

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
FIRST CENTRAL NATIONAL LIFE INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

AUGUST 7, 2001

EXAMINER:

NANCY YANAN LU

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

August 7, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21670, dated January 10, 2001 and annexed hereto, an examination has been made into the condition and affairs of First Central National Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 225 West 34th Street, New York, New York 10122.

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

On June 30, 1998, Beneficial Corporation (“Beneficial”), the former ultimate parent of the Company, was acquired by Household International, Inc. (“HI”). In December 1999, HI sold Central National Life Insurance Company of Omaha (“Central National”), the former immediate parent of the Company, and transferred the ownership of the Company to Household Life Insurance Company (“HLIC”), a Michigan life insurance company.

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, 2000 filed annual statement. (See item 5 of this report)

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state. (See item 7B of this report)

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from its ultimate parent without giving prior notification to the Superintendent. (See item 3B of this report)

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its correspondence with New York policyholders and beneficiaries. (See item 6A of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved policy form. (See item 6B of this report)

The Company violated Section 3201(b)(4)(A) of the New York Insurance Law and Section 185.7(o) of Department Regulation No. 27-A by charging a premium rate in excess of the approved rate. (See item 6B of this report)

The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its application and claim forms. (See item 6B of this report)

The Company violated Section 1314(a)(1) of the New York Insurance Law by failing to maintain securities held for the account of the Superintendent in New York State. (See item 7A of this report)

The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy records as required by the Regulation. (See item 7D of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 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, 2000 to determine whether the Company's 2000 filed 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 and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 8 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 State on September 30, 1971 under the name of American Republic Insurance Company of New York. It was licensed and commenced business on November 9, 1971. Initial resources of \$3,000,000, consisting of common capital stock of \$1,000,000 and paid in and contributed surplus of \$2,000,000, were provided through the sale of 10,000 shares of common stock (with a par value of \$100 each) for \$300 per share.

On November 9, 1981, Penn Mutual Life Insurance Company of Philadelphia acquired the Company. On November 18, 1986, Western National Life Holding Company Inc., whose ultimate parent was Beneficial, acquired the Company. On December 11 1986, the Company changed its name to American Western National Life Insurance Company.

On March 19, 1990, Western National Life Holding Company Inc. was dissolved and the ownership of the Company was transferred to Central National. On January 6, 1992, the Company's name was changed to First Central National Life Insurance Company of New York.

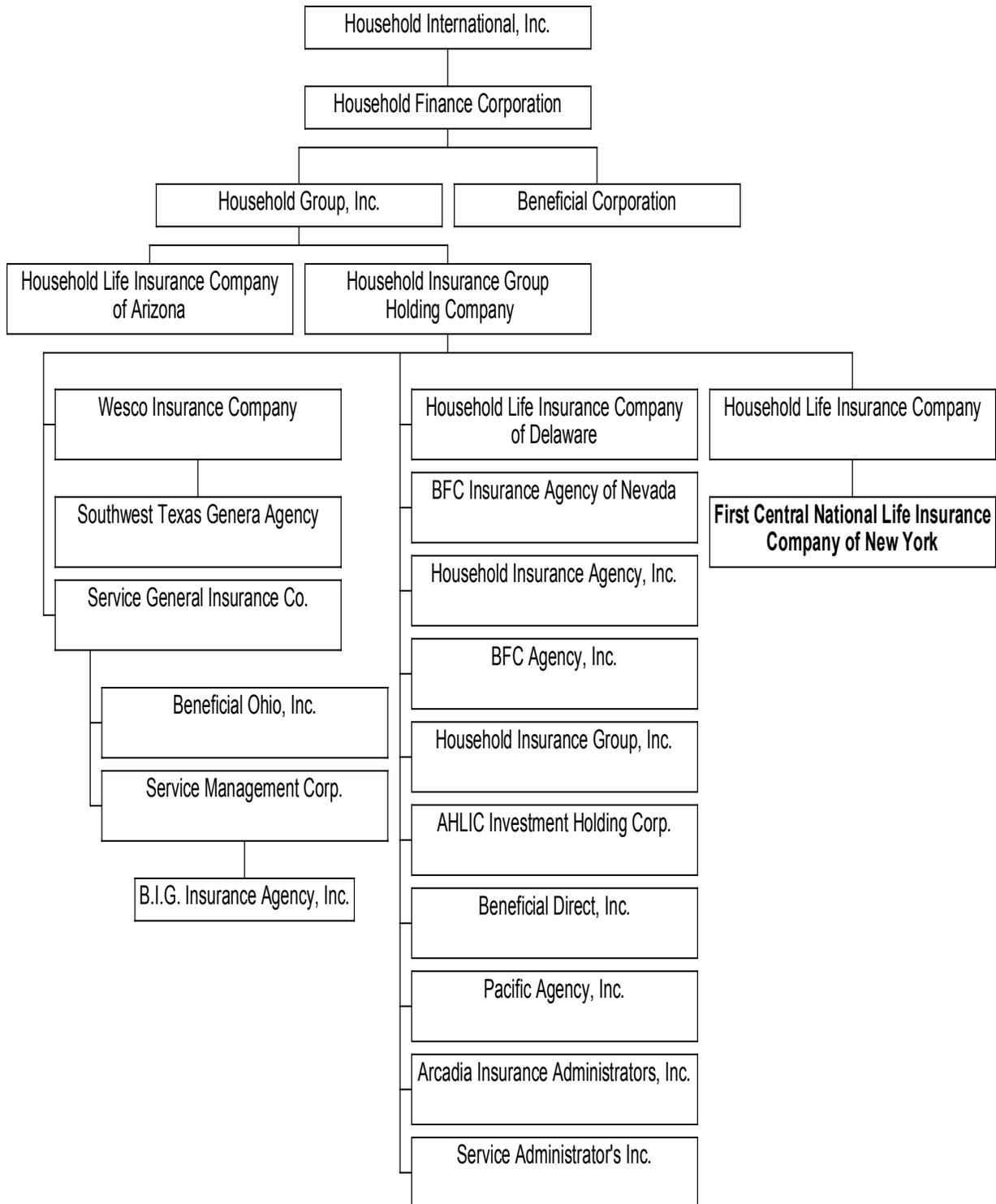
On June 30, 1998, HI acquired Beneficial. In December 1999, HI sold Central National and transferred the ownership of the Company to HLIC.

B. Holding Company

The Company is a wholly owned subsidiary of HLIC. HLIC is in turn a wholly owned subsidiary of Household Insurance Group Holding Company ("HIG"), an insurance group holding company domiciled in the state of Delaware. The ultimate parent of the Company is HI, a diversified financial services holding company domiciled in the state of Delaware. On June 30, 1998, Beneficial completed a merger with Household Acquisition Corporation, a wholly owned subsidiary of HI, and became the surviving corporation and a wholly owned subsidiary of HI.

On May 13, 1999, HI created HIG and subsequently merged Beneficial Insurance Group Holding Company ("BIG") into HIG on July 29, 1999. On December 31, 1999, HI sold Central National and transferred 100 percent of the Company's ownership to HLIC.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 is as follows:



In October 2000, a new affiliate, Household Life Insurance Company of Delaware, (“HLICD”) was formed as a subsidiary of HIG. On January 1, 2001, HI transferred all voting securities of its United States domiciled life insurance companies, including HLIC, to HLICD.

The Company had a service agreement with BIG under which BIG provided underwriting, claims administration, marketing and advertising, accounting, auditing and tax preparation, and investment services and functional support such as actuarial, legal and telecommunication services to the Company. In May 1999, HIG replaced BIG as the service provider and is providing the same services to the Company. On April 17, 2001, the Company submitted an amended service agreement to the Department to change the name of the service provider to HIG.

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

“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 . . .
(3) rendering of services on a regular or systematic basis . . .”

Since October 1998, HI has performed investment and cash management services for the Company. The investment and cash management agreement was submitted to the Department on April 17, 2001.

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from its ultimate parent without giving prior notification to the Superintendent.

Section 308(a) of the New York Insurance Law states, in part:

“The superintendent may also address to any . . . authorized insurer or its officers any inquiry in relation to its transactions or condition or any matter connected therewith. Every corporation or person so addressed shall reply in writing to such inquiry promptly . . .”

Department Circular Letter No. 33 (1979) advises, in part:

“. . . Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so. . . .”

In 2000, the Company's federal income tax return was consolidated with HI, the ultimate parent, and certain other members of the holding company. The Company did not file the tax allocation agreement with the Department.

The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). Due to the transfer of the Company's stock to HLICD, the Company is required to file its own tax return on a going forward basis.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 17 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in February of each year.

The 13 board members and their principal business affiliation, as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Kirk A. Anderson Green Brook, NJ	Senior Vice President, Operations First Central National Life Insurance Company of New York	1998
Philip J. Bergan* New York, NY	Attorney D'Amato & Lynch	1998
Charles W. Bisset* New York, NY	Retired	1998
Kirk P. Bryans High Bridge, NJ	Director, Sales and Telemarketing First Central National Life Insurance Company of New York	2000
Catherine M. Cholish Basking Ridge, NJ	Director, Claims First Central National Life Insurance Company of New York	1996
Patrick A. Cozza Oldwick, NJ	Director First Central National Life Insurance Company of New York	1998

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Roger L. Johnson* Barrington, IL	Retired	2000
William D. Latza* New York, NY	Attorney Stroock Stroock & Lavan	1989
Gerard Lunemann Belle Mead, NJ	Vice President and Chief Actuary First Central National Life Insurance Company of New York	1987
Daniel R. O'Brien Little Silver, NJ	President and Chief Executive Officer First Central National Life Insurance Company of New York	1987
Claudia H. Ormrod Hopatcong, NJ	Director, Government Relationship and Regulation First Central National Life Insurance Company of New York	1996
Susan F. Pollack* New York, NY	Attorney Curtis, Mallet-Prevost, Colt & Mosle	1998
Timothy J. Titus Ringoes, NJ	Vice President, Chief Financial Officer, and Treasurer First Central National Life Insurance Company of New York	1998

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

In December 2000, Kirk A. Anderson resigned from the board of directors and was replaced by Jo Ann Davis, Vice President and General Counsel of the Company, effective February 16, 2001.

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.

Section 1202(b)(2) of the New York Insurance Law states, in part:

“The board of directors of a domestic life insurance company shall establish one or more committees comprised solely of directors who are not officers or employees of the company or of any entity controlling, controlled by, or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of the company or any such entity. Such committee or committees shall have responsibility for . . . nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed by such committee or committees to be principal officers of the company and recommending to the board of directors the selection and compensation of such principal officers . . .”

The review of the minutes of the Audit Committee, the Company’s independent director committee, revealed that the committee did not nominate directors for election, evaluate principal officers, nor recommend to the board of directors the selection and compensation of the principal officers.

The Company violated Section 1202(b)(2) of the New York Insurance Law for failing to have the Audit Committee perform all of its responsibilities as stated in the Law. This is a repeat violation from the prior report on examination.

The following is a listing of the principal officers of the Company as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Daniel R. O’Brien	Chairman, President and Chief Executive Officer
Jo Ann Davis *	Vice President, General Counsel and Secretary
Gerard Lunemann	Vice President and Chief Actuary
Timothy J. Titus	Vice President, Treasurer and Chief Financial Officer
William H. Kesler	Vice President and Senior Investment Officer
Robert E. Daniel	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 two states, namely New York and Delaware. In 2000, 98% of life premiums and 100% of accident and health premiums were received from New York.

The Company's ultimate parent, HI, is a provider of consumer finance, credit card, auto finance and credit insurance products and services. HI offers consumer loans through the branch offices of Household Finance Company ("HFC") and Beneficial Finance Company ("BFC"), which are affiliates in the Household holding company system. The Company issues credit life and credit accident and health group and individual policies, in conjunction with loans made by BFC only, through BFC's loan offices.

E. Reinsurance

As of December 31, 2000, the Company had one reinsurance treaty in effect with Employers Reassurance Corporation, an accredited reinsurer. Under the agreement, the Company ceded 100% of its ordinary life business, a closed block of business, on a 100% coinsurance basis. In connection with this reinsurance transaction, the Company has also entered into an agreement with Americo Services, Inc., which serves as a third party administrator on behalf of the Company for its ordinary life business.

The total face amount of life insurance ceded, as of December 31, 2000, was \$17,892,000, which represents 100% of the ordinary life insurance and 4% of the total face amount of life insurance in force.

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>1997</u>	<u>December 31,</u> <u>2000</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$44,385,280</u>	<u>\$50,891,973</u>	<u>\$6,506,693</u>
Liabilities	<u>\$19,474,416</u>	<u>\$21,445,045</u>	<u>\$1,970,629</u>
Common capital stock	\$ 1,000,000	\$ 1,000,000	\$ 0
Gross paid in and contributed surplus	9,200,000	9,200,000	0
Unassigned funds (surplus)	<u>14,710,864</u>	<u>19,246,928</u>	<u>4,536,064</u>
Total capital and surplus	<u>\$24,910,864</u>	<u>\$29,446,928</u>	<u>\$4,536,064</u>
Total liabilities, capital and surplus	<u>\$44,385,280</u>	<u>\$50,891,973</u>	<u>\$6,506,693</u>

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (84.8%) and cash and short-term investments (10%). The majority (99%) of the Company's bond portfolio, as of December 31, 2000, 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:

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Ordinary:			
Life insurance	\$ 15,732	\$ 0	\$ 0
Individual annuities	23,092	27,654	28,269
Supplementary contracts	<u>5,817</u>	<u>1,477</u>	<u>800</u>
Total ordinary	\$ <u>44,641</u>	\$ <u>29,131</u>	\$ <u>29,069</u>
Credit life	\$ <u>227,266</u>	\$ <u>1,709,457</u>	\$ <u>965,364</u>
Credit accident and health	\$ <u>1,553,186</u>	\$ <u>2,191,809</u>	\$ <u>2,825,532</u>
Total	\$ <u>1,825,093</u>	\$ <u>3,930,397</u>	\$ <u>3,819,965</u>

In 1997, the Company exited the ordinary life and annuity market and reinsured all of its ordinary life business with Employers Reassurance Corporation.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 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, 2000 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	\$43,148,327
Preferred stocks	1,016,760
Cash and short term investments	5,081,785
Life insurance premiums and annuity considerations deferred and uncollected on in force business	26,465
Accident and health premiums due and unpaid	12,357
Investment income due and accrued	690,042
Receivable from parent, subsidiaries and affiliates	650,667
Items and remittances not allocated	8,695
Deposit with investment custodian	<u>256,875</u>
 Total admitted assets	 <u>\$50,891,973</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$ 5,139,460
Aggregate reserve for accident and health policies	13,732,195
Supplementary contracts without life contingencies	1,071
Policy and contract claims:	
Life	383,080
Accident and health	948,157
Interest maintenance reserve	371,270
General expenses due or accrued	50,000
Taxes, licenses and fees due or accrued	45,825
Federal income taxes due or accrued	333,530
Remittances and items not allocated	43,282
Miscellaneous liabilities:	
Asset valuation reserve	212,620
Payable to parent, subsidiaries and affiliates	132,090
Drafts outstanding	40,135
Unclaimed policyholder funds – escheat	<u>12,330</u>
 Total liabilities	 <u>\$21,445,045</u>
 Common capital stock	 \$ 1,000,000
Gross paid in and contributed surplus	9,200,000
Unassigned funds (surplus)	<u>19,246,928</u>
 Total capital, surplus and other funds	 <u>\$29,446,928</u>
 Total liabilities, capital, surplus and other funds	 <u>\$50,891,973</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$10,166,349	\$11,108,914	\$ 9,688,567
Investment income	2,916,975	2,940,894	3,242,677
Commissions and reserve adjustments on reinsurance ceded	24,104	0	0
Miscellaneous income	<u>(6,593)</u>	<u>(1,764)</u>	<u>(2,237)</u>
Total income	<u>\$13,100,835</u>	<u>\$14,048,044</u>	<u>\$12,929,007</u>
Benefit payments	\$ 6,741,301	\$ 6,427,746	\$ 6,040,322
Increase in reserves	1,854,660	830,190	340,569
Commissions	(20,732)	(3,246)	0
General expenses and taxes	<u>1,492,042</u>	<u>955,695</u>	<u>644,628</u>
Total deductions	<u>\$10,067,271</u>	<u>\$ 8,210,385</u>	<u>\$ 7,025,519</u>
Net gain	\$ 3,033,564	\$ 5,837,659	\$ 5,903,488
Federal income taxes	<u>1,208,472</u>	<u>1,907,263</u>	<u>2,083,521</u>
Net income	<u>\$ 1,825,092</u>	<u>\$ 3,930,396</u>	<u>\$ 3,819,967</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	<u>\$24,910,864</u>	<u>\$24,447,327</u>	<u>\$28,246,076</u>
Net income	\$ 1,825,092	\$ 3,930,396	\$ 3,819,967
Change in non-admitted assets and related items	6,521	(105,370)	105,370
Change in asset valuation reserve	104,850	(26,277)	(24,485)
Dividends to stockholders	<u>(2,400,000)</u>	<u>0</u>	<u>(2,700,000)</u>
Net change in capital and surplus	<u>\$ (463,537)</u>	<u>\$ 3,798,749</u>	<u>\$ 1,200,853</u>
Capital and surplus, December 31, current year	<u>\$24,447,327</u>	<u>\$28,246,076</u>	<u>\$29,446,928</u>

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 the Company's advertising file and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Section 2122(a)(2) of the New York Insurance Law states:

"No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to any unauthorized insurer or insurers."

The review of a sample of 35 ordinary life claim files revealed that Central National Life Insurance Company of Omaha, an unauthorized insurer, was incorrectly identified as the insurer of the policy in letters sent to beneficiaries of six ordinary death claims settled with the establishment of a checking account. In addition, Central National Life Insurance Company of Omaha was also referenced on the return envelope and/or inside address of the letters sent to beneficiaries in 24 of the claim files reviewed.

The review of 50 credit claim files revealed 20 instances where the Company used the disability claim form of Household Life Insurance Company, an affiliated unauthorized insurer. In addition, all 50 claim files reviewed contained claim forms that listed several affiliated unauthorized insurers.

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its correspondence with New York policyholders and beneficiaries. A similar comment appeared in the prior report on examination.

B. Underwriting and Policy Forms

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

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law”

Section 185.5(b) of the Department Regulation No. 27-A states, in part:

“If a separate charge is made to the debtor or debtors, then the signature of each debtor to be insured must be obtained requesting the coverage. . . .”

Department Circular Letter No. 2 (1975) advises, in part:

“ . . . It is the position of the Department that any form signed by an applicant which pertains to life insurance, accident and health insurance, or annuities . . . constitutes an application for insurance and, accordingly, requires filing and approval pursuant to Section 154 (now Section 3201) of the New York Insurance Law. . . .”

The review of 35 credit insurance application files revealed that the Company used a credit insurance disclosure form to obtain the signature of the debtor requesting credit insurance for credit insurance policies issued on loans less than \$35,000. The credit insurance disclosure form was not filed with and approved by the Department. As there was a separate charge for the credit insurance, the Company is required to obtain the debtor’s signature pursuant to Section 185.5(b) of Department Regulation No. 27-A. And since the Company used this credit insurance disclosure form to obtain the signature of the debtor requesting credit insurance, it constitutes an application form that is required to be filed with and approved by the Department.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved policy form.

Section 403(d) of the New York Insurance Law states, in part:

“All applications for . . . individual, group or blanket accident and health insurance and all claim forms . . . shall contain a notice in a form approved by the superintendent that clearly states in substance the following:

‘Any person who knowingly and with intent to defraud any insurance company or other person files an application for insurance or statement of claim containing any materially false information, or conceals for the purpose of misleading, information concerning any fact material thereto, commits a fraudulent insurance act, which is a crime, and shall also be subject to a civil penalty not to exceed five thousand dollars and the stated value of the claim for each such violation.’ ”

As previously indicated, the Company used a credit disclosure form as an application to obtain the signatures of prospective certificate holders for credit insurance policies issued on loans less than \$35,000. None of the 35 credit insurance applications reviewed, contained the required fraud warning statement.

In addition, the review of a sample of credit insurance claim files revealed that 20 of the 50 files reviewed contained claim forms that did not have the required fraud warning statement.

The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its application and claim forms.

Section 3201(b)(4)(A) of the New York Insurance Law states, in part:

“No credit insurance . . . policy form shall be issued unless it and its premium rates have been filed with and approved by the superintendent. . . .”

Section 185.7(o) of Department Regulation No. 27-A states:

“No insurer shall charge a premium rate for new indebtedness after the effective date of this Part in excess of the rate approved pursuant to this section.”

On March 30, 2000, the Department approved an experience-based rate of \$.542 per thousand per month for single premium small loan credit life insurance policies. The review of a sample of application files revealed that the Company charged the old rate of \$.56 per thousand per month for all 12 of the small loan credit life insurance certificates that were issued after June 1, 2000, which was the implementation date for the new rate set by the Company.

The Company violated Section 3201(b)(4)(A) of the New York Insurance Law and Section 185.7(o) of Department Regulation No. 27-A by charging a premium rate in excess of the approved rate.

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.

Section 3214(c) of the New York Insurance Law states, in part:

“If no action has been commenced, interest upon the principal sum paid to the beneficiary or policyholder shall be computed daily at the rate of interest currently paid by the insurer on proceeds left under the interest settlement option, from the date of the death of an insured . . . in connection with a death claim on such a policy of life insurance . . . to the date of payment and shall be added to and be a part of the total sum paid.”

The Company pays 6% interest on Supplementary Contracts. The review of 35 ordinary death claim files revealed that, in 13 cases, the Company paid interest at 3.5% instead of 6%.

The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on ordinary death claims in accordance with the Law.

Department Circular Letter No. 11 (1978) advises, in part:

“ . . . As part of its complaint handling function, the company’s consumer services department will maintain an ongoing central log to register and monitor all complaint activity. The log should be kept in a columnar form and list the following . . .

The name of the complainant and the policy or claim file number.

The New York State Insurance Department file number . . .

The results of the complaint investigation and the action taken . . . ”

The Company did not include the policy number, claim number, Department file number, result of the complaint investigation, or action taken in its complaint log.

The examiner recommends that the Company include all the information required by Department Circular Letter No. 11 (1978) in its complaint log.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that the scope of its review dates back to 1971 when the Company was licensed and commenced business. Documents reviewed included applications as well as corporate underwriting guidelines and reinsurance manuals. The Company concluded that it had not engaged in, or practiced, race-based underwriting.

An analysis of the Company’s response to the Supplement and other factors indicated that the Company’s review of its past and present underwriting practices complied with the requirements of the Supplement.

7. ACCOUNTS AND RECORDS

A. Special Deposit

Section 1314(a)(1) of the New York Insurance Law states, in part:

“The superintendent shall be the official custodian of all deposits of securities required or authorized by the provisions of this chapter . . . He shall keep the same in a safe place provided by the state or in custody for his account with a bank, trust company or national bank in this state . . .”

The Company reported a special deposit in the amount of \$250,000 in Schedule E, Part 2 of its 2000 filed annual statement. The custodian affidavit, provided by First Union National Bank, indicates that this security is held in the First Union National Bank with the Federal Reserve Bank of Richmond, Virginia.

The Company violated Section 1314(a)(1) of the New York Insurance Law by failing to maintain securities held for the account of the Superintendent in New York State.

B. Books of Account

Section 325(a) 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 maintain its general ledger and the supporting workpapers for the annual and quarterly statements at its principal office in this state.

The Company violated Section 325(a) of the New York Insurance Law for failing to maintain its books of account at its principal office in this state.

C. Allocation of Expenses

The Company has one service agreement with HIG under which HIG provided underwriting, claims administration, marketing and advertising, accounting, auditing and tax preparation, and functional support such as actuarial, legal and telecommunication services to the Company.

Section 91.4(a) of Department Regulation No. 33 states, in part:

“(2) Each life insurer shall maintain records with sufficient detail to show fully:

(i) the system actually used for allocation of income and expenses;

(ii) the actual bases of allocation . . .

(3) Such records shall be classified and indexed in such form as to permit ready identification between the item allocated and the basis upon which it was allocated, and shall be maintained in such a manner as to be readily accessible for examination . . .

(5) Allocations of income and expenses between companies shall be treated in the same manner as if made for major annual statement lines of business. . . .”

Section 91.4(f)(5) of Department Regulation No. 33 states, in part:

“General indexes such as premium volume, number of policies, and insurance in force shall not be used as basis for distributing costs among major annual statement lines of business . . .”

Section 3 of the service agreement between the Company (“FCNL”) and HIG states, in part:

“3. Charges FCNL agrees to reimburse HIG and/or SUBS for services and facilities provided by HIG and/or SUBS to FCNL pursuant to this Agreement. Subject to New York Insurance Department Regulation 33 (11 NYCRR, Part 91), the bases for determining such charges to FCNL shall be those used by HIG for internal cost distribution including, where appropriate, time records prepared at least annually for this purpose.”

The Company stated that the basis for the allocation of expenses, among companies and major annual statement lines of business, was time studies. The Company also provided workpapers indicating the allocation percentages for various companies and lines of business. However, the Company could not provide the time studies requested by the examiner to support the allocation percentages used for the 2000 allocation of expenses for the Actuarial, Sales, and Claims departments. Contrary to what the Company initially indicated, the workpapers provided

by the Company indicated that the allocation of expenses was based on projected premium for the Actuarial and Sales Departments and actual claims paid for the Claims Department.

The Company violated Section 91.4(f)(5) of Department Regulation No. 33 for using general indexes as a basis for allocating expenses.

D. Application Files

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 contract or 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 policy record shall include . . .

(ii) The application, including any application form or enrollment form for coverage under any insurance contract or policy . . .”

The examiner requested application files for a sample of credit life and disability insurance certificates from the in-force policy list, of which 35 certificates had original coverage under \$35,000 and 14 had original coverage over \$35,000. The Company could not provide the application files for four of the certificates under \$35,000 and any of the certificates over \$35,000.

The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy records as required by the Regulation.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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 1202(b)(2) of the New York Insurance Law when the independent directors committee did not perform the duties required by such committee.</p> <p>The independent director committee performed some of the required functions but did not nominate director candidates for election, evaluate principal officers, nor recommend the selection and compensation of the principal officers. The Company again violated Section 1202(b)(2) of the New York Insurance Law. (See item 3C of this report)</p>
B	<p>The Company violated Section 216.11 of Department Regulation No. 64 by not maintaining sufficient documentation within its ordinary life claim files to enable the examiner to reconstruct the Company's claim activities.</p> <p>A review of the ordinary life claim files indicated that documentation was sufficient for the examiner to reconstruct the Company's claim activities.</p>
C	<p>The examiner recommended that the Company place a finalized copy of the authorizing voucher in its ordinary life claim files and that such voucher contain the benefit check number, the date of check issuance and the date of mailing.</p> <p>A review of a sample of ordinary claim files indicated that the Company maintained a finalized copy of the authorizing voucher in its ordinary life claim files, which contained the information recommended by the examiner.</p>
D	<p>The examiner recommended that the Company remove any reference to its parent company from the Company's stationary and claim forms used in connection with its credit business.</p> <p>A review of credit claim files indicated that the Company's claim forms list several affiliated unauthorized insurers including its parent. A violation of Section 2122(a)(2) of the New York Insurance Law appears in this report. (See item 6A of this report)</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services from its ultimate parent without giving prior notification to the Superintendent.	6
B	The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979).	6 - 7
C	The Company violated Section 1202(b)(2) of the New York Insurance Law by failing to have the Audit Committee perform all of its responsibilities as stated in the Law.	9
D	The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to unauthorized insurers in its correspondence with New York policyholders and beneficiaries.	16
E	The Company violated Section 3201(b)(1) of the New York Insurance Law by using an unapproved policy form.	17
F	The Company violated Section 403(d) of the New York Insurance Law by failing to include the required fraud warning statement in its application and claim forms.	18
G	The Company violated Section 3201(b)(4)(A) of the New York Insurance Law and Section 185.7(o) of Department Regulation No. 27-A by charging policyholders a premium rate in excess of the approved rate.	18 - 19
H	The Company violated Section 3214(c) of the New York Insurance Law by failing to pay interest on ordinary death claims in accordance with the Law.	19
I	The examiner recommends that the Company include all the information required by Department Circular Letter No. 11 (1978) in its complaint log.	20

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
J	The Company violated Section 1314(a)(1) of the New York Insurance Law by failing to maintain securities held for the account of the Superintendent in New York State.	21
K	The Company violated Section 325(a) of the New York Insurance Law by failing to maintain its books of account at its principal office in this state.	21
L	The Company violated Section 91.4(f)(5) of Department Regulation No. 33 for using general indexes as a basis of allocating expenses.	22 - 23
M	The Company violated Section 243.2(b)(1)(ii) of Department Regulation No. 152 by failing to maintain policy records as required by the Regulation.	23

APPOINTMENT NO. 21670

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:

NANCY YANAN LU

as a proper person to examine into the affairs of the

FIRST CENTRAL NATIONAL LIFE INSURANCE COMPANY OF NEW YORK

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

COMPANY

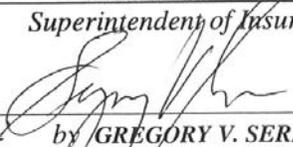
with such other information as she shall deem requisite.

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

this 10th day of January, 2001



NEIL D. LEVIN
Superintendent of Insurance


by GREGORY V. SERIO
First Deputy Superintendent