

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

UTICA NATIONAL LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT:

OCTOBER 5, 2001

EXAMINER:

CHACKO THOMAS

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

October 5, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21740, dated June 12, 2001 and annexed hereto, an examination has been made into the condition and affairs of Utica National Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 180 Genesee Street, New Hartford, New York 13413.

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 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 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts in excess of the amount allowed by Law. The Company had a similar violation in the prior report on examination. (See item 6B 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
- 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 July 7, 1961 and was licensed and commenced business on March 26, 1962 as General Reinsurance Life Corporation. Until January 1, 1978, the Company was wholly owned by the General Reinsurance Corporation.

On January 1, 1978, Utica Mutual Insurance Company purchased all of the outstanding stock of the Company from the General Reinsurance Corporation. The name of the Company was changed to Utica National Life Insurance Company on March 22, 1978.

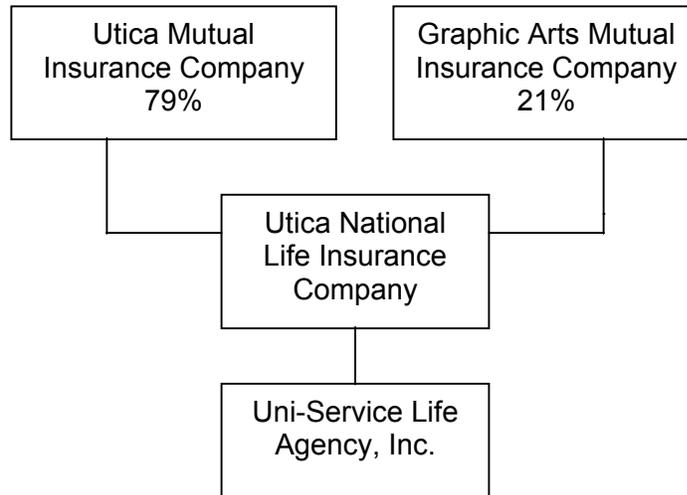
In 1997, Graphic Arts Mutual Insurance Company, a member of the Utica National Insurance Group, acquired a 21% interest in the Company by purchasing 2,658 shares of newly issued common stock (par value \$200) for \$1,072.99 per share, or \$2,852,000, thereby increasing the Company's capital by \$531,600 and contributed surplus by \$2,320,400. As of December 31, 2000, the Company had 12,658 shares of common stock outstanding and capital and paid in and contributed surplus of \$2,531,600 and \$10,329,480, respectively.

B. Holding Company

The Company is a wholly owned subsidiary of Utica Mutual Insurance Company ("Utica") (79%) and Graphic Arts Mutual Insurance Company (21%), both of which are licensed insurers in the State of New York.

The Company's subsidiary, Uni-Service Life Agency, Inc. ("Uni"), commenced operations in 1987 and is licensed as a life, accident and health insurance agency.

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



The Company had two service agreements in effect as of December 31, 2000 as follows:

1. The Company entered into an agreement with Utica effective February 25, 1988, whereby Utica provides services and facilities to the Company as follows: marketing; agency and production; advertising; public relations; data processing; methods and procedures; legal; premium collection; accounting; internal audit; personnel; investment; and general services, which includes the cafeteria, printing, purchasing and duplicating.

2. The Company entered into an agreement with Uni effective November 1, 1990, whereby the Company provides services and facilities to Uni as follows: advertising; public relations; data processing; methods and procedures; legal; premium collection; accounting; internal audit; personnel; investment; and general services, which includes the cafeteria, printing, purchasing and duplicating.

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 27 directors. Directors are elected for a period of three years at the annual meeting of the stockholders held in April of each year. As of December 31, 2000, the board of directors consisted of 13 members. Meetings of the board are held at least 3 times in each calendar 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>
C. William Bachman* Rochester, NY	President Empire Digital Communications	1999
Alfred E. Calligaris* Watertown, NY	Chairman Stebbins Engineering & Manufacturing Co., Inc.	1992
Roy A. Cardia* New York, NY	President M & M Bindery, Inc.	1995
Richard G. Clark* Canastota, NY	Retired	1991
David C. Cunningham New Hartford, NY	President Utica National Life Insurance Company	1997
Jerry J. Hartman* Baltimore, MD	President Reese Press	1995
W. Craig Heston New Hartford, NY	Chairman Utica Mutual Insurance Company	1987
Herbert P. Ladds, Jr.* Buffalo, NY	President The Ladds Group LTC	1984
F.X. Matt, II* New Hartford, NY	Chairman Matt Brewery, Inc.	1978
J. Douglas Robinson New Hartford, NY	Chief Executive Officer Utica National Life Insurance Company	1993

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Linda E. Romano* Utica, NY	Attorney	1997
Jacob E. Worner* Dayton, OH	Retired	1993
John R. Zapisek Hew Hartford, NY	Treasurer Utica National Life Insurance Company	1992

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

In January 2001, director F.X. Matt, II passed away and in February 2001, director Richard G. Clark retired from the board; they were replaced by Gregory M. Harden and Timothy R. Reed, respectively.

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, 2000:

<u>Name</u>	<u>Title</u>
J. Douglas Robinson	Chief Executive Officer
David C. Cunningham	President
John R. Zapisek	Treasurer
George P. Wardley	Secretary
Donald R. Kenderdine*	Vice President
Richard S. Relf	Vice President

* 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 26 states. In 2000, 84% of life premiums and 93% of annuity considerations were received from New York. Policies are written on a non-participating basis.

During the examination period, the Company sold primarily life insurance and annuity products. The life products include whole life, term life and universal life insurance. The annuity products include single premium deferred, single premium immediate, and flexible premium deferred annuities.

The Company and its property/casualty affiliates offer a variety of insurance products to employees of businesses through worksite marketing. The Company's worksite products are universal life insurance, fixed annuities and a disability income rider. The universal life product is guaranteed issue and is offered to employees of businesses that have 75 or more eligible employees and are not in a hazardous or high turnover operation. Worksite premiums are paid by salary deduction. Measured in terms of the number of new policies issued, worksite marketing represents the fastest growing area within the Company.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with nine companies, of which eight were authorized or accredited. Reinsurance of the life insurance business is ceded on a coinsurance, modified-coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is \$100,000. The total face amount of life insurance ceded as of December 31, 2000, was \$1,156,132,768, which represents approximately 44.8% of the total face amount of life insurance in force.

During the examination period the Company entered into several new treaties with various reinsurers. The Company's annuity business was ceded on a modified-coinsurance basis. The Company's life business was ceded on a quota share basis. Under these treaties the

Company received commissions and expense allowances that helped to offset some of the surplus strain associated with new business issued during the examination period.

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, <u>1997</u>	December 31, <u>2000</u>	<u>Increase</u>
Admitted assets	<u>\$157,545,886</u>	<u>\$218,128,322</u>	<u>\$60,582,436</u>
Liabilities	<u>\$140,792,194</u>	<u>\$200,064,872</u>	<u>\$59,272,678</u>
Common capital stock	\$ 2,531,600	\$ 2,531,600	\$ 0
Gross paid in and contributed surplus	10,329,480	10,329,480	0
Unassigned funds (surplus)	<u>3,892,612</u>	<u>5,202,368</u>	<u>1,309,756</u>
Total capital and surplus	<u>\$ 16,753,692</u>	<u>\$ 18,063,448</u>	<u>\$ 1,309,756</u>
Total liabilities, capital and surplus	<u>\$157,545,886</u>	<u>\$218,128,320</u>	<u>\$60,582,434</u>

The Company's invested assets as of December 31, 2000, were mainly comprised of bonds (96.6%). The Company's entire 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	\$135,335	\$ 41,646	\$1,069,826
Individual annuities	32,085	651,414	1,689
Supplementary contracts	<u>42,124</u>	<u>28,073</u>	<u>40,473</u>
Total ordinary	<u>\$209,544</u>	<u>\$721,133</u>	<u>\$1,111,988</u>
Group annuities	<u>\$ 26,194</u>	<u>\$ 21,878</u>	<u>\$ 16,071</u>
Total	<u>\$235,738</u>	<u>\$743,011</u>	<u>\$1,128,059</u>

The changes in the net gain from operations for individual life business are due to several factors. In 1999 the Company experienced an increase in deficiency reserves and a higher federal income tax rate. The increase in the gain for 2000 is due to the commission and expense allowances received in the amount of \$1,349,606 for reinsurance ceded.

The increase in the net gain on the individual annuity business in 1999 is due to the commission and expense allowances received in the amount of \$528,659 for reinsurance ceded. The decrease in the gain on individual annuities in 2000 is attributable to renewed growth in annuity sales and the corresponding increase in first year commissions and expenses.

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	\$204,593,924
Common stocks	140,334
Policy loans	4,769,522
Cash and short term investments	2,342,696
Reinsurance ceded:	
Amounts recoverable from reinsurers	1,386,730
Electronic data processing equipment	95,045
Federal income tax recoverable	21,128
Life insurance premiums and annuity considerations deferred and uncollected on in force business	1,241,849
Investment income due and accrued	3,294,663
Miscellaneous accounts receivable	<u>242,431</u>
 Total admitted assets	 <u>\$218,128,322</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$193,076,416
Supplementary contracts without life contingencies	1,241,842
Policy and contract claims	
Life	988,110
Premiums and annuity considerations received in advance	7,747
Interest maintenance reserve	1,482,631
General expenses due or accrued	518,638
Taxes, licenses and fees due or accrued	52,515
Cost of collection on premiums and annuity considerations	
deferred and uncollected in excess of total loading thereon	184,372
Unearned investment income	4,070
Amounts withheld or retained by company as agent or trustee	4,197
Amounts held for agents' account	162,777
Remittances and items not allocated	861,209
Asset valuation reserve	1,008,618
Payable to parent, subsidiaries and affiliates	<u>471,730</u>
 Total liabilities	 <u>\$200,064,872</u>
 Common capital stock	 \$ 2,531,600
Gross paid in and contributed surplus	10,329,480
Unassigned funds (surplus)	<u>5,202,368</u>
 Total capital, surplus and other funds	 \$ <u>18,063,448</u>
 Total liabilities, capital, surplus and other funds	 <u>\$218,128,320</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Premiums and considerations	\$26,818,107	\$20,861,816	\$25,100,705
Investment income	11,982,912	13,310,009	14,496,927
Commissions and reserve adjustments on reinsurance ceded	615,863	11,091,558	13,583,980
Miscellaneous income	<u>16,410</u>	<u>8,036</u>	<u>0</u>
Total income	<u>\$39,433,292</u>	<u>\$45,271,419</u>	<u>\$53,181,612</u>
Benefit payments	\$17,462,487	\$16,136,600	\$20,294,533
Increase in reserves	14,499,022	20,177,180	23,286,430
Commissions	2,180,181	2,532,928	2,960,267
General expenses and taxes	4,899,661	5,262,391	5,207,762
Increase in loading and cost of collection	51,384	17,391	47,113
Miscellaneous deductions	<u>35,996</u>	<u>33,231</u>	<u>48,611</u>
Total deductions	<u>\$39,128,731</u>	<u>\$44,159,721</u>	<u>\$51,844,716</u>
Net gain	\$ 304,561	\$ 1,111,698	\$ 1,336,896
Federal income taxes	<u>68,823</u>	<u>368,686</u>	<u>208,838</u>
Net income	<u>\$ 235,738</u>	<u>\$ 743,012</u>	<u>\$ 1,128,059</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>1998</u>	<u>1999</u>	<u>2000</u>
Capital and surplus, December 31, prior year	<u>\$16,753,693</u>	<u>\$17,012,652</u>	<u>\$17,500,639</u>
Net income	\$ 235,738	\$ 743,012	\$ 1,128,059
Change in net unrealized capital gains (losses)	(11,032)	35,332	(76,118)
Change in non-admitted assets and related items	22,453	(150,452)	(78,767)
Change in reserve valuation basis	11,800	(121,161)	(259,465)
Change in asset valuation reserve	<u>0</u>	<u>(18,744)</u>	<u>(150,903)</u>
Net change in capital and surplus	<u>\$ 258,959</u>	<u>\$ 487,987</u>	<u>\$ 562,806</u>
Capital and surplus, December 31, current year	<u>\$17,012,652</u>	<u>\$17,500,639</u>	<u>\$18,063,445</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 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.

Section 3207(c) of the New York Insurance Law states, in part:

“An insurer may deliver or issue for delivery in this state a policy or policies of life insurance upon the life of a minor under the age of fourteen years and six months . . . provided that . . . an insurer shall not knowingly issue such a policy or policies for an amount which, together with the amount of life insurance under any other policy or policies then in force upon the life of such minor, is in excess of the limit of ten thousand dollars or the limit of fifty per centum (five thousand dollars or the limit of twenty-five per centum in the case of a minor under the age of four years and six months) of the amount of life insurance in force upon the life of the person effectuating the insurance at the date of issue of the policy on the life of such minor, whichever limit is the greater . . . ”

The examiner reviewed a sample of 19 policies issued on minors between the ages of zero and 14. The sample included ten guaranteed issue policies sold through worksite marketing. Out of those ten policies, four were issued for amounts of insurance in excess of the amounts permitted by Law.

The Company violated Section 3207 of the New York Insurance Law for issuing policies on juveniles in excess of the amounts permitted by Law. The Company had a similar violation in the prior report on examination. (See item 7C 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.

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 a review of past and present underwriting practices was made. This review included an examination of internal underwriting manuals and guidelines, policies and application forms and discussions with the claims and underwriting officers. Based on its review, 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. 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 91.4(c)(1) of Department Regulation No. 33 by not allocating the interest on policy loans directly to the line of business producing such income.</p> <p>A review indicated that the Company has been allocating interest on policy loans directly to the line of business producing the income beginning with year-end 1998.</p>
B	<p>The Company violated Section 2611 of the New York Insurance Law by not obtaining signed and/or dated written consent forms prior to performing HIV related tests.</p> <p>A review of a sample of underwriting files revealed that the Company currently complies with Section 2611 of the New York Insurance Law.</p>
C	<p>The Company violated Section 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the limits specified in such section.</p> <p>The Company took corrective action with regard to the violation, however the Company did not adhere to procedures instituted to prevent further violations of the Section of Law. The Company has again violated Section 3207(c) of the New York Insurance Law by issuing policies on juveniles in excess of the amounts permitted by Law.</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 3207(c) of the New York Insurance Law by issuing policies to juveniles for amounts of life insurance in excess of the amounts permitted by Law.	15 – 16

APPOINTMENT NO. 21740

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

CHACKO THOMAS

as a proper person to examine into the affairs of the

UTICA NATIONAL LIFE INSURANCE COMPANY

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

COMPANY

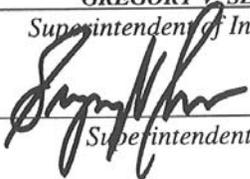
with such other information as he shall deem requisite.

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

this 12th day of June, 2001



GREGORY V. SERIO
Superintendent of Insurance


Superintendent