



**FINANCIAL CONDITION REPORT ON EXAMINATION
OF
THE PENN INSURANCE AND ANNUITY COMPANY
OF
NEW YORK**

AS OF DECEMBER 31, 2020

EXAMINER:

FRANK TAYLOR PHILLIPS

DATE OF REPORT:

MAY 5, 2022

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

June 7, 2022

The Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32273, dated May 25, 2021, and annexed hereto, an examination has been made into the condition and affairs of The Penn Insurance and Annuity Company of New York, hereinafter referred to as “the Company”. The Company’s home office is located at 162 Prospect Hill Road, Brewster, NY 10509. The Company’s administrative office is located at 200 Day Hill Road, Windsor, CT 06095. Due to the COVID-19 pandemic, the examination was conducted remotely.

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. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC") *Financial Condition Examiner's Handbook, 2021 Edition* (the "Handbook"). The examination covers the two-year period from January 1, 2019, to December 31, 2020. 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, 2020, 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 NAIC. The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes, and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was conducted and coordinated with the examination of the Company's parent, Penn Mutual Life Insurance Company ("Penn Mutual"). The examination was led by the Commonwealth of Pennsylvania, with participation from Connecticut, Delaware, and New York. Delaware and Pennsylvania are on a five-year examination cycle. The last examination of the Connecticut entity and the Company was conducted as of December 31, 2018. 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 2019 through 2020, by the accounting firm of PricewaterhouseCoopers, LLP ("PwC"). The Company received an unqualified opinion in 2019 and 2020. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. Penn Mutual, the Company's parent has an Internal Audit Department which was given the task of assessing the internal control structure. The Company is not required to comply with the Sarbanes-Oxley Act of 2002 or file Management's Report of Internal Control Over Financial Reporting pursuant to the NAIC Model Audit Rule. However, the Company maintains narratives and flowcharts describing work processes, risks, and controls mitigating those risks. Where applicable, internal audit workpapers and reports were reviewed, and portions were relied upon for this examination.

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

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

2. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of the State of New York on March 1, 2007, and was licensed and commenced business on January 23, 2009. Initial resources of \$6,400,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,400,000, were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) to its parent.

Effective December 31, 2016, the Company's parent, Vantis Life Insurance Company ("Vantis"), became a member of the Penn Mutual Holding Company System when Penn Mutual, a Pennsylvania life insurance company, acquired control of Vantis and its wholly owned subsidiaries for \$74.3 million in cash. The acquisition was effectuated by merging Welsh Run Corp, a Connecticut corporation and direct, wholly owned subsidiary of Penn Mutual, with and into Vantis, with Vantis being the surviving entity.

On March 2, 2020, top-level parent Penn Mutual received all the issued and outstanding capital stock of the Company through an extraordinary dividend from Vantis.

Effective April 4, 2020, the Company changed its name from Vantis Life Insurance Company of New York to The Penn Insurance and Annuity Company of New York.

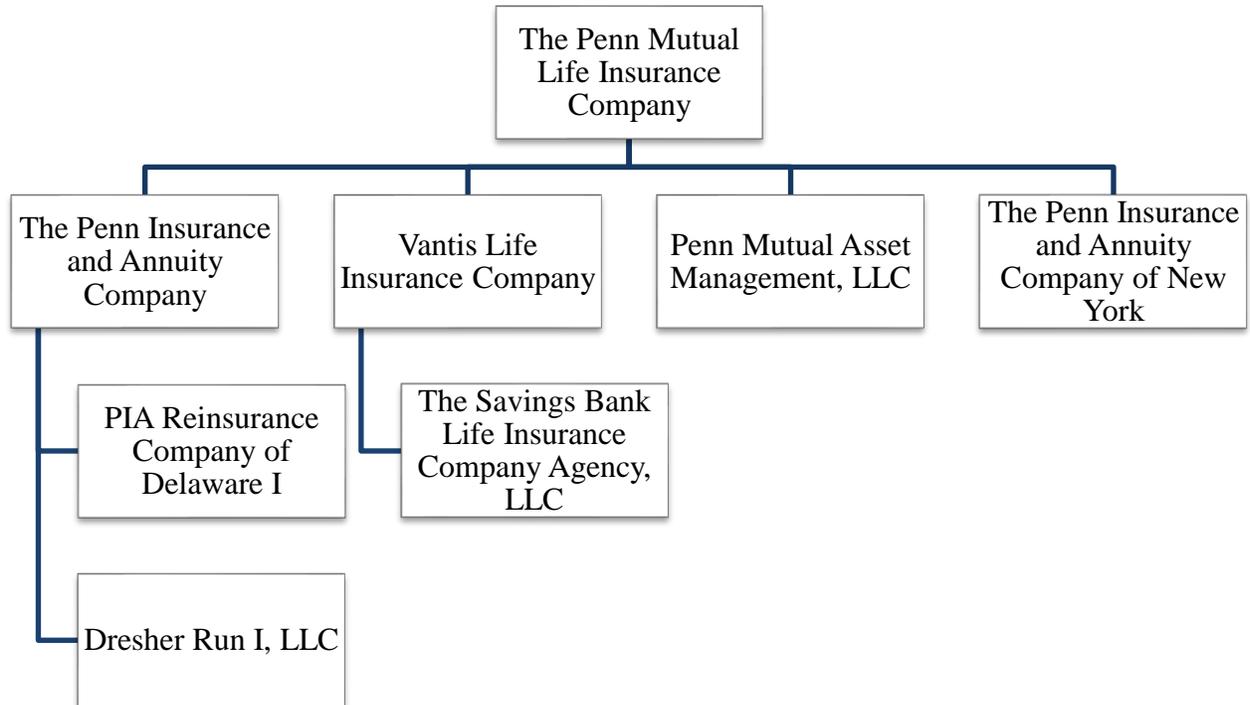
B. Holding Company

The Company is a wholly owned subsidiary of Penn Mutual, a Pennsylvania mutual life insurance company.

Effective June 30, 2020, Penn Mutual surrendered its license to write life insurance, accident and health insurance and annuities in New York.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2020 follows:



D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Underwriting Management and Administrative Service Agreement File No. 37858C	01/23/2009	Vantis	The Company	Underwriting duties, claims services, actuarial services, policyholder services, accounting and certain other administrative functions	2019 \$(1,042,874) 2020 \$ (718,383)
Investment Management Agreement File No. 54472	05/01/2017	Penn Mutual Asset Management, LLC	The Company	Manage the investment and reinvestment of the investment assets and to provide other related investment management and administrative services	2019 \$(126,894) 2020 \$(210,843)

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

The significant decrease in expenses allocated to the Company in 2020 as compared to 2019 under the Underwriting Management and Administrative Service Agreement was attributable to the Company pausing new sales in 2020. The expense allocation for the sales and marketing function was reduced to zero.

The Company participated in a federal income tax allocation agreement with its then parent and affiliates from September 4, 2012, through March 2, 2020. The agreement terminated on March 2, 2020, the date that Penn Mutual received all the issued and outstanding capital stock of the Company through an extraordinary dividend from Vantis. The Company and Vantis filed a

consolidated short period tax return for the period January 1, 2020 through March 2, 2020. Subsequent to the extraordinary dividend transacted on March 2, 2020, the Company filed a stand-alone federal income tax return for the period March 3, 2020 through December 31, 2020.

E. Management

The Company's by-laws, amended and restated as of March 11, 2020, and effective April 1, 2020, provide that the board of directors shall be comprised of not less than 7 and not more than 11 directors. At the annual meeting of the stockholders held in March of each year, directors are elected to hold office until the next succeeding annual meeting and until such director's successor has been selected and qualified or until such director's earlier death, resignation, or removal. As of December 31, 2020, the board of directors consisted of seven members. Meetings of the board are to be held annually immediately following the annual shareholder meeting in March and at periodic intervals as the board of directors may from time to time designate.

The seven board members and their principal business affiliation, as of December 31, 2020, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Thomas H. Harris Doylestown, PA	Executive Vice President, Chief Distribution Officer The Penn Mutual Life Insurance Company	2020
Michael V. Kane* New York, NY	CEO and Managing Partner Empire Wealth Strategies	2020
Eileen C. McDonnell Doylestown, PA	Chairman and Chief Executive Officer The Penn Mutual Life Insurance Company	2016
David M. O'Malley Ambler, PA	President and Chief Operating Officer The Penn Mutual Life Insurance Company	2016
David M. Raszeja Huntington Valley, PA	Senior Vice President, Chief Financial Officer The Penn Mutual Life Insurance Company	2020
Victoria M. Robinson King of Prussia, PA	Senior Vice President, Chief Ethics and Compliance Officer The Penn Mutual Life Insurance Company	2020

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Scott E. Smith South Windsor, Connecticut	President, Chief Operating Officer and Corporate Secretary Vantis Life Insurance Company	2013

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

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, 2020:

<u>Name</u>	<u>Title</u>
David M. O'Malley	President and Chief Operating Officer
Scott E. Smith*	Chief Administration Officer and Corporate Secretary
David M. Raszeja	Senior Vice President and Chief Financial Officer
Eileen C. McDonnell	Chairman and Chief Executive Officer

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

3. 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 transact business in New York. In 2020, all life premiums and annuity considerations were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2020, the Company had \$480,000 (par value) of New York City General Obligation 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

The Company's principal line of business during the examination period was individual life insurance.

Prior to August 2019, the Company's agency operations were conducted on a general agency, branch office, and direct response basis. The Company primarily marketed its products through community and regional banks and credit unions. In August 2019, the Company paused new sales as it worked to develop a new plan of operations. The Company accepted new business applications from financial institutions until August 2, 2019 and continues to provide customer service to its existing policyholders.

On June 30, 2020, the Company implemented a new plan of operations following the surrender of Penn Mutual's license to write life insurance in New York. The Company became the only insurer in the Penn Mutual group authorized to write business in New York.

The Company indicated that its new plan would offer permanent life insurance products which will be distributed through licensed representatives either within its career agency system or within its independent distribution system. The life insurance products will include convertible and non-convertible term insurance policies and flexible premium universal life insurance policies. The term insurance coverage limits will range from \$50,000 to \$100,000,000.

C. Reinsurance

As of December 31, 2020, the Company had reinsurance treaties in effect with ten companies, of which nine were authorized, accredited, or certified. The Company's life business is reinsured on a coinsurance, modified coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic basis.

The maximum retention limit for each individual life contract is \$300,000. The total face amount of life insurance ceded as of December 31, 2020, was \$1,179,744,950, which represents 57% of the total face amount of life insurance in force. There was no reserve credit taken for reinsurance ceded to unauthorized companies.

Effective April 1, 2020, the Company entered into an indemnity combination coinsurance and modified coinsurance agreement with Penn Mutual. Under the agreement, Penn Mutual ceded to the Company 100% of the liabilities for its individual policies of variable universal life (both single and joint life) and individual variable deferred contracts issued by Penn Mutual in the state of New York and in-force as of April 1, 2020.

On October 14, 2020, the Company signed a Letter of Intent with Penn Mutual to reinsure amounts that exceed the Company's per life retention limit of \$300,000, not otherwise reinsured through other treaties, to be effective April 1, 2020. As Penn Mutual is an unauthorized reinsurer in the State of New York, the Company did not recognize any reserve credit for this treaty.

4. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2020, as contained in the Company's 2020 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, 2020 filed annual statement.

A. Independent Accountants

The firm of PricewaterhouseCoopers, LLP ("PwC") was retained by the Company to audit the Company's statutory basis statements of financial position of the Company as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the years then ended.

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	\$323,716,140
Stocks:	
Preferred stocks	122,240
Cash, cash equivalents and short-term investments	16,617,886
Contract loans	310,152
Investment income due and accrued	2,027,389
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	68,872
Deferred premiums, agents' balances and installments booked but deferred and not yet due	979,589
Reinsurance:	
Amounts recoverable from reinsurers	8,009,995
Current federal and foreign income tax recoverable and interest thereon	536,931
State taxes receivable	3,766
Total admitted assets	<u>\$352,392,960</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$325,208,588
Liability for deposit-type contracts	93,436
Contract claims:	
Life	633,299
Premiums and annuity considerations for life and accident and health contracts received in advance	7,373
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	164,273
Commissions to agents due or accrued	(436)
General expenses due or accrued	165,674
Taxes, licenses and fees due or accrued, excluding federal income taxes	129
Amounts withheld or retained by company as agent or trustee	133
Remittances and items not allocated	3,166
Miscellaneous liabilities:	
Asset valuation reserve	1,137,885
Payable to parent, subsidiaries and affiliates	366,879
Reinsurance premiums payable to parent	1,575,710
Unclaimed funds for escheat	13,233
 Total liabilities	 <u>\$329,369,342</u>
 Common capital stock	 2,000,000
 Gross paid in and contributed surplus	 30,654,516
Unassigned funds (surplus)	<u>(9,630,898)</u>
 Surplus	 \$ <u>21,023,618</u>
 Total capital and surplus	 \$ <u>23,023,618</u>
 Total liabilities, capital and surplus	 <u>\$352,392,960</u>

D. Condensed Summary of Operations

	<u>2019</u>	<u>2020</u>
Premiums and considerations	\$ 8,849,165	\$869,556,450
Investment income	6,178,256	6,752,736
Miscellaneous income	<u>83,729</u>	<u>4,962,714</u>
Total income	<u>\$15,111,150</u>	<u>\$881,271,900</u>
Benefit payments	\$ 6,426,360	\$ 63,938,798
Increase in reserves	6,150,493	171,932,447
Commissions	674,021	2,360,607
General expenses and taxes	1,975,544	1,327,860
Increase in loading on deferred and uncollected premiums	(87,509)	(63,785)
Miscellaneous deductions	<u>0</u>	<u>642,033,818</u>
Total deductions	<u>\$15,138,909</u>	<u>\$881,529,745</u>
Net gain (loss)	\$ (27,759)	\$ (257,845)
Dividends	0	0
Federal and foreign income taxes incurred	<u>410,840</u>	<u>771,881</u>
Net gain (loss) from operations before net realized capital gains	\$ (438,599)	\$ (1,029,726)
Net realized capital gains (losses)	<u>119,350</u>	<u>0</u>
Net income (loss)	<u>\$ (319,249)</u>	<u>\$ (1,029,726)</u>

E. Capital and Surplus Account

	<u>2019</u>	<u>2020</u>
Capital and surplus, December 31, prior year	\$ <u>19,841,058</u>	\$ <u>19,447,584</u>
Net income	\$ (319,249)	\$(1,029,726)
Change in net deferred income tax	(51,380)	(42,301)
Change in non-admitted assets and related items	162,738	119,180
Change in asset valuation reserve	(185,583)	(471,119)
Surplus adjustments:		
Paid in	0	5,000,000
Net change in capital and surplus for the year	<u>(393,474)</u>	<u>3,576,034</u>
Capital and surplus, December 31, current year	\$ <u>19,447,584</u>	\$ <u>23,023,618</u>

Respectfully submitted,

Frank Taylor Phillips

Frank Taylor Phillips, CFE
Risk & Regulatory Consulting, LLC

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

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

Frank Taylor Phillips

Frank Taylor Phillips

Subscribed and sworn to before me
this 31st day of May, 2022

Audrey Hall

AUDREY HALL
Notary Public, State of New York
No. 01HAB274800
Qualified in Kings County
Commission Expires January 28, 2025

Respectfully submitted,

_____/s/
Mostafa Mahmoud
Principal Insurance Examiner

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

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

_____/s/
Mostafa Mahmoud

Subscribed and sworn to before me
this _____ day of _____

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, LINDA A. LACEWELL, 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:

FRANK TAYLOR PHILLIPS
(RISK & REGULATORY CONSULTING, LLC)

as a proper person to examine the affairs of the
PENN INSURANCE AND ANNUITY COMPANY OF NEW YORK
and to make a report to me in writing of the condition of said
COMPANY

with such other information as he shall deem requisite.

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

this 25th day of May, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By: 

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

