



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON MARKET CONDUCT EXAMINATION
OF THE
COMBINED LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2007

DATE OF REPORT:

MARCH 6, 2009

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OF THE
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AS OF
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EXAMINER:

VINCENT TARGIA

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

November 5, 2009

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30314, dated, April 2, 2008 and annexed hereto, an examination has been made into the market conduct activities of Combined Life Insurance Company of New York, hereinafter referred to as "the Company", at its home office located at 11 British American Boulevard, Latham, New York, 12110.

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 material findings and violations contained in this report are summarized below:

- The Company violated Section 4221(c)(1) of the New York Insurance Law by using a non-forfeiture interest rate of 5.75%, which produced less favorable cash surrender values than those required. (See item 5 of this report)
- The Company violated Section 3207(b) of the New York Insurance Law by issuing life insurance on the lives of minors in excess of the limits permitted. This is a repeat violation. (See item 4B of this report)
- The Company violated Section 3224-a(c) of the New York Insurance law by failing to pay interest on group health claims that are not paid within the required forty-five days of receipt of the proof of loss. (See item 4C of this report)
- The Company violated Section 86.4(a) of Department Regulation No. 95 by failing to have the required fraud warning statement on its life insurance claim forms that are processed by its call center. (See item 4C of this report)

2. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2004 through December 31, 2007. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2007 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a review of market conduct activities and utilized the National Association of Insurance Commissioners' Market Regulation Handbook or such other examination procedures, as deemed appropriate, in such review.

The examiner reviewed the corrective actions taken by the Company with respect to the violations and recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 6 of this report.

This report on examination is confined to comments on matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF THE COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on November 3, 1964 under the name of James Monroe Life Insurance Company. On May 12, 1971, the Company was purchased by Combined Insurance Company of America (“CICA”). The Company’s present name was adopted at that time.

On April 1, 2008, ACE Limited (“ACE”) acquired the Company’s parent, CICA, from Aon Corporation (“Aon”). ACE is a publicly traded Switzerland stock company whose ordinary shares are listed on the New York Stock Exchange. ACE, a global insurance and reinsurance organization, provides a range of insurance and reinsurance products through its direct and indirect subsidiaries in more than 150 countries.

B. Territory and Plan of Organization

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 has never engaged in writing annuity business.

The Company is licensed to transact business in three states, Florida, Illinois, and New York. In 2007, 96.1% of life premiums and 97.5% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

The principal lines of business sold during the examination period were individual accident and health, group accident and health and individual life. Following are significant products that were marketed during the examination period:

Individual Accident and Health Products:

Hospital Emergency Recovery & Outpatient Policy (“HERO”) – Pays benefits for treatment of an injury caused by an accident, including a daily benefit for in-patient hospitalization and recovery care, plus a monthly benefit for total disability following out-patient surgery for accident-related injuries.

Disability Accident Policy (“DAP”) – Pays a flat amount per day for disability income protection due to accident. Policy is guaranteed renewable.

Sickness Income Policy (“SIP”) – Pays a flat amount per day for disability income protection due to sickness. Policy is guaranteed renewable.

Sickness Hospital Indemnity Plan (“SHIP”) – Pays a flat amount for each day an insured is confined to a hospital due to sickness. Policy is guaranteed renewable.

Cancer Assistance Policy – Pays benefits for hospitalization, surgery, anesthesia, radiation and chemotherapy treatment for cancer related illnesses and includes a preventative care benefit.

Accidental Death and Dismemberment (“AD&D”) – Pays a benefit for certain common carrier accidents and any accident referred to in the policy. The policy is guaranteed renewable.

Group Accident and Health

Group Blanket Student Accident & Sickness (“University Health”)

Student Accident Only (“K-12”)

Employer Stop Loss

Group Vision Care Insurance

Life Products

Assured Life Protector – Issue ages 0 – 75. Whole life insurance has coverage available from \$10,000 to \$100,000 (increments of \$5,000 for the first \$50,000 then in increments of \$10,000). Builds cash value and paid-up insurance values begin to accumulate after the second year of the policy.

Golden Life Plus – Issue ages 55 – 75. Whole life insurance has accelerated death benefits and options to increase face amount of insurance. Face amounts of \$3,000, \$5,000 or \$10,000 are available.

Golden Advantage – Issue ages 55 – 70. Limited life insurance benefit is paid if death occurs within two years. Face amount is \$3,000 or \$5,000.

The Company’s focus is towards the sale of individual accident and health policies, but the Company also sells small face amount life policies. The targeted market for the Company’s products are lower middle income and working class groups, as well as small business owners located in small towns throughout New York State. The sales force works off of the existing renewal base by collecting renewal premiums in the field for existing policies, particularly for disability income products (life insurance and sickness policies are sold as follow-up policies to existing disability income customers). The Company also generates “lead listings” based on its existing policyholders and makes “cold calls” to these policyholders soliciting its products.

Group Vision Care and Employer Stop Loss products are marketed to employer groups located in New York State. The University Health and K-12 products are marketed to colleges, universities, and school districts also located in New York State.

The Company's distribution systems are divided between its individual and group operations. The Company utilizes a 100% captive field force in marketing its individual products. The Company's group products are solicited through the Company's Combined Select Program ("CSP"), a division/business unit of its parent CICA. CSP utilizes licensed brokers to market its University Health and K-12 products and program managers to market its vision care and employer stop loss products.

The Company's agency operations are conducted on a general agency basis. The Company's agency force is divided between 1) 7th Essential (Accident and Health); 2) Life/Health; and 3) Worksite. The 7th Essential division markets the Hospital Emergency Recovery and Outpatient Policy, Disability Accident Policy and Sickness Hospital Income Policy. The Life/Health Division markets the Company's Assured Life Protector, Golden Life Plus, Golden Advantage, Disability Income, and Cancer Indemnity policies. The Worksite division markets Universal Life, Term Life, AD&D, Disability Income and Cancer Indemnity through employer payroll deduction.

4. 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.

Section 2112(d) of the New York Insurance Law states:

“Every insurer ... doing business in this state shall, upon termination of the certificate of appointment ... file with the superintendent within thirty days a statement, in such form as the superintendent may prescribe, of the facts relative to such termination for cause ...”

During the period under examination 27 agents were terminated for cause. The examiner reviewed the files of all 27 agents and in 9 instances (33%), based on the information in the files, the Company failed to notify the Department within thirty days of the agent termination for cause as required by Section 2112(d) of the New York Insurance Law.

The Company violated Section 2112(d) of the New York Insurance Law by failing to file with the Department, within thirty days of the termination of the certificate of appointment, a statement of the facts relative to such termination for cause.

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(b) of the New York Insurance Law states:

“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 such policy or policies are effectuated by a person or persons having an insurable interest in the life of such minor or by a person or persons upon whom such minor is dependent for support and maintenance and provided further 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 twenty-five thousand dollars or the limit of fifty per centum 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, and any amount of life insurance on the life of such minor not in excess of such limit when issued shall not be deemed to be in excess thereof by reason of any reduction thereafter in the amount of life insurance in force upon the life of the person effectuating the insurance.”

A sample of policies on the lives of minors under the age of fourteen and one-half years was reviewed. Based upon evidence contained in the underwriting files, in 11 out of 40 (28%) cases reviewed the Company issued policies on the lives of minors that were in excess of the limits allowed by Section 3207(b) of the New York Insurance Law. This is a repeat violation.

The Company violated Section 3207(b) of the New York Insurance Law by issuing life insurance on the lives of minors in excess of the limits permitted.

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 86.4(a) of Department Regulation No. 95 states, in part:

“(a) ... all claim forms for insurance, ... provided to any person residing or located in this State in connection with insurance policies for issuance or issuance for delivery in this State, shall contain the following statement:

‘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.’ ...”

A review of death claims indicated that the Company receives notification of a death claim either by mail or through its call processing center. The examination revealed that in 31 out of 31 (100%) instances in which the call center processed a death claim, the claim form sent out to beneficiaries (LL-F-NY) failed to contain the fraud warning as required by Section 86.4(a) of Department Regulation No. 95.

The Company violated Section 86.4(a) of Department Regulation No. 95 by failing to include the required fraud warning statement on its life insurance claim forms that are processed by its call center.

Section 3224-a(a) of the New York Insurance Law states, in part:

“...such insurer or organization or corporation shall ... make a payment to a health care provider within forty-five days of receipt of a claim or bill for services rendered.”

Section 3224-a(c) of the New York Insurance Law states, in part:

“Each claim or bill for health care services processed in violation of this section shall constitute a separate violation. In addition to the penalties provided in this chapter, any insurer or organization or corporation that fails to adhere to the standards contained in this section shall be obliged to pay to the health care provider or person submitting the claim, in full settlement of the claim or bill for health care services, the amount of the claim or health care payment plus interest on the amount of such claim or health care payment of the greater of the rate equal to the rate set by the commissioner of taxation and finance for corporate taxes pursuant to paragraph one of subsection (e) of section one thousand ninety six of the tax law or twelve percent per annum, to be computed from the date the claim or health care payment were required to be made. When the amount of interest due on such a claim is less than two dollars, an insurer or organization or corporation shall not be required to pay interest on such claim.”

A review of group health claims paid by Third Party Administrator's to health care providers was made. The review revealed that in 5 out of 13 (38.5%) instances in which the claim was not paid within the required forty-five days of receipt of the proof of loss, the Company failed to pay interest on the claim as required by Section 3224-a(c) of the New York Insurance Law.

The Company violated Section 3224-a(c) of the New York Insurance law by failing to pay interest on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.

The examiner recommends that the Company implement procedures to monitor its TPA's to assure that interest is paid on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.

5. NONFORFEITURE CASH VALUE ON WHOLE LIFE POLICIES

Section 4221(c)(1) of the New York Insurance Law states, in part:

“Any cash surrender value available under any policy referred to in subsection (a) hereof, in the event of default in a premium payment due on any policy anniversary, whether or not required by such subsection, shall be an amount not less than the excess, if any, of the present value, on such anniversary, of the future guaranteed benefits which would have been provided for by the policy, including any existing paid-up additions, if there had been no default, over the sum of (i) the then present value of the adjusted premiums as defined in subsections (g), (h), (i) and (k) hereof, corresponding to premiums which would have fallen due on and after such anniversary, and (ii) the amount of any indebtedness to the company on the policy, including interest due or accrued.”

On August 1, 2003, the Company submitted to the Department the original version of form 43095 for approval through SERFF (System for Electronic Rating and Form Filing). The filing was approved on October 14, 2003. In 2006, the Department conducted a post approval review of the material submitted as well as an actual policy form issued. The Department found several statutory violations with the filing and the issued policy. As a result the Company withdrew the noncompliant policy form, identified the number of noncompliant policies issued and submitted and received approval, from the Department, for corrective policy forms to be sent to in-force policyholders.

Under a remediation plan for in-force policyholders, the Company sent corrective policies to all in-force issues. For the 1,959 policies issued between October 14, 2003 and December 31, 2006, the Company sent corrective policies to correct minor violations. For the 776 policies issued between January 1, 2007 and November 14, 2007, additional problems existed with the non-forfeiture values. Specifically, although 5.00% became the highest permissible nonforfeiture interest rate as of January 1, 2007, the Company continued to issue policies that used the 5.75% nonforfeiture interest rate. Therefore, the policies issued in 2007 contained cash surrender values that were less than those required by Section 4221(c)(1) of the New York Insurance law. As a result, the Company sent corrective policies to these policyholders which in addition to correcting minor violations also provided non-forfeiture values at least equal to the statutory minimums.

The Company violated Section 4221(c)(1) of the New York Insurance Law by using a non-forfeiture interest rate of 5.75%, which produced less favorable cash surrender values than those required.

6. 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 41.3(a) and (b) of Department Regulation No. 143 by failing to disclose in its advertising materials that receipt of accelerated death benefits may affect the insured's eligibility for public assistance programs and the possibility of certain tax consequences.</p> <p>The examination revealed that the Company disclosed in its advertising materials that receipt of accelerated death benefits may affect the insured's eligibility for public assistance programs and the possibility of certain tax consequences.</p>
B	<p>The Company violated Section 3203(b)(1)(B) of the New York Insurance Law by using language stating that benefits will be limited if the insured commits suicide "while sane or insane" in its advertising literature for policy form 46002.</p> <p>The examination revealed that the Company removed the language stating that benefits will be limited if the insured commits suicide "while sane or insane" in its advertising literature for policy form 46002.</p>
C	<p>The examiner recommended that the Company revise the advertising brochure for policy form 46002 to exclude the words "while sane or insane" in order to comply with Section 3203 of the New York Insurance Law.</p> <p>The examination revealed that the Company removed the language stating that benefits will be limited if the insured commits suicide "while sane or insane" in its advertising literature for policy form 46002.</p>
D	<p>The Company violated Section 3207(b) of the New York Insurance Law by knowingly issuing life insurance on the lives of minors in excess of the limits allowed by that section.</p> <p>The Company failed to take corrective action in response to this prior report comment. (See item 3 of this report)</p>
E	<p>The Company violated Section 3203(a)(8)(H) of the New York Insurance Law by reducing the credit of additional amounts on certain policies that had policy loans by 2.383%, which exceeds the 2% limit allowed under Section 3203(a)(8)(H) of the New York Insurance Law.</p> <p>The examination revealed that the Company no longer reduces the credit of</p>

additional amounts on certain policies that had policy loans in excess of the limits allowed.

- F The Company violated Section 4235(h)(3) of the New York Insurance Law by paying rates of commission to brokers that exceeded the limits on file with the Department in connection with a number of group EMSL cases produced by BP during the examination period.

The examination revealed that the Company is paying rates of commissions to brokers that are within the limits on file with the Department.

- G The Company violated Section 3211(b)(2) of the New York Insurance Law by disseminating premium notices that failed to contain required language pertaining to policy termination or lapse when the premium is not paid on or before the due date shown or within the specified grace period of the policy.

The examination revealed that the Company is disseminating premium notices that contained the required language pertaining to policy termination or lapse when the premium is not paid on or before the due date shown or within the specified grace period of the policy.

- H The Company violated Section 243.2(b) of Department Regulation No. 152 by failing to maintain billing cycle registers for the Life 70 policy administration system in order to demonstrate that the Company complies with Section 3211(a) of the New York Insurance Law, as well as its own written procedures, with regard to the time frames that reminder notices and lapse or termination notices are generated from the policy administration system and mailed to policyholders.

The examination revealed that the Company maintained billing cycle registers for the Life 70 policy administration system to verify that lapse or termination notices are generated and mailed to policyholders as required.

- I The Company violated Section 4221(n-1)(3)(B)(iii) of the New York Insurance Law by failing to provide an option to purchase paid up insurance for its universal life policy form 46002.

The examination revealed that the Department approved a revised policy in January 2008. For policies sold before the endorsement was approved by the Department, the Company issued an endorsement page informing the policyholder when he/she will be entitled to purchase reduced paid up insurance.

- J The examiner recommended that the Company establish and maintain an independent, adequately resourced, and competently staffed internal audit function to provide management and the audit committee with ongoing assessments of the Company's risk management processes and the accompanying system of internal control.

The examination revealed that both the Company and its parent (CICA) are reliant upon its ultimate parent (AON) for all of its internal audit functions and needs. Effective April 1, 2008, CICA was sold to ACE (new ultimate parent) who is now responsible for the internal audit functions and needs of the both the Company and CICA. Discussions with the Company have determined that the Company does not have the resources to establish and maintain an independent, adequately resourced, and competently staffed internal audit function. It has been determined by ACE that it will continue to provide all of the audit functions and needs of both the Company as well as its parent who performs the majority of insurance functions on behalf of the Company via service agreements.

- K The examiner recommended that the Company continue to develop a disaster recovery plan.

The examination revealed that the Company has developed and maintains a disaster recovery plan.

- L The examiner recommended that the Company continue to develop a business continuity plan.

The examination revealed that the Company has developed and maintains a business continuity plan.

- M The Company violated Section 243.2(b)(7) and 243.2(d) of Department Regulation No. 152 by failing to obtain and maintain workpapers and supporting detail records required to support the Company's filed annual statement with regard to the Company's group accident and health operations.

The examination revealed that the Company obtains and maintains workpapers and supporting detail records to support its filed annual statement with regard to the its group accident and health operations.

- N The examiner recommended that the Company maintain proper documentation, including but not limited to electronic data extracts to support the amounts reported in its filed Annual Statement, and that such documentation be readily available and accessible for future examinations. A similar recommendation appeared in the prior report on examination.

The examination revealed that the Company maintained proper documentation to support the amounts reported in its filed annual statement, and that such documentation was readily available for examination.

- O The examiner recommended that the Company revise its record retention plan to include an index of the records being retained, a description of the types of records being maintained, the method of retention, and the safeguards established to prevent alteration of the records.

The examination revealed that the Company revised its record retention plan to include an index of the records being retained, a description of the types of records being maintained, the method of retention, and the safeguards established to prevent alteration of the records.

7. SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 2112(d) of the New York Insurance Law by failing to notify the Department within thirty days of the termination of the certificate of appointment the facts relative to such termination for cause.	7
B	The Company violated Section 3207(b) of the New York Insurance Law by issuing life insurance on the lives of minors in excess of the limits permitted. This is a repeat violation.	8
C	The Company violated Section 86.4(a) of Department Regulation No. 95 by failing to contain the required fraud warning statement on its life insurance claim forms that are processed by its call center.	9
D	The Company violated Section 3224-a(c) of the New York Insurance law by failing to pay interest on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.	9
E	The examiner recommends that the Company implement procedures to monitor its TPA's to assure that interest is paid on group health claims when the claim is not paid within the required forty-five days of receipt of the proof of loss.	9
F	The Company violated Section 4221(c)(1) of the New York Insurance Law by using a non-forfeiture interest rate of 5.75%, which produced less favorable cash surrender values than those required.	10

Respectfully submitted,

Vincent Targia
Associate Insurance Examiner

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

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

Vincent Targia

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 30314

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ERIC R. DINALLO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

VINCENT TARGIA

as a proper person to examine into the affairs of the

COMBINED 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 2nd day of April, 2009



ERIC R. DINALLO
Superintendent of Insurance

Eric R. Dinallo
Superintendent