

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
CIGNA LIFE INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 1999

DATE OF REPORT:

DECEMBER 21, 2000

EXAMINER:

MANISH GAJIWALA

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Executive summary	2
2. Scope of examination	3
3. Description of Company	4
A. History	4
B. Holding company	4
C. Management	5
D. Territory and plan of operation	7
E. Reinsurance	8
4. Significant operating results	9
5. Financial statements	11
A. Assets, liabilities, capital, surplus and other funds	11
B. Condensed summary of operations	13
C. Capital and surplus account	14
6. Market conduct activities	15
A. Advertising and sales activities	15
B. Underwriting and policy forms	15
C. Treatment of policyholders	16
7. Prior report summary and conclusions	17
8. Summary and conclusions	19



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

December 21, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 21541, dated June 1, 2000 and annexed hereto, an examination has been made into the condition and affairs of Cigna Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 2 Grand Central Tower, 140 East 45th Street, 39th Floor, New York, NY 10017.

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

Effective January 1, 1999, the Company entered into a contract to insure members of the New York State Department of Civil Service for prescription drug services. During 1999, this contract referred to as the New York Drug Prescription Program (“NYDPP”) accounted for over 87% of total premiums received and over 91% of the total claims paid by the Company. The contract is fully reinsured with an affiliate, Connecticut General Life Insurance Company (“CGLIC”). (See item 3D of this report)

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, 1999 filed statement. (See item 5 of this report)

The Company violated Section 243.2(b)(1) of Department Regulation No. 152 for failing to maintain the underwriting files for statutory disability policies issued during the examination period and application files in the closed block of individual life insurance business. (See item 6B of this report)

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. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification 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

The examiner reviewed the corrective actions taken by the Company with respect to violations contained in the prior report on examination. The results of the examiner's review are contained in item 7 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.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on June 29, 1965, under the name of INA Life Insurance Company of New York. The Company was licensed and commenced business on December 28, 1965. In 1973, ownership of the Company was transferred from Life Insurance Company of North America (“LINA”) to Insurance Company of North America (“INA”). In March of 1977, INA Financial Corporation, a wholly owned subsidiary of INA Corporation, purchased the Company from INA for cash and marketable securities valued at \$12,369,849.

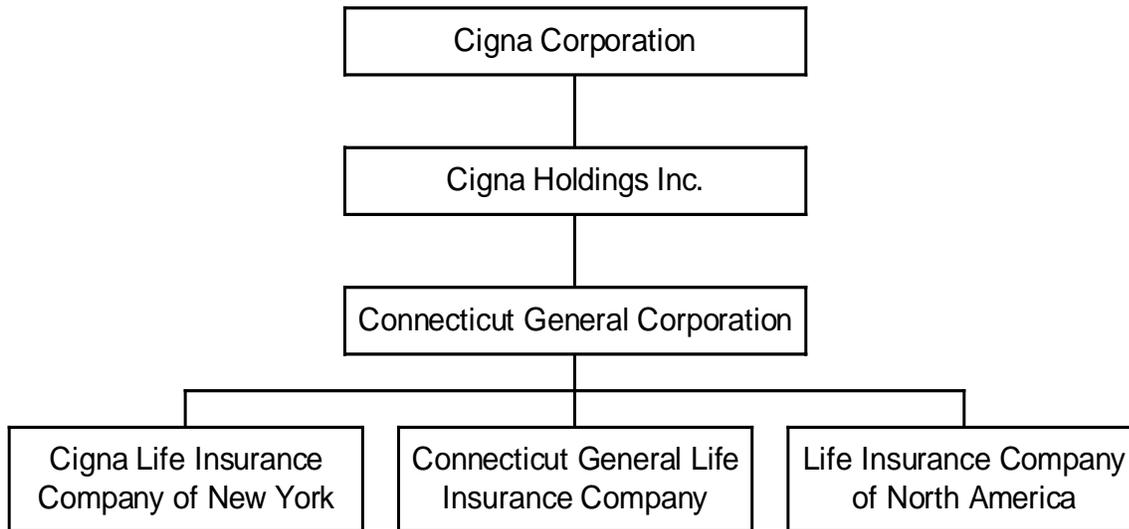
On April 1, 1982, INA Corporation merged with Connecticut General Corporation, (“CG Corp.”). The resulting merged organization ranked as the second largest stockholder owned insurance group in the United States. The new holding company was named CIGNA Corporation (“CIGNA”). On July 19, 1999, the Company changed its name from INA Life Insurance Company of New York to CIGNA Life Insurance Company of New York.

The Company has capital stock of \$1,100,000 and contributed surplus of \$5,815,000. There were no changes in capital stock or contributed surplus during the examination period.

B. Holding Company

The Company is a wholly owned subsidiary of CG Corp., a Connecticut holding company. CG Corp. is in turn a wholly owned subsidiary of CIGNA Holdings, Inc., a Delaware holding company. The ultimate parent of the Company is CIGNA, a Delaware holding company.

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



The Company had 15 service agreements in effect as of December 31, 1999.

The Company receives claim administration, sales related services, electronic data processing, underwriting, general administrative and personnel services from LINA. The Company receives investment advisory services, reinsurance, payroll and expense allocation services from various members of the holding company system. The Company provides claims, underwriting and sales administrative services to other members of the holding company system. The Company is party to a federal income tax allocation and consolidation agreement with CIGNA.

C. Management

The Company's charter provides that the board of directors shall be comprised of not less than nine and not more than 13 directors. The number of directors shall be increased to not less than 13 and not more than 17 within one year following the end of the calendar year in which the admitted assets of the Company exceed \$1.5 billion dollars. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 1999, the board of directors consisted of 10 members. Meetings of the board are held quarterly.

The 10 board members and their principal business affiliation, as of December 31, 1999, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Robert H. Brickweg Great Neck, NY	Vice President, Sales CIGNA Group Insurance	1993
Mary B. Conrad* New York, NY	Senior Vice President Fiduciary Trust Company International Trustee and Treasurer Woods Hole Oceanographic	1998
Anne A. Coté* New York, NY	Former Vice President For Nursing New York Hospital	1991
Carl E. Horton* Hackensack, NJ	Vice President, Marketing Absolut Vodka, Seagram Americas	1990
Thomas J. Joyce* Oreland, PA	Retired Senior Vice President of Underwriting Cigna Group Insurance	1993
James H. Kenworthy* New York, NY	Counsel LeBoeuf, Lamb, Greene & MacRae, LLP	1998
John K. Leonard Wayne, PA	President Cigna Group Insurance	1992
Jerold H. Rosenblum* Hilton Head Island, SC	Retired Senior Vice President and Chief Counsel Cigna Group Insurance	1998
Peter J. Vogt Berwyn, PA	Chief Financial Officer Cigna Group Insurance	1999
Jean H. Walker Avon, CT	Senior Vice President and Chief Financial Officer CIGNA Investment Management	1995

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

In July 2000, John Leonard resigned as Chairman of the board of directors. In November 2000, Robert Brickweg replaced Mr. Leonard as Chairman and Steven Mellas was added to the board of directors.

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:

<u>Name</u>	<u>Title</u>
Robert H. Brickweg	President
Edmund L. Green	Vice President and Treasurer
Steven G. Mellas *	Vice President
Peter J. Vogt	Actuary and Controller
Michael A. James	Corporate Secretary and Counsel

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

In May 2000, Barry R. McHale replaced Edmund L. Green as Vice President and Treasurer.

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 five states, namely Alabama, Missouri, New York, Pennsylvania, Tennessee and the District of Columbia. However, the majority (99.9%) of the 1999 life insurance and accident and health insurance premiums were received from New York. All of the 1999 group annuity considerations were received from New York. All policies are written on a non-participating basis.

Effective January 1, 1999, the Company entered into a contract to insure members of the New York State Department of Civil Service for prescription drug services. This contract, NYDPP, is for a period of five years and will expire on December 31, 2003. The contract is fully reinsured with CGLIC. During 1999, the NYDPP program accounted for over 87% of total premiums received and over 91% of total claims paid by the Company.

The Company also sold group life and group accident and health insurance during the examination period. The group accident and health insurance consists of statutory disability, long term disability, travel accident and accidental death and dismemberment.

The Company's agency operations are divided into six regions each headed by a regional director. Each regional office has relationships with brokers, agents and managing general underwriters which receive commissions for business generated.

E. Reinsurance

As of December 31, 1999, the Company had reinsurance treaties in effect with 31 companies, of which 11 were authorized or accredited. The Company's life and accident and health policies are reinsured on a coinsurance basis. Reinsurance is provided on an automatic basis. No reserve credit is taken for reinsurance ceded with unauthorized companies.

As of December 31, 1999, the Company reinsured 100% of its closed block of individual life insurance business with a total face amount of \$1,238,000 with Monitor Life Insurance Company, a licensed insurer. The Company also reinsures a small amount of its group life insurance. The total face amount of group life insurance ceded, as of December 31, 1999, was \$12,291,000, which represents 0.3% of the total face amount of group life insurance in force.

As of December 31, 1999, the Company had no reinsurance assumed.

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:

	<u>December 31,</u> <u>1996</u>	<u>December 31,</u> <u>1999</u>	<u>Increase</u>
Admitted assets	<u>\$367,397,125</u>	<u>\$403,092,967</u>	<u>\$35,695,842</u>
Liabilities	<u>\$324,487,355</u>	<u>\$350,142,157</u>	<u>\$25,654,802</u>
Common capital stock	\$ 1,100,000	\$ 1,100,000	\$ 0
Gross paid in and contributed surplus	5,815,000	5,815,000	0
Group contingency reserve	2,065,583	2,904,906	839,323
Unassigned funds (surplus)	<u>33,929,187</u>	<u>43,130,904</u>	<u>9,201,717</u>
Total capital and surplus	<u>\$ 42,909,770</u>	<u>\$ 52,950,810</u>	<u>\$10,041,040</u>
Total liabilities, capital and surplus	<u>\$367,397,125</u>	<u>\$403,092,967</u>	<u>\$35,695,842</u>

The Company's invested assets as of December 31, 1999, were mainly comprised of bonds (97.4%), and cash and short-term investments (2.6%).

The majority (99.5%) of the Company's bond portfolio as of December 31, 1999 was comprised of investment grade obligations.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	85.9%	66.6%	69.8%
Commissions	3.8	3.2	0.9
Expenses	<u>16.6</u>	<u>21.0</u>	<u>20.3</u>
	<u>106.3%</u>	<u>90.8%</u>	<u>91.0%</u>
Underwriting results	<u>(6.3)%</u>	<u>9.2%</u>	<u>9.0%</u>

Highly favorable claims experience in the disability line of business has improved underwriting results. The majority of the Company's accident and health premiums are from the disability line of business, 89% in 1997, 90% in 1998 and 97% in 1999.

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>1997</u>	<u>1998</u>	<u>1999</u>
Ordinary			
Individual annuities	\$(<u>2,287,253</u>)	\$(<u>1,641,659</u>)	\$(<u>2,278,507</u>)
Total ordinary	\$(<u>2,287,253</u>)	\$(<u>1,641,659</u>)	\$(<u>2,278,507</u>)
Group:			
Life	\$ 2,989,150	\$ 1,538,478	\$ 635,405
Annuities	<u>155,595</u>	<u>(724,391)</u>	<u>(87,692)</u>
Total group	\$ <u>3,144,745</u>	\$ <u>814,087</u>	\$ <u>547,713</u>
Accident and health:			
Group	\$ 6,063,965	\$15,765,226	\$18,963,550
Other	<u>168,011</u>	<u>154,076</u>	<u>(722,194)</u>
Total accident and health	\$ <u>6,231,976</u>	\$ <u>15,919,302</u>	\$ <u>18,241,356</u>
Total	\$ <u>7,089,468</u>	\$ <u>15,091,730</u>	\$ <u>16,510,562</u>

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

The annuity business represents closed blocks of business. The only positive cash flow generated from that line of business is investment income. For the years under review, annuity benefits payable were greater than allocated investment income.

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 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, 1999 filed statement.

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

Admitted Assets

Bonds	\$377,480,655
Cash and short term investments	10,123,550
Receivable for securities	70,773
Reinsurance ceded	
Commissions and expense allowances due	2,973,991
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	1,617,109
Accident and health premiums due and unpaid	6,358,272
Investment income due and accrued	4,340,183
Receivable from parent, subsidiaries and affiliates	<u>128,434</u>
Total admitted assets	<u>\$403,092,967</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$170,054,916
Aggregate reserve for accident and health policies	150,493,139
Policy and contract claims:	
Life	3,540,595
Accident and health	8,002,231
Liability for premium and other deposit funds	
Other contract deposit funds	140,070
Policy and contract liabilities:	
Provision for experience rating refunds	31,667
Interest maintenance reserve	5,002,657
Commissions to agents due or accrued	2,520,487
General expenses due or accrued	1,496,411
Taxes, licenses and fees due or accrued	963,525
Federal income taxes due or accrued	975,999
Amounts withheld or retained by company as agent or trustee	42,629
Remittances and items not allocated	2,363,564
Miscellaneous liabilities:	
Asset valuation reserve	1,521,679
Reinsurance in unauthorized companies	1,782,008
Payable to parent, subsidiaries and affiliates	32,939
Drafts outstanding	<u>1,177,641</u>
 Total liabilities	 <u>\$350,142,157</u>
 Common capital stock	 \$ 1,100,000
Gross paid in and contributed surplus	5,815,000
Group life contingency reserve	2,904,906
Unassigned funds (surplus)	<u>43,130,904</u>
 Total capital, surplus and other funds	 \$ <u>52,950,810</u>
 Total liabilities, capital, surplus and other funds	 <u>\$403,092,967</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Premiums and considerations	\$ 74,816,644	\$ 71,957,717	\$ 78,185,395
Investment income	29,219,556	30,554,263	30,442,819
Commissions and reserve adjustments on reinsurance ceded	<u>66,171</u>	<u>112,300</u>	<u>9,209,680</u>
Total income	<u>\$104,102,371</u>	<u>\$102,624,280</u>	<u>\$117,837,894</u>
Benefit payments	\$ 56,330,934	\$ 52,422,603	\$ 62,914,649
Increase in reserves	17,192,825	8,503,660	7,057,507
Commissions	2,698,072	2,122,545	9,939,004
General expenses and taxes	12,996,208	15,105,055	15,811,744
Miscellaneous deductions	<u>(39,681)</u>	<u>0</u>	<u>0</u>
Total deductions	<u>\$ 89,178,358</u>	<u>\$ 78,153,863</u>	<u>\$ 95,722,904</u>
Net gain	\$ 14,924,013	\$ 24,470,417	\$ 22,114,990
Federal income taxes	<u>7,834,545</u>	<u>9,378,687</u>	<u>5,604,428</u>
Net gain from operations before net realized capital gains	\$ 7,089,468	\$ 15,091,730	\$ 16,510,562
Net realized capital gains	<u>44,349</u>	<u>25,951</u>	<u>17</u>
Net income	<u>\$ 7,133,817</u>	<u>\$ 15,117,681</u>	<u>\$ 16,510,579</u>

Premiums are shown net of reinsurance and commissions are shown on a gross basis.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1997</u>	<u>1998</u>	<u>1999</u>
Capital and surplus, December 31, prior year	\$ <u>42,909,770</u>	\$ <u>46,027,172</u>	\$ <u>52,429,178</u>
Net income	\$ 7,133,817	\$ 15,117,681	\$ 16,510,579
Change in nonadmitted assets and related items	309,819	41,013	343,345
Change in liability for reinsurance in unauthorized companies	(57,529)	431,865	(1,477,414)
Change in reserve valuation basis	(486,442)	3,283,216	0
Change in asset valuation reserve	2,217,737	(207,108)	145,122
Dividends to stockholders	(6,000,000)	(10,000,000)	(15,000,000)
Examination adjustment	0	1,862,620	0
Prior period reserve table adjustment	<u>0</u>	<u>(4,127,281)</u>	<u>0</u>
Net change in capital and surplus	\$ <u>3,117,402</u>	\$ <u>6,402,006</u>	\$ <u>521,632</u>
Capital and surplus, December 31, current year	\$ <u>46,027,172</u>	\$ <u>52,429,178</u>	\$ <u>52,950,810</u>

The Examination adjustment is the correction of a bond interest calculation that the Company was notified of during the prior examination. The correction was made in 1998.

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 on 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.

Section 243.2(b) of Department Regulation No. 152 states, in part:

“Except as otherwise required by law or regulation, an insurer shall maintain:
(1) A policy record for each insurance . . . policy for six calendar years after the date the policy is no longer in force or until after the filing of the report on examination in which the record was subject to review, whichever is longer.”

A sample of 26 underwriting files was requested from the Company and ten were not provided. The ten files were statutory disability policies. The Company stated that 70 of the 181 statutory disability underwriting files requested during the examination period could not be located.

Another sample of application files was requested for the review of reserves. Files requested from the closed block of individual life insurance business that is 100% coinsured could not be located by the Company either.

The Company violated Section 243.2(b)(1) of Department Regulation No. 152 for failing to maintain the underwriting files for 70 of the 181 statutory disability policies issued during the

examination period and all of the application files for policies in the closed block of individual life insurance business. (See item 6B of this report)

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations 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 Section 1505(d)(3) of the New York Insurance Law by having services performed by an affiliate without a service agreement in place.</p> <p>The Company filed a service agreement in November 1998 which was approved by the Department in March 1999.</p>
B	<p>The Company violated Section 1313(f) of the New York Insurance Law and Section 215.16 of Department Regulation No. 34 by using travel accident proposals that stated the division assets without mentioning the Company's individual assets.</p> <p>The examination did not reveal any instances where proposals stated the division assets without mentioning the Company's individual assets.</p>
C	<p>The Company violated Section 215.13(a) of Department Regulation No. 34 by not listing form numbers in brochures.</p> <p>The examination did not reveal any instances where brochures did not contain form numbers.</p>
D	<p>The Company violated Section 215.5(c) of Department Regulation No. 34 by not having language required by the Regulation.</p> <p>The Company has modified its advertising review procedures and manual to ensure that proposals contain the language required by Section 215.5(c) of Department Regulation No. 34.</p>
E	<p>The Company violated Section 215.9(c) of Department Regulation No. 34 by not showing the source of statistics used in one brochure.</p> <p>The examination did not reveal any instances where brochures contained statistics without showing its source</p>

<u>Item</u>	<u>Description</u>
F	<p>The Company violated Section 219.4(p) of Department Regulation No. 34-A by not showing the city in which the company's home office is located.</p> <p>The Company has modified its advertising review procedures and manual to ensure that all proposals show the city in which the Company's home office is located. The examination did not reveal any instances where proposals did not show the city in which the Company's home office is located.</p>
G	<p>The Company violated Section 3214(c) of the New York Insurance Law by not paying interest on 13 accidental death and dismemberment riders.</p> <p>The Company has developed an automated interest rate calculator, which is now utilized in calculating interest on accidental death and dismemberment riders. The examination revealed a few cases where the Company had not paid interest. The Company agreed to pay the interest owed.</p>

8. SUMMARY AND CONCLUSIONS

Following is the violation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 243.2(b)(1) of Department Regulation No. 152 for failing to maintain the underwriting files for 70 of the 181 statutory disability policies issued during the examination period and all of the application files for policies in the closed block of individual life insurance business. (See item 6B of this report).	15

APPOINTMENT NO. 21541

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:

MANISH GAJIWALA

as a proper person to examine into the affairs of the

CIGNA LIFE INSURANCE COMPANY OF NEW YORK

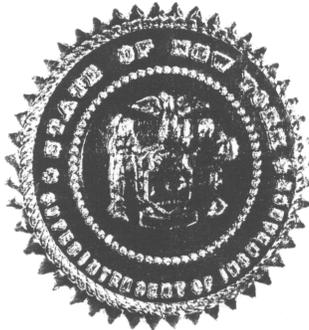
and to make a report to me in writing of the condition of the said

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 1st day of June, 2000



NEIL D. LEVIN

Superintendent of Insurance


Superintendent