“KLIC”) owned KBL and DLIC, then known as Sun Life Assurance Company of Canada (U.S.) (“SLUS”), owned the Company. To execute the merger, the Company issued 4,001 additional shares of common stock to KLIC in exchange for the assets and liabilities of KBL. As a result of the additional common stock issuance, the Company became a subsidiary of both KLIC and SLUS, with KLIC owning 67% of the Company’s common stock and SLUS owning 33%. On December 31, 2003, KLIC merged with and into SLUS; SLUS was the surviving company. As a result, the Company, once again, became a wholly-owned subsidiary of SLUS.

KBL received a surplus contribution of \$71,000,000 from KLIC in 2001. The Company received additional surplus contributions of \$45,000,000 and \$150,000,000 from its parent in 2002 and 2008, respectively. As of December 31, 2015, common capital stock totaled \$2,100,350, and paid-in and contributed surplus totaled \$357,399,650.

On December 31, 2011, Sun Life Financial Inc. (“SLF”) announced that it would discontinue new sales of its domestic U.S. annuity and individual life products effective December 30, 2011, as a result of a strategic review of its business. SLF’s decision to discontinue sales in these lines of business was based on unfavorable product economics due to ongoing shifts in capital markets and regulatory requirements. On December 17, 2012, SLF announced the execution of a definitive agreement (“Sale Transaction”) to sell its domestic U.S. annuity business and certain life insurance business to Delaware Life Holdings, LLC (“Delaware Life”). Delaware Life, a newly formed limited liability company organized under the laws of Delaware, was ultimately owned by Mark R. Walter and Todd L. Boehly. Messrs. Walter and Boehly were

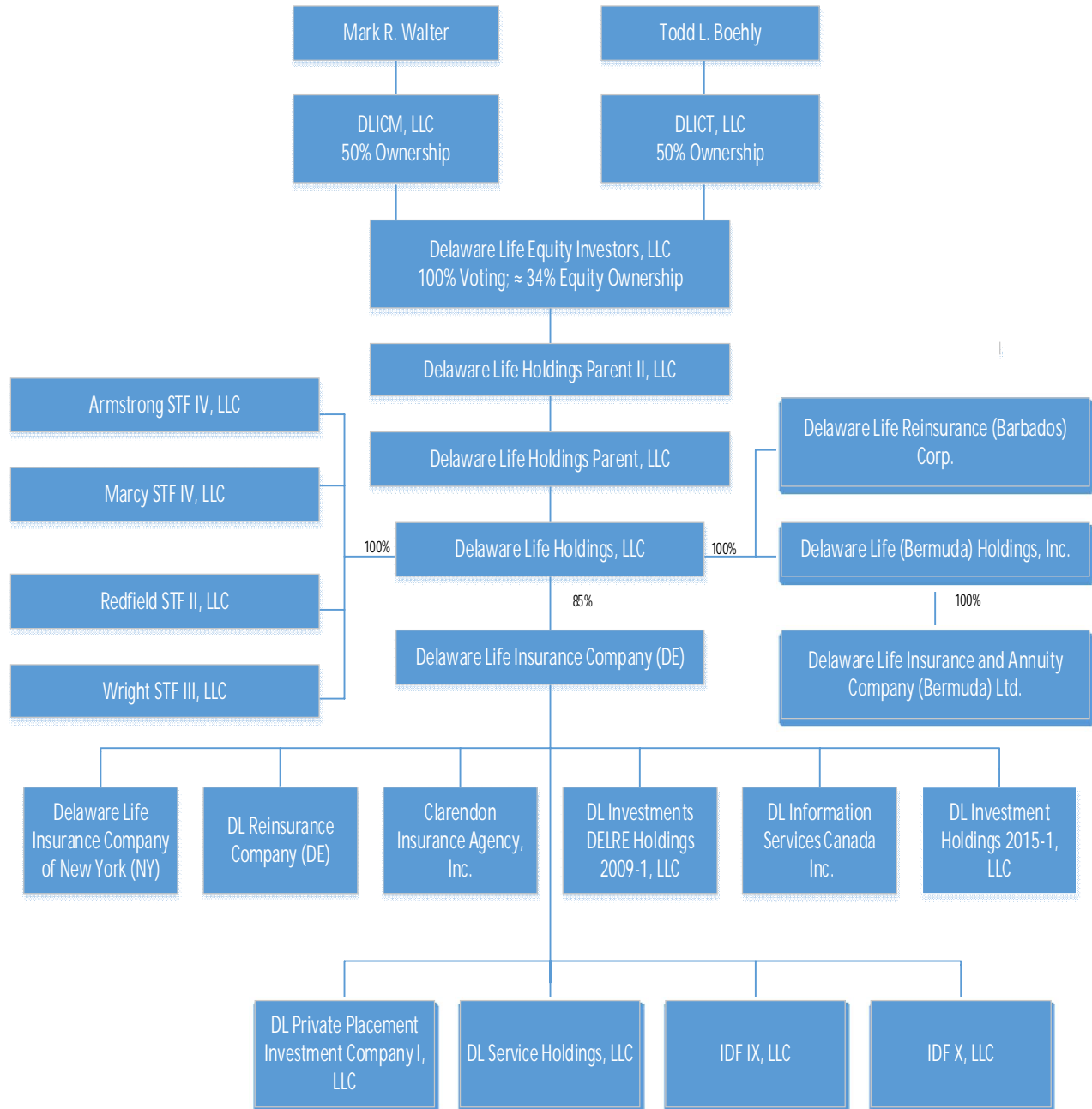
principal officers of, and held non-controlling ownership interest in, Guggenheim Partners, LLC, a privately held investment firm. Delaware Life was formed as an acquisition vehicle for the transaction with SLF. The Sale Transaction was approved by the Department on July 30, 2013. After receiving all regulatory approvals, the Sale Transaction closed on August 2, 2013 with an effective date of July 31, 2013 for accounting purposes. Included in the Sale Transaction was the transfer to Delaware Life of all the issued and outstanding shares of capital stock of SLUS, the holder of 100% of the issued and outstanding shares of the Company's capital stock. Effective July 21, 2014, the name of the Company was changed from Sun Life Insurance and Annuity Company of New York to its current name Delaware Life Insurance Company of New York. On that same date, the name of the Company's parent, SLUS, was changed to DLIC.

B. Holding Company

The Company is a wholly owned subsidiary of DLIC, a Delaware life insurance company. DLIC is in turn a wholly owned subsidiary of Delaware Life, a limited liability company organized under the laws of Delaware. The Company was ultimately owned by Mark R. Walter (50%) and Todd L. Boehly (50%). Messrs Walter and Boehly were principal officers of, and held non-controlling ownership interest in Guggenheim Partners, LLC, a privately held investment firm. On July 5, 2016, the Department received a divestiture notice from Mr. Todd L. Boehly stating that he would be divesting himself from ownership of DLHG.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015 follows:



D. Service Agreements

The Company had ten service agreements in effect with affiliates during the examination period.

| Type of Agreement and Department File Number | Effective Date | Provider(s) of Service(s) | Recipient(s) of Service(s) | Specific Service(s) Covered | Income/(Expense)* For Each Year of the Examination |
|--|---|---|--|--|---|
| General Services Agreement No. 26444 | Effective 07/01/1999 Amended 12/01/2006 **Terminated 08/02/2013 | The Company | Sun Life Assurance Company of Canada ("SLOC") and SLUS | Marketing and other services related to the individual life, annuity, group life and disability products. | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |
| Administrative Services Agreement No. 29891 | Effective 11/21/2000 Amended 12/31/2001 12/01/2006 | DLIC | The Company | Personnel, certain investment, actuarial, and administrative services | 2013 \$(12,107,494) 2014 \$(14,783,587) 2015 \$(13,081,431) |
| Administrative Services Agreement No. 33326 | Effective 12/06/2004 Amended 12/01/2006 10/01/2011 **Terminated 08/02/2013 | Sun Life Information Services Canada Inc. ("SLISC") | The Company | Administrative and support services in connection with the Company's insurance and annuity businesses. | 2013 \$ (266,631) 2014 \$ 0 2015 \$ 0 |
| Administrative Services Agreement No. 37566 | Effective 05/31/2007 **Terminated 08/02/2013 | The Company | Sun Life and Health Insurance Company (U.S.) ("SLHIC") | Various administrative services in connection with policies covered under a related reinsurance agreement. | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |
| Administrative Services Agreement No. 41257 | Effective 03/01/2009 **Terminated 08/02/2013 | Sun Life Information Services Ireland Limited | The Company | Administrative and support services in connection with the Company's insurance and annuity businesses. | 2013 \$ (365,337) 2014 \$ 0 2015 \$ 0 |
| General Services Agreement No. 43887 | 03/01/2011 **Terminated 08/02/2013 | The Company | SLHIC | Issues individual life insurance policies to eligible individuals that exercise conversion rights | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |
| Investment Advisory Agreement No. 29889 | Effective 01/01/2002 Amended 12/01/2006 12/20/2007 Terminated 08/02/2013 | Sun Capital Advisers LLC ("SCA") | The Company | Investment manager for the Company's general account investment portfolio. | 2013 \$ (1,426,674) 2014 \$ 0 2015 \$ 0 |

| Type of Agreement and Department File Number | Effective Date | Provider(s) of Service(s) | Recipient(s) of Service(s) | Specific Service(s) Covered | Income/(Expense)* For Each Year of the Examination |
|--|---|---|----------------------------|--|--|
| Principal Underwriter's Agreement No. 30978A | Effective 02/01/2003 Amended 12/01/2006 | Clarendon Insurance Agency, Inc. ("Clarendon") *** | The Company | Principal underwriter and general distributor for variable and fixed annuity products. | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |
| Wholesaling Agreement No. 30978A | Effective 02/01/2003 Amended 12/01/2006 10/01/2010 **Terminated 08/02/2013 | Sun Life Financial Distributors, Inc. ("SLFD") | The Company | Assisting in the distribution of certain annuity and variable life products. | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |
| Wholesaling Agreement No. 42810 | Effective 10/01/2010 **Terminated 08/02/2013 | SLFD | The Company | Assisting in the distribution of certain universal life insurance contracts. | 2013 \$ 0 2014 \$ 0 2015 \$ 0 |

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

**Agreement was terminated in conjunction with the Sale Transaction

***The agreement with Clarendon remains effective as Clarendon is the Financial Industry Regulatory Authority registered broker-dealer that serves as the principal underwriter and distributor of the Company's book of inforce variable products. This agreement will also remain in effect in the event that the Company begins to write new business.

E. Management

The Company's by-laws provide that the board of directors shall consist of not less than seven and not more than 25 directors. Directors are elected for a period of one year at the annual meeting of the shareholders held in May of each calendar year. The Company's by-laws provide that meetings of the board of directors may be held without notice at such time and such place within or without the State of New York as the board of directors may from time to time determine. As of December 31, 2015, the board of directors consisted of seven members. During 2013, three regular meetings were held. In 2014 and 2015, regular meetings were held in April and September, respectively.

The seven board members and their principal business affiliation, as of December 31, 2015, were as follows:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> | <u>Year First Elected</u> |
|--------------------------------------|--|---------------------------|
| Todd L. Boehly Darien, CT | Chief Executive Officer and Chairman Eldridge Industries, LLC | 2013 |
| Donald C. Cacciapaglia Rye, NY | Vice Chairman Guggenheim Capital, LLC | 2013 |
| Dennis A. Cullen* Northbrook, IL | Retired Managing Partner Chicago Asset Funding, LLC | 2013 |
| Homer J. Holland* Scottsdale, AZ | Investor Holland Partners, Inc. | 2013 |
| Richard E. Kipper* Snowmass, CO | Retired President and CEO Major Legal Services, Inc. | 2013 |
| David E. Sams, Jr. Vero Beach, FL | Chief Executive Officer Delaware Life Insurance Company | 2013 |
| Mark R. Walter Chicago, IL | Chief Executive Officer Guggenheim Partners, LLC | 2013 |

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

On October 25, 2016, Mark R. Walter resigned from the board of directors. On November 1, 2016, Todd L. Boehly resigned from the board.

The examiner's review of the minutes of the meetings of the board of directors and its audit/nominating committee indicated that meetings were generally well attended, although director Mark R. Walter did not attend a majority of meetings during 2014 through 2016.

The examiner recommends that all members of the board of directors attend a majority of meetings within a calendar year.

The following is a listing of the principal officers of the Company as of December 31, 2015:

| <u>Name</u> | <u>Title</u> |
|--------------------|---|
| David E. Sams, Jr. | Chief Executive Officer |
| Daniel J. Towriss | President and Chief Risk Officer |
| Keith A. Dall | Executive Vice President, Chief Actuary |
| Michael S. Bloom | Senior Vice President and General Counsel and Secretary |
| Michael K. Moran | Senior Vice President, Chief Accounting Officer and Treasurer |
| Robert Sabatino | Senior Vice President, Information Technology and Operations |
| Michelle B. Wilcon | Senior Vice President, Human Resources |
| Andrew F. Kenney | Chief Investment Officer |
| James D. Purvis | Chief Operating Officer |

Kathleen T. Baron, the Company's Vice President and Chief Compliance Officer, is designated as the Company's consumer services officer per Insurance Regulation No. 64, 11 NYCRR Section 216.4(c).

F. Subsequent Events

On July 5, 2016, the Department received a divestiture notice from Mr. Todd L. Boehly stating that he would be divesting himself from ownership of DLHG. The divestiture of Mr. Boehly's common interest in DLHG will be accomplished through a redemption of units at Delaware Life Holdings Parent II, LLC ("DLHPII"), an indirect holding company parent of the Company. The source of funds at the holding company is from cash and/or securities on hand from proceeds of prior dividend distributions. The Company informed the Department that no funds would come from DLHG or its subsidiaries upon divestiture. The Company also stated that no party or person would be acquiring Mr. Boehly's shares, including Mr. Mark Walter himself. In the event that a party or person was to purchase Mr. Boehly's shares, the Company was informed that a Form A or other form may need to be filed with the Department.

On September 20, 2016, the Company filed an amended HC-1 Form with the Department, and DLIC filed an amended Form B with the Delaware Department of Insurance on behalf of DLIC and DL Reinsurance Company ("DLRC"). As a result, Mr. Walter became the sole shareholder of Delaware Life.

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 Rhode Island. In 2015, 70.1% of life premiums, 96.1% of annuity considerations and all accident and health premiums were received from New York. Policies are written on a non-participating basis.

The following table shows the percentage of direct premiums received, by state for the year 2015:

| <u>Life Insurance Premiums</u> | |
|--------------------------------|---------------|
| New York | 70.1% |
| Michigan | 11.1 |
| Minnesota | 7.4 |
| Texas | 2.0 |
| North Carolina | <u>1.7</u> |
| Subtotal | 92.3% |
| All others | <u>7.7</u> |
| Total | <u>100.0%</u> |

A. Statutory and Special Deposits

As of December 31, 2015, the Company had \$400,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

B. Direct Operations

During 2013, significant transactions and changes occurred in connection with the Sale Transaction, most notably being that the Company entered into a recapture and termination agreement with its former affiliate, Sun Life and Health Insurance Company (U.S.) (“SLHIC”), effective July 31, 2013. Under this agreement, SLHIC recaptured the business that was ceded to

the Company, and the May 31, 2007 reinsurance, renewal rights and administrative services agreements were terminated.

Effective July 31, 2013, the Company entered into new reinsurance, renewal rights and administrative services agreements with a former affiliate, SLHIC. Pursuant to these agreements, the Company ceded 100% of the liabilities under its group insurance policies to SLHIC on an indemnity coinsurance basis, and SLHIC agreed to provide administrative services in connection with the reinsured policies. Under these agreements, effective July 31, 2013, the Company transferred cash and invested assets of approximately \$112.0 million to support the related reinsurance liabilities.

The Company's business currently includes a variety of wealth accumulation and protection products, including individual life and individual fixed and variable annuities. The Company reinsures certain risks related to some of these products to former affiliated and non-affiliated reinsurers. The Company is currently not writing any new business.

Effective August 1, 2013 the Company discontinued new sales of group life, disability income, dental and stop loss insurance, and its existing block of group life, disability income, dental and stop loss business was either 100% reinsured or rewritten to SLHIC. The Company is currently in run-off with no plans to commence writing new business within the next twelve months.

C. Reinsurance

As of December 31, 2015, the Company had reinsurance treaties in effect with 13 companies, of which nine were authorized or accredited. The Company's life and accident and health business is primarily reinsured on a yearly renewable term basis. A small percentage of life insurance products are reinsured on a coinsurance or modified-coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$1,500,000. The total face amount of life insurance ceded as of December 31, 2015 was \$1,939,669,708, which represents 97.9% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$490,843,138, was supported by letters of credit in the amount of \$1,715,000, by trust agreements in the amount of \$367,945,227 and by funds withheld from reinsurers in the amount of \$130,338,010.

The Company is party to a reinsurance agreement with its former affiliate, the United States Branch of Sun Life Assurance Company of Canada (“the U.S. Branch”), under which certain of the Company’s universal life (“UL”) business was 90% coinsured on a funds-withheld basis by the U.S. Branch. The Company ceased writing new UL business effective December 31, 2011.

Effective July 31, 2013, the reinsurance agreement was amended to modify the formula for calculating the funds withheld amount. As a result of this amendment, the funds withheld amount was reduced, and assets and cash at fair market value totaling approximately \$120,000,000 were transferred to the U.S. Branch from the Company.

Effective December 31, 2014, this treaty was amended and restated to increase the risks reinsured from 90% quota share to 100% quota share. In connection with this amendment, the Company paid the U.S. Branch an initial reinsurance premium for assuming the liabilities. The premium recorded was based on the liabilities transferred in the amount of \$52,000,000. The Company increased the funds withheld under coinsurance by approximately \$17,400,000, and the Company received a ceding commission in the amount of approximately \$9,000,000. This ceding commission was deferred and recorded post-tax as an adjustment to surplus.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

| | December 31, <u>2012</u> | December 31, <u>2015</u> | Increase (Decrease) |
|--|-----------------------------|-----------------------------|------------------------|
| Admitted assets | <u>\$3,509,720,368</u> | <u>\$2,731,013,554</u> | <u>\$(778,706,814)</u> |
| Liabilities | <u>\$3,161,154,392</u> | <u>\$2,329,203,154</u> | <u>\$(831,951,238)</u> |
| Common capital stock | \$ 2,100,350 | \$ 2,100,350 | \$ 0 |
| Gross paid in and contributed surplus | 357,399,650 | 357,399,650 | 0 |
| Unassigned funds (surplus) | <u>(10,934,024)</u> | <u>42,310,400</u> | <u>53,244,424</u> |
| Total capital and surplus | <u>\$ 348,565,976</u> | <u>\$ 401,810,400</u> | <u>\$ 53,244,424</u> |
| Total liabilities, capital and surplus | <u>\$3,509,720,368</u> | <u>\$2,731,013,554</u> | <u>\$(778,706,814)</u> |

The majority (55.3%) of the Company's admitted assets, as of December 31, 2015, was derived from separate accounts.

The Company's invested assets as of December 31, 2015, exclusive of separate accounts, were mainly comprised of bonds (86.9%), and cash and short-term investments (4.5%).

The Company's entire bond portfolio, as of December 31, 2015, was comprised of investment grade obligations.

The decrease in admitted assets and liabilities were primarily due to the Sale Transaction.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

| <u>Year</u> | <u>Individual Whole Life</u> | | <u>Individual Term</u> | | <u>Group Life</u> | |
|-------------|------------------------------|-----------------|------------------------|-----------------|-------------------------------|-----------------|
| | <u>Issued</u> | <u>In Force</u> | <u>Issued</u> | <u>In Force</u> | <u>Issued & Increases</u> | <u>In Force</u> |
| 2013 | \$12,862 | \$1,988,743 | \$ 100 | \$ 36,943 | \$5,030,765 | \$18,652,365 |
| 2014 | \$ 6,735 | \$1,956,987 | \$ 50 | \$ 36,966 | \$ 41 | \$ 86,895 |
| 2015 | \$ 0 | \$1,864,938 | \$ 0 | \$ 30,315 | \$ 0 | \$ 85,545 |

The decrease in individual whole life policies, individual term policies and group life contracts issued during the examination period resulted from the Company's business operations being in run-off. The Company is currently not writing any new business.

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

| | <u>Ordinary Annuities</u> | | |
|-----------------------------------|---------------------------|----------------|----------------|
| | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| Outstanding, end of previous year | 37,282 | 33,675 | 29,792 |
| Issued during the year | 56 | 28 | 56 |
| Other net changes during the year | <u>(3,663)</u> | <u>(3,911)</u> | <u>(2,643)</u> |
| Outstanding, end of current year | <u>33,675</u> | <u>29,792</u> | <u>27,205</u> |

The decrease in ordinary annuities was due to the Sale Transaction.

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>2013</u> | <u>Group</u> <u>2014</u> | <u>2015</u> |
|-----------------------------------|-----------------|-----------------------------|-------------|
| Outstanding, end of previous year | 334,046 | 358,316 | 0 |
| Issued during the year | 63,679 | 537 | 0 |
| Other net changes during the year | <u>(39,409)</u> | <u>(358,853)</u> | <u>0</u> |
| Outstanding, end of current year | <u>358,316</u> | <u>0</u> | <u>0</u> |

Effective July 31, 2013, all group health business was 100% reinsured to SLHIC on an indemnity coinsurance basis.

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> |
|---------------------------|-----------------------|---------------------|---------------------|
| Ordinary: | | | |
| Life insurance | \$(13,551,315) | \$ 2,320,445 | \$ 645,249 |
| Individual annuities | (6,325,051) | 19,922,871 | 6,907,024 |
| Supplementary contracts | <u>\$ 2,423,842</u> | <u>\$ 443,098</u> | <u>\$ 640,704</u> |
| Total ordinary | <u>\$(17,452,524)</u> | <u>\$22,686,414</u> | <u>\$ 8,192,977</u> |
| Group: | | | |
| Life | \$ 3,194,669 | \$ 2,580,964 | \$ (153,485) |
| Total group | <u>\$ 3,194,669</u> | <u>\$ 2,580,964</u> | <u>\$ (153,485)</u> |
| Accident and health: | | | |
| Group | <u>\$ 26,620,633</u> | <u>\$ 2,971,177</u> | <u>\$ _____ 0</u> |
| Total accident and health | <u>\$ 26,620,633</u> | <u>\$ 2,971,177</u> | <u>\$ _____ 0</u> |
| All other lines | <u>\$ 8,529,650</u> | <u>\$ 8,304,233</u> | <u>\$ 9,156,337</u> |
| Total | <u>\$ 20,892,428</u> | <u>\$36,542,788</u> | <u>\$17,195,829</u> |

The significant fluctuations in ordinary life policies during the examination period was due to the amended and restated reinsurance treaty with the U.S. Branch. The treaty increased the risks reinsured from 90% quota share to 100% quota share. As a result of this transaction, the Company paid the U.S. Branch an initial reinsurance premium for assuming the liabilities.

The net loss in individual annuities in 2013 was due to the Sale Transaction, which resulted in lower premiums, and increases in surrender benefits for both fixed and variable annuities. The 2014 net gain in individual annuities was due to the stabilization of the business, lower benefits and surrenders. The decrease in net gain in 2015 was due to further stabilization of the business as increased amounts of annuity contracts reached their guarantee or surrender period.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, as contained in the Company's 2015 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, 2015 filed annual statement.

A. Independent Accountants

The firm of PwC 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.

PwC 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 | \$1,060,927,805 |
| Stocks: | |
| Preferred stocks | 17,846,400 |
| Mortgage loans on real estate: | |
| First liens | 18,907,813 |
| Cash, cash equivalents and short term investments | 55,385,047 |
| Contract loans | 3,647,890 |
| Receivable for securities | 86,198 |
| Aggregate write-ins for invested assets | 488,323 |
| Investment income due and accrued | 8,172,472 |
| Premiums and considerations: | |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 46,428 |
| Reinsurance: | |
| Amounts recoverable from reinsurers | 2,050,429 |
| Other amounts receivable under reinsurance contracts | 12,749,093* |
| Net deferred tax asset | 38,708,467 |
| Miscellaneous receivable | 1,621,972 |
| From separate accounts, segregated accounts and protected cell accounts | <u>1,510,375,217</u> |
| Total admitted assets | <u>\$2,731,013,554</u> |

* An adjusting entry was made to the trial balance based on a known reconciling difference identified by management as part of the year-end general ledger reconciliation procedures. The reconciling differences were known by management as of the time of annual statement filing, but they did not have a corrected invoice from SLF in order to make an appropriate adjusting entry. Sufficient information was made available after the annual statement filing but before the audited financial statements were released for the Company to record the correction of these balances, on the basis that the Company has the "right of offset" on this reinsurance agreement with SLF. Therefore, the Company netted net payable/receivable balance within ceded payable or reinsurance recoverable, as applicable. The adjustment to the financial statements was made in the quarterly statement ending March 31, 2015, by reducing the Other Amounts Receivable under Reinsurance Contracts by \$12,309,555. See the Liabilities, Capital and Surplus statement below for the offsetting entries.

C. Liabilities, Capital and Surplus

| | |
|---|------------------------|
| Aggregate reserve for life policies and contracts | \$ 691,227,729 |
| Aggregate reserve for accident and health contracts | 97,255 |
| Liability for deposit-type contracts | 13,933,531 |
| Contract claims: | |
| Life | 1,932,882 |
| Contract liabilities not included elsewhere: | |
| Surrender values on canceled contracts | 5,296 |
| Other amounts payable on reinsurance | 13,818,940* |
| Interest maintenance reserve | 19,422,455 |
| Commissions to agents due or accrued | 555,177 |
| General expenses due or accrued | 3,311,042 |
| Transfers to separate accounts due or accrued | (79,091,006) |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 5,598,675 |
| Current federal and foreign income taxes | 1,326,223 |
| Amounts withheld or retained by company as agent or trustee | 10,916 |
| Remittances and items not allocated | 5,749,509* |
| Miscellaneous liabilities: | |
| Asset valuation reserve | 1,901,985 |
| Reinsurance in unauthorized companies | 3,105,047 |
| Payable to parent, subsidiaries and affiliates | 260,617 |
| Funds held under coinsurance | 130,338,010 |
| Payable for securities | 2,639,347 |
| Aggregate write-ins for liabilities | 2,685,535 |
| From Separate Accounts statement | <u>1,510,373,990</u> |
| | |
| Total liabilities | <u>\$2,329,203,154</u> |
| | |
| Common capital stock | \$ 2,100,350 |
| | |
| Gross paid in and contributed surplus | \$ 357,399,650 |
| Unassigned funds (surplus) | <u>42,310,400</u> |
| Surplus | <u>\$ 399,710,050</u> |
| Total capital and surplus | <u>\$ 401,810,400</u> |
| Total liabilities, capital and surplus | <u>\$2,731,013,554</u> |

* As noted above in the Assets section, the Other Amounts Receivable Under Reinsurance Contracts was reduced by \$12,309,555. This entry was offset by a reduction to Other Amounts Payable on Reinsurance by \$11,660,815 and a \$648,740 reduction to Remittances and Items not Allocated. There was no impact to surplus as a result of these adjusting entries.

D. Condensed Summary of Operations

| | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|---|---------------------------|--------------------------|---------------------------|
| Premiums and considerations | \$ (5,487,829) | \$ (13,283,004) | \$ 29,623,670 |
| Investment income | 51,517,156 | 44,379,449 | 44,412,490 |
| Commissions and expense allowances on reinsurance ceded | 19,204,377 | 13,960,458 | 1,554,513 |
| Miscellaneous income | <u>40,147,279</u> | <u>36,295,604</u> | <u>31,917,015</u> |
| Total income | \$ <u>105,380,983</u> | \$ <u>81,352,507</u> | \$ <u>107,507,688</u> |
| Benefit payments | \$ 395,786,052 | \$ 350,917,879 | \$ 258,432,218 |
| Increase in reserves | \$(136,545,456) | (103,212,588) | (29,372,880) |
| Commissions | 10,450,961 | 12,390,255 | 7,636,970 |
| General expenses and taxes | 32,152,306 | 16,098,461 | 16,810,270 |
| Net transfers to (from) Separate Accounts | (225,780,245) | (236,153,098) | (170,096,010) |
| Miscellaneous deductions | <u>8,130,366</u> | <u>4,847,263</u> | <u>6,234,733</u> |
| Total deductions | \$ <u>84,193,984</u> | \$ <u>44,888,172</u> | \$ <u>89,645,301</u> |
| Net gain (loss) | \$ 21,186,999 | \$ 36,464,335 | \$ 17,862,387 |
| Federal and foreign income taxes incurred | <u>294,571</u> | <u>(78,453)</u> | <u>666,558</u> |
| Net gain (loss) from operations before net realized capital gains | \$ 20,892,428 | \$ 36,542,788 | \$ 17,195,829 |
| Net realized capital gains (losses) | <u>(3,961,549)</u> | <u>984,923</u> | <u>(1,385,584)</u> |
| Net income | \$ <u>16,930,879</u> | \$ <u>37,527,711</u> | \$ <u>15,810,245</u> |

The decrease in premium and considerations between 2013 and 2014 was mainly due to the change in premium paid to the U.S. Branch for the additional risk ceded.

The decrease in net investment income between 2013 and 2014 was due to decreases in invested assets as a result of the Sale Transaction.

The decrease in commissions and expense allowances on reinsurance ceded between 2013 and 2014 was mainly due to ceding commission from SLHIC. The significant decrease between

2104 and 2105 was primarily driven by the 2014 amortization of a deferred gain on group reinsurance as well as a decrease in the ceding commission received related to the treaty with the U.S. Branch.

The decrease in reserves between 2013 and 2014 and between 2014 and 2015 was due to the effects of the reinsurance treaties with the U.S. Branch and SLHIC, respectively.

The decrease in commission expenses between 2014 and 2015 was due to the Company reinsuring 100% of group insurance policies to SLHIC.

The decrease in general expenses, including taxes, licenses and fees, between 2013 and 2014 was primarily due to decreases in salaries, legal expenses, premiums taxes and guarantee fund assessments related to the cession of the group insurance to SLHIC.

The decrease in net transfers to (from) Separate Accounts between 2014 and 2015 was mainly attributed to lower surrender activity.

E. Capital and Surplus Account

| | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--|-----------------------|-----------------------|-------------------------|
| Capital and surplus, December 31, prior year | \$ <u>348,565,976</u> | \$ <u>399,949,165</u> | \$ <u>417,563,371</u> |
| Net income | 16,930,879 | 37,527,711 | 15,810,245 |
| Change in net unrealized capital gains (losses) | 706,968 | 272,955 | (148,703) |
| Change in net unrealized foreign exchange capital gains (loss) | 2,545 | (321) | (341) |
| Change in net deferred income tax | (4,507,615) | (12,346,972) | (3,574,124) |
| Change in non-admitted assets and related items | 11,507,266 | (2,255,557) | 5,479,924 |
| Change in liability for reinsurance in unauthorized companies | (80,409) | (170,933) | (2,327,493) |
| Change in asset valuation reserve | 17,266,434 | (6,339,239) | 5,549,485 |
| Surplus withdrawn from Separate Accounts during period | 0 | 0 | 78,671 |
| Other changes in surplus in Separate Accounts statement | 11,881 | 3,266 | (77,847) |
| Surplus adjustments: | | | |
| Change in surplus as a result of reinsurance | <u>9,545,240</u> | <u>923,295</u> | <u>0</u> |
| Dividends to stockholders | \$ <u>0</u> | \$ <u>0</u> | \$(<u>36,542,788</u>) |
| Net change in capital and surplus for the year | <u>51,383,189</u> | <u>17,614,206</u> | <u>(15,752,971)</u> |
| Capital and surplus, December 31, current year | \$ <u>399,949,165</u> | \$ <u>417,563,371</u> | \$ <u>401,810,400</u> |

* There was a \$4.4 million reclassification that reduced the 2013 change in net deferred income tax and change in non-admitted assets and related items. This reclassification is the result of the Deferred Tax Asset write-off related to the purchase price adjustment being finalized that was associated with the Sale Transaction. This was corrected in the 2014 annual statement prior period column, as well as in the 2013 audited financial statements. There was no impact to surplus. The reclassification increased the change in deferred income tax to \$(106,025) and the change in non-admitted assets and related items to \$7,105,676.

The 2013 to 2014 change in asset valuation reserve was due to the change in unrealized bond investments within the Company's separate accounts and the Default Component Basic Contribution. The 2014 to 2015 change in asset valuation reserve was primarily due to the change in unrealized losses on bond investments within the Company's separate accounts.

7. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

| <u>Item</u> | <u>Description</u> | <u>Page No(s).</u> |
|-------------|--|--------------------|
| A | The examiner recommends that all members of the board of directors attend a majority of meetings within a calendar year. | 11 |

Respectfully submitted,

_____/s/_____
Alex Quasnitschka
Certified Financial Examiner

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

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

_____/s/_____
Alex Quasnitschka

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 31500

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:

ALEX QUASNITSCHKA
(RISK & REGULATORY CONSULTING, LLC)

as a proper person to examine the affairs of the

DELAWARE LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

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

this 27th day of June, 2016

MARIA T. VULLO
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

