



FINANCIAL CONDITION REPORT ON EXAMINATION

OF THE

LIFE INSURANCE COMPANY OF BOSTON & NEW YORK

AS OF DECEMBER 31, 2021

EXAMINER:

JAMES WANG

DATE OF REPORT:

JUNE 21, 2023

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

June 22, 2023

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. 32443, dated August 9, 2022, and annexed hereto, an examination has been made into the condition and affairs of Life Insurance Company of Boston & New York, hereinafter referred to as "the Company". The Company's home office is located at 4300 Camp Road, Athol, New York, 14010. 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. EXECUTIVE SUMMARY

The material violations contained in this report are summarized below.

- The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the superintendent of its intention to amend the reinsurance treaty with its parent at least thirty days prior to entering into such amended agreement. (See item 4C of this report.)
- The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by failing to obtain approval from the superintendent of its reserve plus capital net investment income allocation method prior to adopting it. (See item 6 of this report.)

2. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC's") *Financial Condition Examiners Handbook, 2022 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2017, to December 31, 2021. 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, 2021, 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 coordinated and conducted in conjunction with the examination of the Company's parent, Boston Mutual Life Insurance Company ("Boston Mutual"), a Massachusetts domestic mutual insurer. Massachusetts Division of Insurance 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 2017 through 2021, by the accounting firm of Ernst & Young LLP (“E&Y”). The Company received an unqualified opinion in all applicable years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company’s parent, Boston Mutual, has an internal audit department that performs testing of various operational and functional areas on an enterprise-wide basis. 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.

3. 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 May 25, 1988 and was licensed and commenced business on March 7, 1990. Initial resources of \$6,000,000, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,000,000, were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) for \$300 per share.

In June 1992, the Company received a \$500,000 cash contribution to surplus from Boston Mutual, increasing gross paid in and contributed surplus to \$4,500,000.

In September 1998, the Company received a \$2,000,000 cash contribution to surplus from Boston Mutual, increasing gross paid in and contributed surplus to \$6,500,000.

In December of 2002, the Company again received a \$1,000,000 cash contribution to surplus from Boston Mutual, increasing gross paid in and contributed surplus to \$7,500,000.

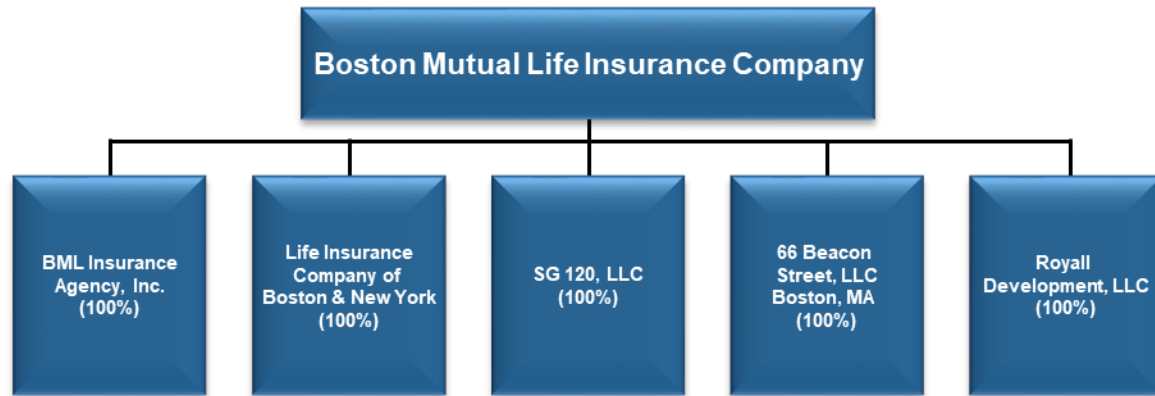
In December of 2013, the Company received a \$5,000,000 cash contribution to surplus from Boston Mutual, increasing the gross paid in and contributed surplus to \$12,500,000.

B. Holding Company

The Company is a wholly owned subsidiary of Boston Mutual, a Massachusetts domiciled mutual life insurance 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, 2021, 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 of Services	Recipient of Services	Specific Services Covered	Expense* For Each Year of the Examination
Administrative Services Agreement File No. 29213	11/01/1999	Boston Mutual	The Company	Administrative Services including Accounting, Data Processing, Taxation, Auditing, Underwriting, Claims and Policyholder Services.	2017 \$(2,358,504) 2018 \$(2,358,504) 2019 \$(2,581,692) 2020 \$(2,720,522) 2021 \$(2,932,107)

*Amount of Expense Incurred by the Company

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 9 and not more than 15 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2021, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation as of December 31, 2021, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John J. Cook, Jr.* Dover, MA	Retired Managing Director Seaward Management	2018
John M. Cornish* Chestnut Hill, MA	Retired Partner Choate, Hall & Stewart LLP	2018
Henry T. Goldman* Newton, MA	Attorney at Law Law Office of Henry T. Goldman	2018
Aurilee A. Hawley* Cambridge, MA	Retired Director Isabella Stewart Gardner Museum	2018
Thomas M. Joyce* Boston, MA	Attorney at Law Joyce and Joyce	2018
Austin T. Lydon* Bloomfield, CT	Retired Partner Deloitte & Touche LLP	2012
Sherry L. Martin* Fairfield Glade, TN	Retired Vice President and Chief Operating Officer Farm Bureau Life Insurance Company of Michigan	2020
Catharine W. O'Rourke* New York, NY	Retired Associate Director of Development The Children's Aid Society	2011
Paul E. Petry* Osterville, MA	Retired Chairman, President and Chief Executive Officer Boston Mutual Life Insurance Company	1996
Timothy L. Porter* New York, NY	Senior Counsel Proskauer Rose, LLP	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Paul A. Quaranto, Jr. Franklin, MA	President Life Insurance Company of Boston & New York	2012
Richard P. Quincy* Needham, MA	Retired President Quincy & Company	2018
Laurie M. Shahon* Brooklyn, NY	President Wilton Capital Group	2011

* 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, 2021:

<u>Name</u>	<u>Title</u>
Paul A. Quaranto, Jr.	President
Grant D. Ward	General Counsel and Secretary
Peter T. Sullivan	Controller and Treasurer
Paul S. Painchaud	Appointed Actuary

Christine S. Williams, the Company's Chief Compliance Officer, is the designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64).

4. TERRITORY AND PLAN OF OPERATIONS

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

The Company is licensed to transact business only in the State of New York. In 2021, 92.3% of life premiums and 96.4% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2021, 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

The Company primarily writes individual life, group life, individual long-term disability, group long-term disability, and group accidental death and dismemberment insurance. The Company did not write any new group business during the examination period but continued to service existing business.

The Company's agency operations are conducted on a general agency basis. The Company's individual and group products are marketed through independent producers to employer groups, trade organizations and professional organizations. Individual products are also marketed through a group of worksite marketing general agents. The Company has two worksite products. The first one is an Employee Life Option which is an interest sensitive whole life insurance product that offers voluntary life insurance coverage. The second one is an Employee Accident Option which offers voluntary supplemental accident insurance coverage. Both worksite products are offered to employees of manufacturing, healthcare, and municipal organizations throughout New York.

C. Reinsurance

As of December 31, 2021, the Company had reinsurance treaties in effect with six companies, five of which were authorized or accredited. The Company's life and accident and

health business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2021, was \$198,246,921, which represents 14.3% of the total face amount of life insurance in force.

The Company did not assume any insurance during the examination period.

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

“(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period . . .
(2) reinsurance treaties or agreements; . . . ”

The Company entered into a reinsurance treaty with its parent, Boston Mutual, on January 12, 1990. The amendment to the reinsurance treaty was effective on January 1, 2017 and signed on April 6, 2017. However, the amendment to the reinsurance treaty was never submitted to the Department for review.

The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the superintendent of its intention to amend the reinsurance treaty with its parent at least thirty days prior to entering into such amended agreement.

The examiner notes that the Company’s reinsurance treaty with Boston Mutual was terminated as of December 31, 2022.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2021, as contained in the Company's 2021 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, 2021 filed annual statement.

A. Independent Accountants

The firm of E&Y was retained by the Company to audit the Company's combined 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 year then ended.

E&Y 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	\$125,621,328
Common stocks	11,946,614
Cash, cash equivalents and short-term investments	9,038,424
Contract loans	33,585,185
Other invested assets	925,890
Investment income due and accrued	2,496,206
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	2,142,772
Deferred premiums, agents' balances and installments booked but deferred and not yet due	5,435,486
Reinsurance:	
Other amounts receivable under reinsurance contracts	691,367
Net deferred tax asset	1,145,182
Guaranty funds receivable or on deposit	(537)
Advance commissions	8
Claim fund with TPA	65,865
Prepaid reinsurance premium	<u>291,219</u>
Total admitted assets	<u>\$193,385,008</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$141,538,612
Aggregate reserve for accident and health contracts	4,344,171
Contract claims:	
Life	1,132,424
Accident and health	478,589
Premiums and annuity considerations for life and accident and health contracts received in advance	45,588
Contract liabilities not included elsewhere:	
Interest maintenance reserve	1,968,294
Commissions to agents due or accrued	361,248
General expenses due or accrued	211,761
Taxes, licenses and fees due or accrued, excluding federal income taxes	(153,018)
Current federal and foreign income taxes	230,463
Amounts withheld or retained by company as agent or trustee	501,600
Remittances and items not allocated	1,233,583
Miscellaneous liabilities:	
Asset valuation reserve	2,341,707
Payable to parent, subsidiaries and affiliates	204,235
Payable for securities	160
Uncashed checks pending escheatment	122,409
Accrued trustee interest	9,788
Misc. unclaimed funds	<u>479,951</u>
 Total liabilities	 <u>\$155,051,564</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	12,500,000
Unassigned funds (surplus)	<u>23,833,442</u>
Surplus	<u>\$ 36,333,442</u>
Total capital and surplus	<u>\$ 38,333,442</u>
 Total liabilities, capital and surplus	 <u>\$193,385,006</u>

D. Condensed Summary of Operations

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Premiums and considerations	\$22,617,503	\$23,525,217	\$24,304,454	\$23,644,639	\$22,541,548
Investment income	6,297,182	6,784,323	7,311,050	7,298,562	7,465,448
Commissions and reserve adjustments on reinsurance ceded	1,451,602	1,331,402	1,230,720	1,137,618	1,042,504
Miscellaneous income	<u>830</u>	<u>738</u>	<u>676</u>	<u>685</u>	<u>583</u>
Total income	<u>\$30,367,117</u>	<u>\$31,641,680</u>	<u>\$32,846,900</u>	<u>\$32,081,504</u>	<u>\$31,050,083</u>
Benefit payments	\$11,557,820	\$11,191,260	\$10,665,181	\$13,581,506	\$13,035,210
Increase in reserves	6,879,751	7,669,559	8,557,499	8,450,400	8,615,911
Commissions	4,241,533	4,139,870	4,201,363	3,749,118	2,786,479
General expenses and taxes	5,262,849	5,088,802	5,642,252	5,443,938	5,135,274
Increase in loading on deferred and uncollected premiums	<u>17,309</u>	<u>180,409</u>	<u>179,041</u>	<u>(653,897)</u>	<u>47,478</u>
Total deductions	<u>\$27,959,262</u>	<u>\$28,269,900</u>	<u>\$29,245,336</u>	<u>\$30,571,065</u>	<u>\$29,620,352</u>
Net gain (loss)	\$ 2,407,855	\$ 3,371,780	\$ 3,601,564	\$ 1,510,439	\$ 1,429,731
Federal and foreign income taxes incurred	<u>899,004</u>	<u>773,190</u>	<u>1,047,016</u>	<u>829,579</u>	<u>534,529</u>
Net gain (loss) from operations before net realized capital gains	\$ 1,508,851	\$ 2,598,590	\$ 2,554,548	\$ 680,860	\$ 895,202
Net realized capital gains (losses)	<u>30,406</u>	<u>74,836</u>	<u>91,413</u>	<u>(732,239)</u>	<u>2,550,279</u>
Net income	<u>\$ 1,539,256</u>	<u>\$ 2,673,427</u>	<u>\$ 2,645,960</u>	<u>\$ (51,377)</u>	<u>\$ 3,445,480</u>

E. Capital and Surplus Account

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, December 31, prior year	\$ <u>28,873,403</u>	\$ <u>30,120,368</u>	\$ <u>32,318,959</u>	\$ <u>35,617,690</u>	\$ <u>37,027,722</u>
Net income	\$ 1,539,256	\$ 2,673,427	\$ 2,645,960	\$ (51,377)	\$ 3,445,480
Change in net unrealized capital gains (losses)	447,901	(569,258)	1,616,319	885,314	(1,480,862)
Change in net deferred income tax	(1,075,852)	176,566	(11,222)	344,713	582,965
Change in non-admitted assets and related items	754,579	(221,662)	99,310	(179,520)	(619,087)
Change in asset valuation reserve	(418,920)	139,516	(1,234,040)	410,902	(622,774)
Cumulative effect of changes in accounting principles	<u>0</u>	<u>0</u>	<u>182,404</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>1,246,965</u>	\$ <u>2,198,589</u>	\$ <u>3,298,731</u>	\$ <u>1,410,032</u>	\$ <u>1,305,721</u>
Capital and surplus, December 31, current year	\$ <u>30,120,368</u>	\$ <u>32,318,959</u>	\$ <u>35,617,690</u>	\$ <u>37,027,722</u>	\$ <u>38,333,442</u>

6. NET INVESTMENT INCOME

Net investment income was distributed to major annual statement lines of business in accordance with the reserve plus capital method.

Section 91.4(c)(2) of 11 NYCRR 91 (Insurance Regulation 33) states, in part:

“Net investment income, after adjustment, if any, as permitted by the preceding paragraph shall be distributed to major annual statement lines of business either:

- (i) in proportion to the total mean policy reserves and liabilities of each of such major annual statement lines of business or
- (ii) in proportion to the total mean funds of each of such major annual statement lines of business. . .”

Section 91.5(a) of 11 NYCRR 91 (Insurance Regulation 33) states, in part:

“Distribution of net investment income shall be made in accordance with paragraph (2) of subdivision(c) of section 91.4 or by use of an investment year method in accordance with the following rules, which are designed to assure that a life insurer’s use of an investment year method is in accordance with Insurance Law requirements that holders of insurance policies and annuity contracts be treated equitably (§§ 4216, 4224, 4231, 4235, 4238, 4239) and which are subject to subdivision (b) of this section. . .”

Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) states, in part:

“. . . If the company’s method includes deviations from the foregoing rules, or contemplates the use of a method other than the investment year method for assets not listed in paragraph (a)(1), such deviations or use require the approval of the superintendent as being equitable and as being necessary for reasons of feasibility before the method can be adopted.”

A review of the Company’s net investment income allocation method indicated that beginning in 2016, the Company allocated its net investment income based on a reserve plus capital method during the entire examination period. Such method is not listed as an allowed allocation method in accordance with Section 91.4(c)(2) of 11 NYCRR 91 (Insurance Regulation 33). In response to examiner follow-up correspondence, the Company indicated that it did not submit a formal filing on the reserve plus capital method to the superintendent. As a result, such allocation method was not approved by the superintendent prior to the Company adopting it.

The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by failing to obtain approval from the superintendent of its reserve plus capital net investment income allocation method prior to adopting it.

The Company indicated that it has reverted back to the previously approved methodology for the allocation of net investment income in 2023.

7. SUMMARY AND CONCLUSIONS

Following are the violations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(2) of the New York Insurance Law by failing to notify the superintendent of its intention to amend the reinsurance treaty with its parent at least thirty days prior to entering into such amended agreement.	10
B	The Company violated Section 91.5(b) of 11 NYCRR 91 (Insurance Regulation 33) by failing to obtain approval from the superintendent of its reserve plus capital net investment income allocation method prior to adopting it.	17

Respectfully submitted,

James Wang
James Wang
Senior Insurance Examiner

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

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

James Wang
James Wang

Subscribed and sworn to before me
this 21st day of June, 2023
Audrey Hall

AUDREY HALL
Notary Public, State of New York
No. 01HA6274800
Qualified in Kings County
Commission Expires January 28, 2025

APPOINTMENT NO. 32443

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ADRIENNE A. HARRIS, 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 WANG

as a proper person to examine the affairs of the
LIFE INSURANCE COMPANY OF BOSTON & 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 9th day of August, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Mark McLeod

*MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU*

