



**FINANCIAL CONDITION REPORT ON EXAMINATION**

**OF THE**

**ZURICH AMERICAN LIFE INSURANCE COMPANY**

**OF**

**NEW YORK**

**AS OF DECEMBER 31, 2020**

**EXAMINER:**  
**DATE OF REPORT:**

**CHINETA ALFORD, CFE**  
**MAY 13, 2022**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

June 8, 2022

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. 32282, dated July 27, 2021, and annexed hereto, an examination has been made into the condition and affairs of Zurich American Life Insurance Company of New York, hereinafter referred to as "the Company". The Company's home office is located at 150 Greenwich Street, 4 World Trade Center, 54<sup>th</sup> Floor, New York, NY 10007. 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 five-year period from January 1, 2016, through 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.

This examination was called by the State of Illinois in accordance with the NAIC Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The examination was conducted as part of the Zurich Insurance Group. Illinois served as the lead state with participation from the state of New York. Since the lead and participating states are both accredited by the NAIC, both 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 2016 through 2020, 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 has an internal audit department and a separate internal control department with its parent, Zurich American Life Insurance Company (“ZALICO”), which was given the task of assessing the internal control structure and compliance with the Sarbanes Oxley Act of 2002 (“SOX”). Beginning in 2016, the Company was subject to the Model Audit Rule (“MAR”). Where applicable, SOX and 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 financial condition violations and recommendation contained in the prior report on examination. The results of the examiner’s review are contained in item 5 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.

## 2. DESCRIPTION OF COMPANY

### A. History

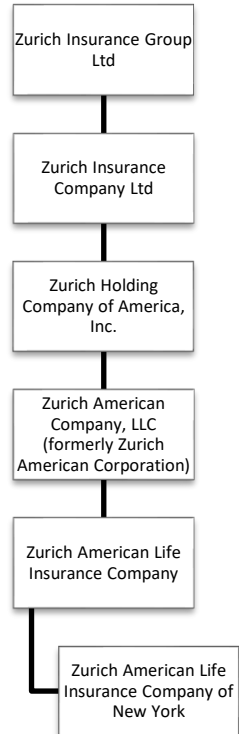
The Company was incorporated as a stock life insurance company under the laws of New York on September 2, 2010, was licensed and commenced business on January 1, 2012. Initial resources of \$2,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$19,090,000, were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) for \$1,054.50 per share.

### B. Holding Company

The Company is a wholly owned subsidiary of ZALICO, an Illinois domiciled life insurance company, which is in turn wholly owned by Zurich American Corporation (“ZAC”), a Delaware domiciled non-operating holding company. ZAC is an indirect wholly owned subsidiary of Zurich Holding Company of America Inc. (“ZHCA”), an Illinois domiciled insurance holding company. ZHCA is a wholly owned subsidiary of Zurich Insurance Company Ltd (“ZIC”), a Switzerland domiciled insurance company, which in turn is a wholly owned subsidiary of Zurich Insurance Group Ltd (“ZIG”), a Switzerland domiciled publicly traded holding company.

### 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 one service agreement 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
Service Agreement  File No. 44023	02/01/2012	Zurich American Life Insurance Company	The Company	Administrative services reasonably necessary in the ordinary course of business, including but not limited to data processing, financial services, and investment services.	2016 \$ (783,918) 2017 \$ (847,030) 2018 \$(1,276,881) 2019 \$(1,048,912) 2020 \$ (708,212)

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

The Company is a party to a tax sharing agreement with its parent and affiliates.



## 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 13 directors. Directors are elected annually at the meeting of the shareholders held in June of each year. As of December 31, 2020, the board of directors consisted of seven members. Meetings of the board are held quarterly.

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>
David J. Dietz (Chair) Chappaqua, New York	President and Chief Executive Officer Zurich American Life Insurance Company and Zurich American Life Insurance Company of New York	2010
Debra K. Broek* Big Stone City, South Dakota	Attorney GAAP Dynamics	2014
David A. Dampman Overland Park, Kansas	Vice President, Operations Zurich American Life Insurance Company and Zurich American Life Insurance Company of New York	2017
Peter C. Hirs Schaumburg, Illinois	Chief Financial Officer, Zurich North America Zurich American Insurance Company	2020
Ira J. Kleinman* Livingston, New York	Retired Senior Vice President Prudential Financial, Inc.	2010
Audrey M. Martin New York, New York	Head of Business Performance and Execution for North American Life Zurich American Life Insurance Company and Zurich American Life Insurance Company of New York	2013
Louis W. Pietroluongo* West Nyack, New York	Retired Acting Superintendent New York State Insurance Department	2010

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

In July 2021, David Dietz and Audrey Martin retired from the board and were replaced by David Fike and Laura Lazarczyk. In December 2021, Louis Pietroluongo and Ira Kleinman resigned and were replaced by Angela Jo Yochem and Richard Patrick Kearns.

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 J. Dietz	President, Chief Executive Officer
Cathy E. Ehrlich	Vice President, Chief Actuary, and Illustration Actuary
Laura J. Lazarczyk	Corporate Secretary
Jane Larson	Chief Compliance Officer

In April 2017, the Company appointed Ron Hazelrigg, Director of Policyowner Services, as the designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64).

In March 2021, Stefan Dunajewski replaced Cathy Ehrlich as Chief Actuary.

In July 2021, David Dietz retired as President and Chief Executive Officer and was replaced by David Fike.

In April 2022, Art Sanders replaced Jane Larson as Chief Compliance Officer.

### 3. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities, 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 only in New York. In 2020, the Company received a total of \$27,216,259 in direct premiums which was comprised of annuity considerations (47.6%), life insurance (18.1%), and accident and health insurance (34.3%), of which \$18,552,066 (68.2%) of the total direct premiums 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 \$450,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants, and creditors of the Company.

#### B. Direct Operations

Individual products offered by the Company include individual term, universal life, and private placement variable annuity. Group products offered by the Company include term life, long-term and short-term disability. The Company sells its products through two primary distribution channels that are defined by the type of products that each channel distributes: (1) the Independent Financial Advisor/Broker (“IFA”) channel; and (2) the Corporate Life & Pensions (“CLP”) channel.

The IFA channel sells traditional individual universal life and term life policies through its brokerage general agencies.

The CLP channel distributes Group Life and Disability policies sold to New York-based employers to address employee benefit needs.

The Zurich Private Placement Variable Annuity is sold exclusively by independent life insurance sales professionals and by financial advisors of private banks.

### C. Reinsurance

As of December 31, 2020, the Company had reinsurance treaties in effect with two companies, of which one was unauthorized. The Company's life, accident and health business is reinsured on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$300,000. The total face amount of life insurance ceded as of December 31, 2020, was \$1,374,858,344, which represents 96% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$12,746,772, was supported by a trust agreement.

#### 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 PwC was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31<sup>st</sup> 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	\$ 22,153,631
Cash, cash equivalents and short-term investments	1,703,315
Contract loans	40,559
Investment income due and accrued	107,529
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,804,254
Reinsurance:	
Amounts recoverable from reinsurers	237,510
Other amounts receivable under reinsurance contracts	257,213
Other assets	147,637
Receivable from separate accounts	7,848
From separate accounts, segregated accounts, and protected cell accounts	<u>84,316,525</u>
Total admitted assets	<u>\$110,776,022</u>

C. Liabilities, Capital, and Surplus

Aggregate reserve for life policies and contracts	\$ 1,579,095
Premiums and annuity considerations for life and accident and health contracts received in advance	5,123
Other amounts payable on reinsurance	1,863,187
Interest maintenance reserve	339,566
General expenses due or accrued	155,117
Taxes, licenses, and fees due or accrued, excluding federal income taxes	21,127
Current federal and foreign income taxes	969,182
Remittances and items not allocated	912,306
Net adjustment in assets and liabilities due to foreign exchange rates	0
Miscellaneous liabilities:	
Payable to parent, subsidiaries, and affiliates	331,374
Liability for amounts held under uninsured accident and health plans	106,345
From Separate Accounts statement	<u>84,316,525</u>
 Total liabilities	 <u>\$ 90,598,947</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	19,090,000
Unassigned funds (surplus)	<u>(912,925)</u>
Surplus	<u>\$ 18,177,075</u>
 Total liabilities, capital, and surplus	 <u>\$110,776,022</u>

D. Condensed Summary of Operations

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Premiums and considerations	\$19,861,123	\$1,589,507	\$ 7,367,642	\$ 7,916,937	\$17,440,443
Investment income	375,449	378,900	492,159	549,076	
Commissions and reserve adjustments on reinsurance ceded	1,065,632	2,501,614	1,807,731	1,867,623	1,104,417
Miscellaneous income	<u>487,170</u>	<u>421,224</u>	<u>420,862</u>	<u>440,215</u>	<u>2,845,961</u>
Total income	<u>\$21,789,374</u>	<u>\$4,891,245</u>	<u>\$10,088,394</u>	<u>\$10,773,851</u>	<u>\$21,842,835</u>
Benefit payments	\$ 6,495,360	\$1,118,548	\$ 933,256	\$ 1,009,318	\$ 892,943
Increase in reserves	258,652	205,028	193,168	931,933	(507,718)
Commissions	1,350,841	2,528,849	5,037,525	6,275,991	5,479,639
General expenses and taxes	843,784	1,139,817	1,756,540	927,405	982,255
Increase in loading on deferred and uncollected premiums	(2,254)	4,976	7,594	277	9,599
Net transfers to (from) separate accounts	12,425,955	(1,109,450)	3,323,688	4,673,296	12,902,803
Miscellaneous deductions	<u>4,996</u>	<u>171</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total deductions	\$21,377,334	\$3,887,939	\$11,251,771	\$13,818,220	\$19,759,521
Net gain (loss) from operations	\$ 412,040	\$1,003,306	\$ (1,163,377)	\$ (3,044,369)	\$ 2,083,314
Federal and foreign income taxes Incurred	<u>315,010</u>	<u>392,667</u>	<u>(165,613)</u>	<u>(615,842)</u>	<u>160,172</u>
Net gain (loss) from operations before net realized capital gains	\$ 97,030	\$ 610,639	\$ (997,764)	\$ (2,428,527)	\$ 1,923,142
Net realized capital gains (losses)	<u>131</u>	<u>(105)</u>	<u>277</u>	<u>(1,491)</u>	<u>(2,415)</u>
Net income	<u>\$ 97,161</u>	<u>\$ 610,536</u>	<u>\$ (997,487)</u>	<u>\$ (2,430,017)</u>	<u>\$ 1,920,727</u>

E. Capital and Surplus Account

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and surplus, December 31, prior year	<u>\$21,031,661</u>	<u>\$21,215,181</u>	<u>\$21,819,933</u>	<u>\$20,847,028</u>	<u>\$18,321,279</u>
Net income	\$ 97,161	\$ 610,535	\$ (997,487)	\$ (2,430,017)	\$ 1,920,727
Change in net unrealized capital gains (losses)		(316)	400	(91)	83
Change in net deferred income tax	161,328	(215,957)	76,153	20,591	(460,357)
Change in non-admitted assets and related items	(75,124)	209,952	(51,971)	(116,232)	395,343
Change in asset valuation reserve	156	622	0	0	0
Change DTA/DTL unrealized-FSCM ON	<u>0</u>	<u>(84)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>\$ 183,520</u>	<u>\$ 604,752</u>	<u>\$ (972,906)</u>	<u>\$ (2,525,749)</u>	<u>\$ 1,855,795</u>
Capital and surplus, December 31, current year	<u>\$21,215,181</u>	<u>\$21,819,933</u>	<u>\$20,847,028</u>	<u>\$18,321,279</u>	<u>\$20,177,075</u>



## 5. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the financial condition violations and recommendation 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 Company violated Insurance Regulation No. 33, 11 NYCRR Section 91.4(a)(1), by failing to allocate any expenses by line of business in 2012 and 2013.</p> <p>The Company acknowledged that it did not allocate any intercompany expenses during the years 2012 and 2013. The Company allocates expenses each month at a line of business level based on statistical key figures (“SKFs”). Expense allocations and SKFs are reviewed and updated at least annually based on time studies. These expense allocations are monitored periodically for continued appropriateness.</p>
B	<p>The examiner recommends that the Company annually evaluate the appropriateness of allocating expenses based on the policies in force and be able to demonstrate that there was no more appropriate basis for allocation than the policies in force.</p> <p>The Company used policies in force as the SKFs in the expense allocation process unless another basis such as Lives in Force or Annual Premium Equivalent is more appropriate.</p>
C	<p>The Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the dates the statements of self-support were signed.</p> <p>The Company modified its process after the last examination, so the Company’s demonstration documentation is now signed and dated prior to filing the statements of self-support. The Company confirmed this process as a part of the actuarial portion of this financial exam as well as providing evidence to the Department’s actuarial examination team.</p>

Respectfully submitted,  
*Chineta Alford*  
Chineta Alford, CFE  
Global Insurance Enterprises, Inc.

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

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

*Chineta Alford*  
Chineta Alford

Subscribed and sworn to before me  
this 8<sup>th</sup> day of June, 2022

*Audrey Hall*

**AUDREY HALL**  
Notary Public, State of New York  
No. 01HA8274900  
Qualified in Kings County  
Commission Expires January 28, 2025

Respectfully submitted,

\_\_\_\_\_  
/s/

Christine Mavour  
Associate Insurance Examiner

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

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

\_\_\_\_\_  
/s/

Christine Mavour

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_

**APPOINTMENT NO. 32282**

**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:

**CHINETA ALFORD**  
**(GLOBAL INSURANCE ENTERPRISES, INC.)**

*as a proper person to examine the affairs of the*

**ZURICH AMERICAN 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 July, 2021*

**LINDA A. LACEWELL**  
*Superintendent of Financial Services*

By: *Mark McLeod*

\_\_\_\_\_  
**MARK MCLEOD**  
**DEPUTY CHIEF - LIFE BUREAU**

