STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

KEYPORT BENEFIT LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT:	FEBRUARY 28, 2001
EXAMINER:	JOHN LETOURNEAU

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

February 28, 2001

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21630, dated October 4, 2000 and annexed hereto, an examination has been made into the condition and affairs of Keyport Benefit Life Insurance Company, hereinafter referred to as “the Company” or “KBLIC,” at its home office located at 100 Manhattanville Road, Purchase, New York 10577.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The Department has not certified, as to accuracy or adequacy, the Company's reserves for the year ending December 31, 1999. The Company has stated that it understated reserves by $5,700,000 in its filed 1999 annual statement. (See item 5D of this report)

The Company violated Section 325 of the New York Insurance Law by not maintaining its books of account at its principal office in this state. (See item 7 of this report)

The Company had a significant increase in assets during the examination period. This was due to the purchase of the Company in 1998 by Keyport Life Insurance Company, the commencement of sales in 1998 and a significant acceleration of sales in 1999. General Account assets have increased from $8,855,239, as of December 31, 1996, to $178,031,339, as of December 31, 1999. Capital contributions of $22 million in 1998 and 1999 from the Company's parent, Keyport Life Insurance Company, contributed to this increase. The Separate Account assets have increased from $3,690,792, as of December 31, 1996, to $135,470,711, as of December 31, 1999. Separate Account assets account for approximately 43% of the Company's total admitted assets of $313,502,050.

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covers the period from January 1, 1997 through December 31, 1999. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 1999 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 1999 to determine whether the Company's filed 1999 annual statement fairly presents its financial condition. With respect to the verification of liabilities, it is noted that the Department has not certified, as to accuracy or adequacy, the Company's reserves as of December 31, 1999. (See item 5D of this report) The examiner reviewed the Company's income and disbursements necessary to accomplish the verification of assets and liabilities and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

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

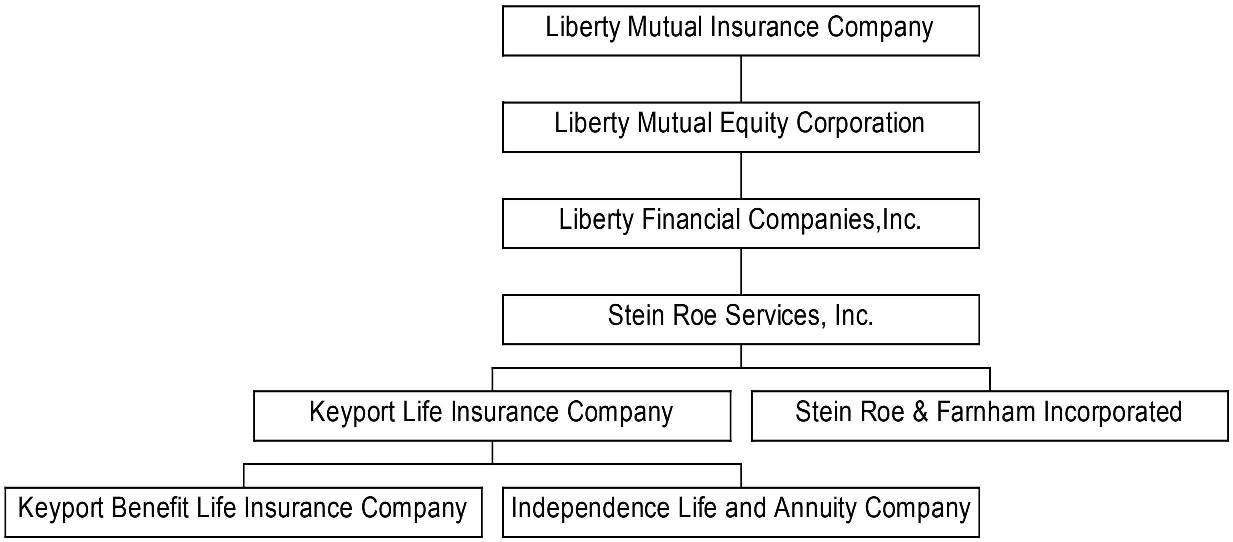
The Company was incorporated as a stock life insurance company under the name American Benefit Life Insurance Company and commenced writing business on November 25, 1987. Initial resources of $7,000,000 were provided through the sale of 1,000 shares of stock with a par value of $2,000 per share and $5,000,000 of paid in and contributed surplus.

On January 2, 1998, Keyport Life Insurance Company, the Company's parent, acquired the common stock of American Benefit Life Insurance Company and renamed it Keyport Benefit Life Insurance Company. The Company commenced writing business as Keyport Benefit Life Insurance Company in mid-1998. The parent made additional contributions of $7,500,000 in 1998, $15,000,000 in 1999 and $35,000,000 in September 2000.

B. Holding Company

The Company is a direct subsidiary of Keyport Life Insurance Company. Since its acquisition in 1998, the Company has operated as the New York marketing arm of its parent. Keyport Life Insurance Company is an indirect wholly-owned subsidiary of Liberty Financial Companies, Inc., a diversified asset management organization whose majority stockholder is Liberty Mutual Insurance Company, a leading property/casualty insurer specializing in workers' compensation and automobile coverages.

A chart reflecting the relationship between the Company and significant entities in its holding company system, as of December 31, 1999 follows:



The Company had three service agreements with affiliates in effect as of December 31, 1999. The administrative service agreement between Keyport Life Insurance Company ("KLIC") and the Company provides for KLIC to perform certain administrative services for the Company including: accounting, tax and auditing; underwriting; claims; marketing and product development; functional support services; payroll functions; personnel functions; policyholder services; telephone access; and other support services. The other two agreements are a tax sharing agreement among Keyport Life Insurance Company, Independence Life and Annuity Company and the Company and an investment advisory agreement between Stein Roe & Farnham and the Company.

C. Management

The Company's by-laws provide that the number of directors shall be not less than nine and provides further that if admitted assets exceed $1.5 billion during any calendar year, then the number of directors shall be increased to 13. As of December 31, 1999, there were nine members on the board. Directors are elected at the annual shareholders' meeting, which is held on the first Thursday in March of each year, to serve until the next annual meeting. Regular meetings of the board may be held upon such notice, or without notice, at such places and at such times, as shall from time to time be determined by the board.

The nine board members and their principal business affiliation, as of December 31, 1999, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Bernard R. Beckerlegge Prides Crossing, MA	Senior Vice President and General Counsel Keyport Benefit Life Insurance Company	1998
William P. Donohue* New York, NY	Senior Advisor Bentley Associates LP	1998
J. Andrew Hibert Southborough, MA	Senior Vice President and Chief Financial Officer Liberty Financial Companies	1998
Paul H. LeFevre, Jr. Duxbury, MA	Chief Operating Officer Keyport Benefit Life Insurance Company	1998
Peter M. Lehrer* New York, NY	President Opus Three LTD	1998
Jeff S. Liebmann* New York, NY	Partner Dewey Ballantine LLP	1998
Stewart R. Morrison Boxford, MA	Senior Vice President and Chief Investment Officer Keyport Benefit Life Insurance Company	1998
Philip K. Polkinghorn Wellesley, MA	President Keyport Benefit Life Insurance Company	1999
Christopher C. York* New York, NY	Principal C.C. York Company	1998

* 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, 1999:

Name	Title
Philip K. Polkinghorn	President
Paul H. LeFevre, Jr.	Chief Operating Officer
Bernard R. Beckerlegge	Senior Vice President and General Counsel
William Hayward	Senior Vice President – Administration and Information Services
Bernard M. Koch	Senior Vice President and Chief Financial Officer
Stewart R. Morrison	Senior Vice President and Chief Investment Officer
Daniel C. Bryant*	Vice President and Assistant Secretary

*Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

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 New York. All business is written on a non-participating basis.

The Company primarily sells fixed and variable annuities. The Company's products are sold through three distribution channels: banks, financial planners, and broker dealers.

The Company had 780 appointed agents as of December 31, 1998 and 845 appointed agents as of December 31, 1999.

E. Reinsurance

As of December 31, 1999, the Company had no reinsurance treaties in effect.

4. SIGNIFICANT OPERATING RESULTS

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

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

	December 31, 1996	December 31, 1999	Increase (Decrease)
Admitted assets	$12,546,032	$313,502,050	$300,956,018
Liabilities	$ 4,125,482	$291,975,090	$287,849,608
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	5,000,000	25,000,000	20,000,000
Special surplus funds	92,270	0	(92,270)
Unassigned funds (surplus)	1,328,280	(5,473,040)	(6,801,320)
Total capital and surplus	$ 8,420,550	$ 21,526,960	$ 13,106,410
Total liabilities, capital and surplus	$12,546,032	$313,502,050	$300,956,018

The Company's parent provided contributed surplus of $7,500,000 in 1998 and $15,000,000 in 1999. The Company paid a $2,500,000 dividend to its parent in 1997.

The Company's invested assets as of December 31, 1999, exclusive of Separate Accounts, were comprised of bonds (86.7%) and cash (13.3%). One hundred percent of the Company's bond portfolio as of December 31, 1999 was comprised of investment grade obligations.

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:

	1997	1998	1999
Ordinary:			
Life insurance	$ (335)	$ 244	$ (795)
Individual annuities	65,585	(1,684,318)	(3,537,437)
Supplementary contracts	0	0	(1,021,751)
Total ordinary	$ 65,250	$(1,684,074)	$(4,559,983)
Other accident and health	$ 44,870	$ (73,367)	$ (8,713)
Total	$110,120	$(1,757,441)	$(4,568,696)

During 1997 the Company was inactive. The net gains were due primarily to income from investments. The losses in 1998 are primarily due to an increase in general insurance expenses reflecting the startup costs associated with the mid-year commencement of life and annuity sales in 1998. The net loss in 1999 was due primarily to an increase in commissions and general expenses reflecting the acquisition costs associated with the first full year of life and annuity sales.

The net loss of $1,021,751 shown in the supplementary contract line of business in 1999 was incorrectly reported. The net loss should have been $555 and the difference of $1,021,196 should have been reported on the individual annuities line. This would increase the loss in individual annuities to $4,558,633. It is recommended that the Company take more care in the preparation of its annual statement.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 1999, as contained in the Company's filed 1999 annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The Department has not certified, as to accuracy or adequacy, the Company's reserves as of December 31, 1999. (See item 5D of this report).

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 1999

Admitted Assets

Bonds	$151,430,487
Cash	23,219,108
Investment income due and accrued	2,532,817
Other assets	848,927
From Separate Accounts Statement	135,470,711
Total admitted assets	$313,502,050

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$159,278,558
Aggregate reserve for accident and health policies	89,239
Supplementary contracts without life contingencies	429,904
Policy and contract claims:	
Life	309,685
Accident and health	47,400
Premiums and annuity considerations received in advance	3,770
Interest maintenance reserve	(167,451)
Commissions to agents due or accrued	47,150
General expenses due or accrued	96,368
Transfers to separate accounts due or accrued	(6,121,040)
Federal income taxes due or accrued	(290,438)
Amounts withheld or retained by company as agent or trustee	20,727
Amounts held for agents account	8,196
Remittances and items not allocated	2,263,356
Miscellaneous liabilities:	
Asset valuation reserve	231,505
Payable to parent, subsidiaries and affiliates	89,999
Disallowed interest maintenance reserve	167,451
From Separate Account Statement	135,470,711
Total liabilities	$291,975,090
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	25,000,000
Unassigned funds (surplus)	(5,473,040)
Total capital, surplus and other funds	$ 21,526,960
Total liabilities, capital, surplus and other funds	$313,502,050

B. CONDENSED SUMMARY OF OPERATIONS

	1997	1998	1999
Premiums and considerations	$ 37,387	$55,046,251	$234,142,984
Considerations for supplementary contracts without life contingencies	0	722,489	12,924,889
Investment income	571,515	921,550	7,030,454
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	0	27,785	998,010
Miscellaneous income	(792)	5,195	50,855
Total income	$ 608,110	$56,723,270	$255,147,192
Benefit payments	$ 1,367,137	$ 2,090,039	$ 27,568,984
Increase in reserves	1,477	40,721,064	118,829,308
Commissions	3,149	3,152,548	13,423,787
General expenses and taxes	416,108	877,841	1,625,875
Net transfers to Separate Accounts	(1,356,208)	12,588,226	97,998,660
Total deductions	$ 431,663	$59,429,718	$259,446,614
Net gain (loss)	$ 176,447	$ (2,706,448)	$ (4,299,422)
Federal income taxes	66,328	(949,007)	269,274
Net gain (loss) from operations before net realized capital gains	$ 110,120	$ (1,757,441)	$ (4,568,696)
Net realized capital gains	0	0	558
Net income	$ 110,120	$ (1,757,441)	$ (4,568,138)

C. CAPITAL AND SURPLUS ACCOUNT

	1997	1998	1999
Capital and surplus, December 31, prior year	$8,420,550	$ 6,089,001	$11,730,840
Net income	$ 110,120	$(1,757,441)	$ (4,568,138)
Change in net unrealized capital gains	0	0	64
Change in nonadmitted assets and related items	35	(100,720)	(183,907)
Change in asset valuation reserve	58,296	0	(231,505)
Surplus adjustment			
Paid in	(2,500,000)	7,500,000	15,000,000
Prior year taxes	0	0	(220,394)
Net change in capital and surplus	$(2,331,549)	$ 5,641,839	$ 9,796,120
Capital and surplus, December 31, current year	$6,089,001	$11,730,840	$21,526,960

D. RESERVES

The Department has not certified, as to accuracy or adequacy, the Company's reserves for the year 1999. The certificate of reserve valuation will not be issued until the Department receives the Company's December 31, 2000 submission and verifies that the corrections regarding understated deferred annuity reserves have been made and are adequate. The Company has stated that it understated reserves by $5,700,000 in its filed 1999 annual statement. The understatement was due to two errors involving the policy administration system.

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

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

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

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

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

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

7. BOOKS OF ACCOUNT

Section 325 of the New York Insurance Law states, in part:

"Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state . . . its books of account . . . "

The Company does not keep or maintain its books of account at its principal office in Purchase, New York. The Company did not have general ledgers, subsidiary ledgers or annual statement workpapers in its principal office.

The Company is in violation of Section 325 of the New York Insurance Law.

8. SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in this report:

Item	Description	Page No(s).
A	It is recommended that the Company take more care in the preparation of its annual statement.	9
B	The Company has stated that it understated reserves by $5,700,000 in its filed 1999 annual statement. The Department has not certified, as to accuracy or adequacy, the Company's reserves for the year 1999.	13
C	The Company violated Section 325 of the New York Insurance Law by not keeping or maintaining its books of account at its principal office in Purchase, New York.	15

Respectfully submitted,

/s/
John Letourneau
Senior Insurance Examiner

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

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

/s/
John Letourneau

Subscribed and sworn to before me

this_________ day of _________________2001.

APPOINTMENT NO. 21630

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, NEIL D. LEVIN , Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

JOHN LETOURNEAU

as a proper person to examine into the affairs of the

KEYPORT BENEFIT LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 4th day of October, 2000

NEIL D. LEVIN
Superintendent of Insurance

by ***GREGORY V. SERIO***
First Deputy Superintendent