STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST UNITED AMERICAN LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT: MARCH 2, 2001

EXAMINER: EDEN M. SUNDERMAN

TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Company	4
	A. History	4
	B. Holding company	4
	C. Management	10
	D. Territory and plan of operation	12
	E. Reinsurance	13
4.	Significant operating results	14
5.	Financial statements	18
	A. Assets, liabilities, capital, surplus and other funds	18
	B. Condensed summary of operations	20
	C. Capital and surplus account	21
6.	Market conduct activities	22
	A. Advertising and sales activities	22
	B. Underwriting and policy forms	26
	C. Treatment of policyholders	29
7.	Prior report summary and conclusions	30
8.	Summary and conclusions	31

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

March 2, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21629, dated October 4, 2000 and annexed hereto, an examination has been made into the condition and affairs of First United American Life Insurance Company, hereinafter referred to as "FUALIC" or "the Company," at its home office located at 1020 Seventh North Street, Suite 130, Liverpool, New York 13088.

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

The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services that were not provided for in a filed service agreement. A similar violation appeared in the prior report on examination. (See item 3B of this report)

The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by failing to maintain at its home office a complete advertising file of all advertisements printed, published, or prepared for dissemination in New York. In addition, this report contains a violation of Section 2122(a)(2) of the New York Insurance Law, as well as numerous other violations of Department Regulation No. 34 and No. 34-A relating to the content of advertisements used in this State. (See item 6A of this report)

The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchasers of their right to receive, upon request, a buyer's guide and a policy summary prior to the delivery of the policy. (See item 6A of this report)

The Company violated Section 3209(g) of the New York Insurance Law and Section 53-1.4(a) of Department Regulation No. 74 by failing to maintain at its home office for each policy form, a complete file containing one specimen copy of the preliminary information form and the policy summary form authorized by the insurer. (See item 6B of this report)

2. SCOPE OF EXAMINATION

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

The examination comprised a verification of assets and liabilities as of December 31, 1999 to determine whether the Company's 1999 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
Reinsurance
Accounts and records
Financial statements

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

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

3. DESCRIPTION OF COMPANY

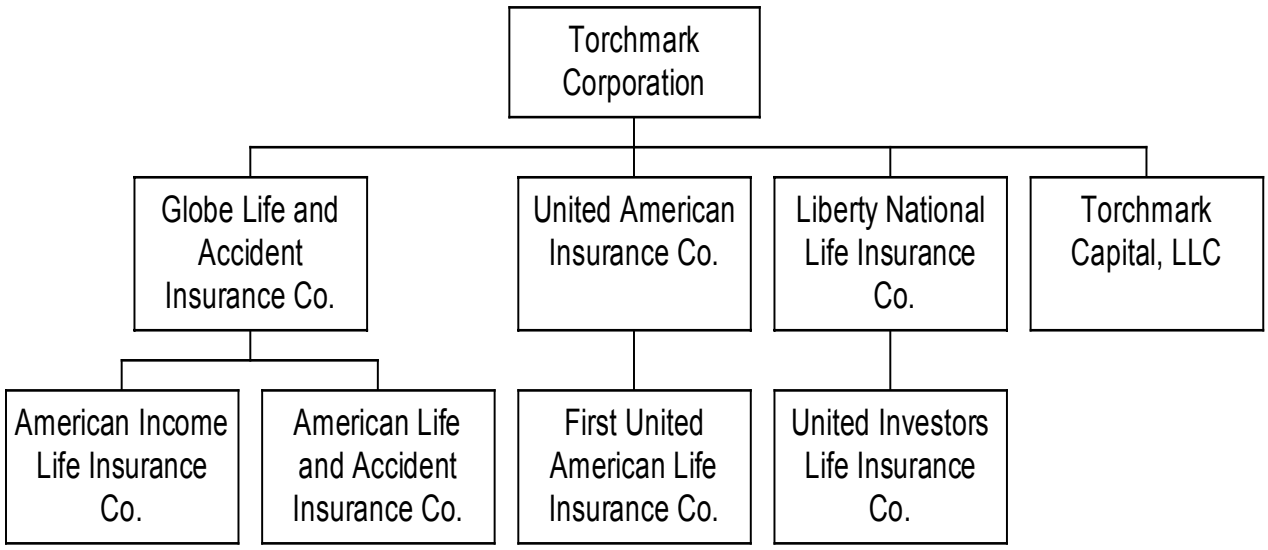
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on June 16, 1981 under the name of Globe International Life Insurance Company. The Company was licensed and commenced business on December 10, 1984. The name of the Company was changed to First United American Life Insurance Company effective October 1, 1985. Initial resources of $6,428,480, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $4,428,480, were provided through the sale of 100 shares of common stock (with a par value of $20,000 each) for $64,284.80 per share.

B. Holding Company

The Company is a wholly owned subsidiary of United American Insurance Company ("UAIC"), a Delaware insurance company. UAIC is in turn a wholly owned subsidiary of Torchmark Corporation ("TMK"), the ultimate parent of the Company. TMK is a Delaware investment advisory company.

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



The Company had three filed and approved service agreements in effect as of December 31, 1999.

1. An agreement with UAIC dated November 1, 1994 whereby UAIC provides underwriting, claims, administrative support, accounting, data processing, advertising and marketing (other than direct response products), legal, actuarial, and product development services to the Company.
2. An agreement with the Globe Life and Accident Insurance Company ("Globe") dated November 1, 1994, whereby Globe provides marketing support services in connection with direct response insurance products to the Company.
3. An agreement with TMK dated November 1, 1994, whereby TMK provides investment advisory services to the Company.

The Company also has a consolidated federal tax allocation agreement in effect with its ultimate parent, TMK.

Section 1505(d)(3) 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 . . . "

Article I, Section 1 of the filed service agreement between the Company and UAIC (United American) with respect to the services to be provided by UAIC states, in part:

> "FUALIC will process all applications for insurance and all claims for insurance proceeds at its home office in the State of New York. United American will provide the following support services in connection therewith:
>
> a. Physical preparation of insurance policies . . .
> b. Physical preparation of claim checks . . .
> c. Accounting, administrative, and data processing. United American will provide assistance in the preparation and maintenance of the general ledger, financial statements, including, but not limited to income statements and accounts receivable and accounts payable statements, tax returns, and other related financial records of FUALIC, including annual and quarterly financial statements on both a statutory and generally accepted accounting principles ("GAAP") basis, and all required schedules . . .

Article I, Section 2 of the filed service agreement between the Company and UAIC states, in part, the following with respect to administrative support services to be provided by UAIC:

> " . . . b. All original annual statement workpapers and back-up materials will be maintained by FUALIC at its home office in the State of New York. All accounting transactions will be initiated and verified by FUALIC at its home office in the State of New York.
> c. All records and reports, and original workpapers and back-up materials, will be forward[ed] to FUALIC as soon as possible after the end of each reporting period, but in no event later than thirty (30) days after the close of the month, in the case of monthly ledgers or reports, or later than sixty (60) days after the close of the year, in the case of quarterly or annual reports.
> d. All records maintained by United American in connection with this Article I shall be available for inspection by and copying by FUALIC at all reasonable times without notice. United American will maintain a duplicate record of all FUALIC files so that it may, under the supervision of FUALIC, perform such functions as preparation of reserves and other related policy activities . . . "

Article IV of the filed service agreement with UAIC states, in part, the following with respect to reimbursement of the services to be provided by UAIC to the Company:

> Section 3. a. No later than thirty (30) days prior to the end of each quarter period of the fiscal year, United American shall submit to FUALIC a statement of the estimated amount of the apportioned expenses for such quarterly period showing the basis for the apportionment for each item. Payment of the estimated amount of the apportioned expenses shall be made by FUALIC within fifteen (15) days of the receipt of the foregoing statement.
> b. Within sixty (60) days after the end of each fiscal year, United American shall submit to FUALIC a statement of actual apportioned expenses for such prior fiscal year showing the basis for the apportionment of each item…Any difference between the amount of the estimated apportioned expenses paid by FUALIC and the amount of the actual apportioned expenses shall be paid to either United American or FUALIC, as the case may be, within fifteen (15) days of the receipt of the statement of actual apportioned expenses."

Article I, Section 1(a)(ii) of the filed service agreement between the Company and Globe states, in part the following, with respect to the marketing services to be provided by Globe:

> " . . . Underwriting of applications for Direct Mail Products will be performed by FUALIC."

Article II, Section 1 of the filed service agreement between the Company and Globe states the following, with respect to the reimbursement for services to be provided by Globe:

> "FUALIC shall neither subsidize or be subsidized by Globe. Globe shall determine and provide an allocation to FUALIC (the 'Company') of the estimated cost and expense of providing to the Company the services to be performed on an equitable basis in conformity with customary insurance accounting practices consistently applied. The allocation and classification of expenses under this Agreement will be made in accordance with New York State Insurance Department Regulation 33; the bases for determining such changes [charges] shall be those used by Globe for internal cost distribution. Those direct expenses such as postage, agency supplies, and any other general operating expenses paid on behalf of the Company will be charged to the Company on a monthly basis. The bases for calculating the foregoing shall be modified and adjusted by mutual agreement where necessary or appropriate to reflect fairly and equitably the actual incidence of cost incurred by Globe on behalf of the Company."

a) A review of the Company's inter-company service agreements revealed that although certain services were covered under the Company's filed service agreement with UAIC, they were actually performed by Globe. The agreement with Globe does not include the following services:

1. Globe processes all life claims. The agreement with UAIC states that FUALIC will process all claims.
2. Globe prints and mails life claim checks to FUALIC policyholders. This service is supposed to be provided by UAIC under Article I, Section 1(b) of the agreement with UAIC.
3. Globe prints and mails medicare supplement claim checks to FUALIC policyholders and providers. Article I, Section 1(b) of the agreement with UAIC states that UAIC prepares all claim checks.

The Company did not make payments to Globe for the above services provided during the examination period. The only payments made to Globe were for direct marketing and printing services enumerated in the filed service agreement between Globe and the Company. This is contrary to the Globe agreement Article II, Section 1 which provides that FUALIC shall neither subsidize or be subsidized by Globe.

b) The following services were provided by Globe to the Company contrary to the filed service agreement between the Company and Globe:

1. Direct response life insurance applications are received at the Company's Liverpool, New York home office, checked for completeness, and forwarded to Globe for processing. Article I, Section 1(a)(ii) of the service agreement with Globe provides that underwriting of applications for direct mail products will be performed by FUALIC.
2. Globe processes all life premiums. The service provided is not described in a filed service agreement.
3. Original applications for direct mail life business are maintained at Globe in Oklahoma. This service is not provided for in the Globe agreement.
4. All billing for life and medicare supplement premiums is performed by Globe. The service provided is not described in a filed service agreement.

Globe employs the following methodology to allocate marketing expenses: (1) the total anticipated premiums for the direct mail policies sold over the life of such policies discounted to its present value based upon a 6% interest rate; (2) the total amount of expenses allocated to FUALIC is then divided by the discounted present value of the future premiums to determine a percentage; and (3) the percentage derived, plus an additional 2.5% for indirect expenses and general overhead incurred is then applied to the actual premiums received on such policies for the year in question. By using this method, Globe is effectively spreading FUALIC payments for the marketing services provided over the income stream or life of the policies sold. Globe has employed this method of allocating marketing expenses since 1998. This is contrary to the methodology enumerated in Article II, Section I of the Globe agreement.

(c) In addition to the services covered under the filed UAIC service agreement but provided by Globe, the following services were provided by UAIC to the Company contrary to the filed service agreement between the Company and UAIC:

1. Applications for agent written medicare supplement business are received at the Company's Liverpool, New York home office, checked for completeness, and forwarded to UAIC for processing. Article I, Section 1 of the filed service agreement between the Company and UAIC states that FUALIC will process all applications for insurance.
2. Original claim records for medicare supplement business are maintained at UAIC in McKinney, Texas. The service agreement between the Company and UAIC does not contain a provision for such services.
3. Any payment that is made to a Company annuity contractholder that requests to have the funds directly deposited is made via a wire transfer from a UAIC bank account. Periodically (monthly in 1999 and more frequently in 1997 and 1998), the Company

reimbursed UAIC for these transactions. The service provided is not described in a filed service agreement.

4. UAIC processes all medicare supplement claims. Article I, Section 1 of the agreement with UAIC states all claims are to be processed by FUALIC.
5. All policyholder related accounting transactions were initiated and verified by either UAIC or Globe. This service is contrary to Article I, Section 2(b) of the filed service agreement between the Company and UAIC and is not included in the service agreement between the Company and Globe.

UAIC prepared cumulative statements of actual apportioned expenses for services provided on a quarterly basis (March, June, September, and December), yet payment for the services was only done once a year via a wire transfer immediately following year-end for each of the years under review. This is contrary to Article IV, Section 3(a) of the filed service agreement between the Company and UAIC.

The Company violated Section 1505(d)(3) of the New York Insurance Law as follows:

- Receiving certain claim processing, premium accounting, billing, and underwriting services on a regular and systematic basis that were not provided for in a filed service agreement between the Company and its affiliate, Globe.
- Failing to pay Globe for claim processing, premium accounting, billing, and underwriting services provided on a regular and systematic basis.
- Receiving underwriting and claims processing services that exceeded the "support services" described in the filed service agreement between the Company and its parent, UAIC.
- Failing to initiate and verify policyholder related accounting transactions as described in the filed service agreement between the Company and its parent, UAIC.
- Reimbursing UAIC for direct deposit wire transfers that were made to Company annuity contractholders from a UAIC bank account on a regular and systematic basis as such transactions are not described in a filed service agreement.
- Maintaining original claim records for medicare supplement business at the offices of the parent, UAIC, as such service was not provided for in a filed service agreement.
- Maintaining original applications for direct response life business at the offices of an affiliate, Globe, as such service was not provided for in a filed service agreement.
- Failing to make payments for services provided within the time-frame stipulated in the filed service agreement between the Company and its parent, UAIC.
- Allocating marketing costs incurred for its direct response products between companies contrary to the filed service agreements.

There was a violation of Section 1505 of the New York Insurance Law in the prior report on examination.

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 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held at the time and on the date determined by the board of directors. As of December 31, 1999, the board of directors consisted of 13 members. Meetings of the board are held immediately following the annual meeting of the shareholders and at such intervals and on such dates as the board may designate. All meetings of the board of directors were held by means of unanimous written consent.

The 13 board members and their principal business affiliation, as of December 31, 1999, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Tony G. Brill McKinney, TX	Executive Vice President and Chief Administrative Officer Torchmark Corporation Senior Vice President, Administration First United American Life Insurance Company	1997
Gary L. Coleman McKinney, TX	Executive Vice President and Chief Financial Officer Torchmark Corporation Senior Vice President, Treasurer, and Chief Financial Officer First United American Life Insurance Company	1994
Terence P. Cummings* New York, NY	Partner Clausen Miller PC	1989
John J. Driscoll* New York, NY	Partner Clausen Miller PC	1997
Irwin F. Giles* Suffern, NY	Underwriter Administrators for the Professions of Delaware, Inc.	1997
Gene P. Grimland McKinney, TX	President – General Agency Division United American Insurance Company Executive Vice President, Sales First United American Life Insurance Company	1997

Name and Residence	Principal Business Affiliation	Year First Elected
C.B. Hudson McKinney, TX	Chairman, President and Chief Executive Officer Torchmark Corporation	1986
Larry M. Hutchison McKinney, TX	Executive Vice President and General Counsel Torchmark Corporation Vice President, General Counsel, and Secretary First United American Life Insurance Company	1993
Dirk Marschhausen* Garden City, NY	Attorney at Law Marschhausen & Fitzpatrick PC	1997
Mark S. McAndrew McKinney, TX	Chairman, President and Chief Executive Officer United American Insurance Company, Globe Life and Accident Insurance Company, American Income Life Insurance Company, and First United American Life Insurance Company	1986
Rosemary J. Montgomery McKinney, TX	Executive Vice President and Chief Actuary United American Insurance Company, Globe Life and Accident Insurance Company, and First United American Life Insurance Company	1994
Charles J. Rocco* New York, NY	Associate Clausen Miller PC	1997
Thomas J. Skeffington* New York, NY	Partner Clausen Miller PC	1997

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

The previous two reports on examination contained a recommendation that the Company diversify its unaffiliated (independent) directors in order to avoid any possible conflict of interest. It is noted that five of the six "independent" directors are, or have been, associates of the law firm that represents the Company (Clausen Miller PC). It is again recommended that the Company diversify its independent directors.

Section 4211(b) of the New York Insurance Law states:

> "Whenever any directors of such a company shall have resigned and successors shall have been chosen pursuant to the provisions of the bylaws, such successors shall not take office nor exercise their duties until ten days after written notice of their election shall have been filed in the office of the superintendent."

In March 2000, John Driscoll resigned from the board and was replaced by James Savo effective July 2000. The Company did not provide written notice to the Superintendent of the election of Mr. Savo.

The Company violated Section 4211(b) of the New York Insurance Law by failing to provide written notice to the Superintendent of Mr. Savo's appointment to the board of directors.

The following is a listing of the principal officers of the Company as of December 31, 1999:

Name	Title
Mark S. McAndrew	Chairman, President and Chief Executive Officer
Gene P. Grimland	Executive Vice President, Sales
Rosemary J. Montgomery	Executive Vice President and Chief Actuary
Gary L. Coleman	Senior Vice President, Treasurer, and Chief Financial Officer
Tony G. Brill	Senior Vice President, Administration
Larry M. Hutchison	Vice President, General Counsel, and Secretary
James A. Savo*	Vice President, Operations and General Manager
Ben Lutek	Vice President and Actuary

* 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 only licensed to write in New York. In 1999, all life premiums, accident and health premiums, and annuity considerations were received from New York. Policies are written on a non-participating basis.

Until 1994, the Company wrote almost exclusively individual medicare supplement insurance. In 1994, the Company began writing individual life insurance. In 1995, the Company began writing group medicare supplement insurance and individual annuities.

The Company's individual medicare supplement insurance and individual annuity business is solicited through the Company's agency force, which operates on a general agency basis. Approximately 98% of the ordinary life business was sold through direct response marketing, the other 2%, mostly senior life products, was sold through the Company's agency force. All life business sold during the examination period was written on a simplified issue basis.

The Company's group medicare supplement insurance is primarily solicited to employer and union groups through licensed brokers or agents; direct response marketing is also used but to a lesser extent. The group medicare supplement business may be issued as mandatory or voluntary coverage depending upon the group. For mandatory business, the employer or union bears the cost of the insurance and all retirees are covered. For voluntary business, the group policyholder provides a list of retirees eligible for coverage and the Company sends direct response packages with enrollment forms to the retirees.

Effective November 1998, the Company no longer accepts replacement life and annuity business, which has resulted in a significant decrease in individual annuity business.

E. Reinsurance

As of December 31, 1999, the Company had no reinsurance treaties in effect for new business. A prior agreement, which was terminated on July 1, 1993 as to new business and related to the Company's long-term care (nursing home) product, is currently being run off.

4. SIGNIFICANT OPERATING RESULTS

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

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

	December 31, 1996	December 31, 1999	Increase
Admitted assets	$50,893,993	$62,310,906	$11,416,913
Liabilities	$34,521,395	$43,542,795	$ 9,021,400
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	4,428,480	4,428,480	0
Unassigned funds (surplus)	9,944,118	12,339,631	2,395,513
Total capital and surplus	$16,372,598	$18,768,111	$ 2,395,513
Total liabilities, capital and surplus	$50,893,993	$62,310,906	$11,416,913

The Company's invested assets, as of December 31, 1999, were mainly comprised of bonds (99.1%). The Company's entire bond portfolio, as of December 31, 1999, was comprised of investment grade obligations.

The following is the net gain (loss) from operations, by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	1997	1998	1999
Ordinary:			
Life insurance	$ 55,276	$ 748,847	$1,221,560
Individual annuities	82,330	71,690	563,821
Total ordinary	$137,606	$ 820,537	$1,785,381
Accident and health:			
Group	$ (1,108)	$ 4,800	$ 194,386
Other	(87,968)	985,009	927,136
Total accident and health	$ (89,076)	$ 989,809	$1,121,522
Total	$ 48,530	$1,810,346	$2,906,903

The Company experienced a steady increase in earnings on its ordinary life line of business that is directly related to the growth pattern for this block of business during the examination period.

The significant increase in earnings for individual annuities is due to an increase in the net investment income that was allocated to this line of business for 1999.

The loss in 1997 for other accident and health is due to poor claims experience on the individual medicare supplement line of business.

In 1999, the increase in earnings on the group accident and health line is directly related to an increase in group medicare supplement premium income which nearly doubled in comparison to prior years.

Section 91.4 (c)(2) of Department Regulation No. 33 states, in part:

"Net investment income, after adjustment, if any, as permitted by the preceding paragraph shall be distributed to major annual statement lines of business . . .
(i) in proportion to the total mean policy reserves and liabilities of each of such major lines of business . . . "

The Company indicated that it uses the mean policy reserve method to allocate net investment income to major annual statement lines of business; however, it failed to include policy liabilities when calculating the allocation percentage.

The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by failing to include policy liabilities when distributing net investment income to major annual statement lines of business.

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

"(1) It is the responsibility of each life insurer to use only such methods of allocation as will produce a suitable and equitable distribution of income and expenses by lines of business. Unless impractical or unfeasible, an insurer may use only such methods of allocation in its distribution of income and expenses within annual statement lines of business as are compatible with the methods it uses for distribution between annual statement lines of business.

(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 . . .

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

"(1) In distributing costs to lines of business, each company shall employ those principles and methods that will reasonably reflect the actual incidence of cost by line of business. The relative time spent, the extent of usage and the varying volume of work performed for each line of business shall be considered in distributing cost to major annual statement lines of business and, to the extent practicable, to secondary annual statement lines of business . . .

(5) 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, except where the incidence of cost is closely related to such general indexes, or except where there is no more appropriate basis for measurement. . . . "

Indirect expenses allocated among affiliated companies are distributed on the basis of premium in force. Expenses are allocated to lines of business on the basis of premiums in force, mean reserves, annualized premiums, and marketing "lead" expense allocation. The Company failed to provide any studies or indices to support its basis of allocation of expenses to annual statement lines of business or among companies, nor did it demonstrate that its methods of allocating expenses to annual statement lines of business and among companies was fair and equitable and in compliance with the requirements of Department Regulation No. 33.

The Company violated Section 91.4(a) of Department Regulation No. 33 by failing to provide any documentation that supports the Company's method of distributing expenses among companies and to the annual statement lines of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 1999, as contained in the Company's 1999 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, 1999 filed annual statement.

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

Admitted Assets

Bonds	$58,229,188
Policy loans	10,938
Cash and short term investments	523,732
Federal income tax recoverable	473,000
Life insurance premiums and annuity considerations deferred and uncollected on in force business	1,833,672
Accident and health premiums due and unpaid	227,906
Investment income due and accrued	941,142
New York Insurance Department adjustments	71,328
Total admitted assets	$62,310,906

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$23,818,169
Aggregate reserve for accident and health policies	10,260,872
Policy and contract claims:	
Life	785,000
Accident and health	6,333,000
Premiums and annuity considerations received in advance	172,731
General expenses due or accrued	2,166
Taxes, licenses and fees due or accrued	530,699
Amounts withheld or retained by company as agent or trustee	1,659
Amounts held for agents' account	327,034
Remittances and items not allocated	71,580
Miscellaneous liabilities:	
Asset valuation reserve	195,840
Payable to parent, subsidiaries and affiliates	1,032,426
Adjustments for nursing home business	11,619
Total liabilities	$43,542,795
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	4,428,480
Unassigned funds (surplus)	12,339,631
Total capital, surplus and other funds	$18,768,111
Total liabilities, capital, surplus and other funds	$62,310,906

The Company closes its books as of December 24th each year instead of December 31st. The 1990 report on examination contained a recommendation that the Company establish an accrual for the period between December 24th and December 31st in order to comply with Section 307 of the New York Insurance Law. The New York Insurance Department adjustments line in the annual statement represents an estimate of the cash transactions for premiums, claims, commissions, investment income, etc., during the period between December 24th and December 31st each year.

B. CONDENSED SUMMARY OF OPERATIONS

	1997	1998	1999
Premiums and considerations	$31,221,431	$33,564,803	$35,243,143
Investment income	3,178,706	3,705,450	4,051,529
Commissions and reserve adjustments on reinsurance ceded	41,535	35,698	32,929
Miscellaneous income	48,505	149,048	151,570
Total income	$34,490,177	$37,454,999	$39,479,171
Benefit payments	$22,320,120	$21,827,075	$24,444,927
Increase in reserves	3,270,556	3,371,257	1,863,668
Commissions	4,873,405	5,032,869	5,080,813
General expenses and taxes	3,017,624	3,142,245	3,250,864
Increase in loading and cost of collection	518,389	538,942	438,889
Miscellaneous deductions	113,798	0	0
Total deductions	$34,113,892	$33,912,389	$35,079,161
Net gain	$ 376,285	$ 3,542,610	$ 4,400,010
Federal income taxes	327,756	1,732,263	1,493,108
Net gain from operations before net realized capital gains	$ 48,529	$ 1,810,347	$ 2,906,902
Net realized capital gains (losses)	0	(4,405)	(63,966)
Net income	$ 48,529	$ 1,805,942	$ 2,842,936

C. CAPITAL AND SURPLUS ACCOUNT

	1997	1998	1999
Capital and surplus, December 31, prior year	$16,372,598	$16,447,715	$18,116,109
Net income	$ 48,529	$ 1,805,942	$ 2,842,936
Change in non-admitted assets and related items	10,550	(112,264)	(649,644)
Change in asset valuation reserve	16,037	(25,284)	(41,290)
Dividends to stockholders	0	0	(1,500,000)
Net change in capital and surplus	$ 75,117	$ 1,668,394	$ 652,002
Capital and surplus, December 31, current year	$16,447,715	$18,116,109	$18,768,111

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.

1) Section 219.5(a) of Department Regulation No. 34-A, applicable to life insurance, states, in part:

> "Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement hereafter disseminated in this State, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. In order to be complete, the file must contain all advertisements whether used by the company, its agents or solicitors or other persons. . . . "

Section 215.17(a) of Department Regulation No. 34, applicable to accident and health insurance, states, in part:

> "Each insurer shall maintain at its home office or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other State whether or not licensed in such other State, with a notation attached to each such advertisement which shall indicate the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to regular and periodical inspection by the department. . . . "

The advertising file furnished to the examiner failed to include specimen copies of: agent lead advertisements; a transcript of the nationwide advertising campaign conducted by its parent, United American; agent form letters; advertising materials used in the solicitation of individual medicare supplement and senior life products by the Company's independent agency force;

advertising materials used in the solicitation of group medicare supplement; and Company newsletters. In addition, the advertising file furnished to the examiner failed to indicate the manner and extent of distribution for each direct response advertisement contained therein.

The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by failing to maintain a complete advertising file at its home or principal office.

2) Section 219.4(h) of Department Regulation No. 34-A states:

> "Any insurer using the phrase *low cost*, or similar term, to characterize its operation, policy portfolio, or a particular policy form shall, upon request of the superintendent, submit to the superintendent such evidence as it may have to substantiate such use."

Nineteen of the 104 direct response advertisements and the Company's internet advertisement at www.dollarfirstunitedoffer.com used the phrases "low group rates," "low cost," "lowest possible premium," "low rates," and other similar terms to describe the cost of the life insurance product being offered. The Company was unable to provide documentation to support the use of such terms in its advertisements.

The Company violated Section 219.4(h) of Department Regulation No. 34-A by failing to substantiate the use of terms such as "low cost" that were used to describe the cost of the life insurance product being advertised.

3) Section 219.4(o) of Department Regulation No. 34-A states:

> "An advertisement shall not create the impression that the insurer, its financial condition or status, the payment of its claims, or the merits, desirability or appropriateness of its policy forms or kinds of plans of insurance, are superior to what can be found elsewhere in the industry, unless such can be proven."

The Company used the term "superior," "premier," and "the best" (or terms and phrases of a similar nature) in six advertisements to describe the Company, its claims service, and its Series 400 whole life plan. The Company was unable to provide documentation to substantiate the use of such terms in its advertisements.

The Company violated Section 219.4(o) of Department Regulation No. 34-A for using the term "superior" and similar terms and phrases in a number of advertisements to describe the Company, its' claims service, and its' Series 400 whole life plan without being able to substantiate such terms.

4) Section 219.4(w) of Department Regulation No. 34-A states:

> "An advertisement shall not offer a policy which utilizes a reduced initial rate in a manner which overemphasizes the availability and the amount of the reduced initial premium. When an insurer charges an initial premium that differs in amount from that of the renewal premium payable on the same mode, all references to the reduced initial premium shall be followed by an asterisk or other appropriate symbol which refers the reader to that specific portion of the advertisement which contains the full rate schedule for the policy being advertised."

Forty-three of 104 life insurance direct response advertisements (policy form number NYWL2000) reviewed, as well as the Company's web-site advertisement (www.dollarfirstunitedoffer.com) emphasized a reduced initial premium rate that differed from the renewal premium payable on the same mode. The advertisements failed to include an asterisk or other symbol following all references to the reduced initial premium rate that referred the reader to the portion of the advertisement that contained the full rate schedule for the policy being advertised.

The Company violated Section 219.4(w) of Department Regulation No. 34-A by using advertisements that failed to include an asterisk or other symbol following all references to a reduced initial premium rate that refers the reader to the full rate schedule of the policy being advertised.

5) 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."

Section 219.4(p) of Department Regulation No. 34-A states, in part:

> "In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified . . . An advertisement shall not use a trade name, an insurance group designation, name of the parent company or affiliate of the insurer, name of a particular division of the insurer, service mark, slogan, symbol, or other device or reference if such use would have the tendency to mislead or deceive as to the true identity of the insurer, or create the impression that someone other than the insurer would have any responsibility for the financial obligation under a policy."

Six of the 104 direct response advertisements reviewed contained Globe pamphlets or Globe envelopes that were used with the Company's direct mail packages. The Company's internet advertisement at www.dollarfirstunitedoffer.com also contained a reference to Globe. The Globe pamphlets advertised a Globe product that is not approved in New York. The Globe envelopes contained Globe's mailing address in Oklahoma as the return address.

The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A by using advertisements that call attention to an unauthorized affiliated insurer, Globe, and have the tendency to mislead as to the true identity of the insurer.

6) Section 219.4(a)(1) of Department Regulation No. 34-A states:

> "Advertisements shall be truthful and not misleading in fact or in implication..."

Twelve of the 104 direct response advertisements reviewed and the Company's internet advertisement at www.dollarfirstunitedoffer.com contained statistics regarding the number of FUALIC policyholders. The Company was unable to provide documentation to support the use of such statistics in its advertisements.

The Company violated Section 219.4(a)(1) of Department Regulation No. 34-A by failing to substantiate statistical information printed in several of its direct response advertisements and its internet advertisement.

7) Section 3209(b) of the New York Insurance Law states, in part:

> "No policy of life insurance shall be delivered or issued for delivery in this state after the applicable effective date, as set forth in subsection (n) of this section, unless the prospective purchaser has been provided with the following:
> (1) . . . When sales solicitations are made by mail . . . such solicitation must alert the prospective purchaser of the right to receive, upon request, a buyer's guide and a policy summary prior to delivery of the policy . . . "

Based upon a review of the direct response advertisements for life products, the Company does not alert the prospective purchaser of the right to receive, upon request, a buyer's guide and a policy summary prior to the delivery of the policy in its direct response advertisements.

The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchasers of their right to receive, upon request, a buyer's guide and a policy summary prior to the delivery of the policy.

B. Underwriting and Policy Forms

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

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

> " . . . 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 . . . "

A review of a sample of 28 policies issued on minors revealed that the Company issued 15 policies for amounts of insurance that were in excess of the limits allowed by law.

The Company violated Section 3207(c) of the New York Insurance Law by issuing policies on minors in excess of the limits allowed by law.

2) Section 3209 of the New York Insurance Law and Department Regulation No. 74 establish requirements governing the content and format of cost disclosure for life insurance and annuities.

Section 3209(g) of the New York Insurance Law states:

> "Every insurer shall maintain, at its home office or principal office, a complete file containing one copy of each policy summary form authorized by the insurer for use pursuant to this section."

Section 53-1.4(a) of Department Regulation No. 74 states, in part:

> "In addition to the requirements imposed by Section 53-3.5(e) of Subpart 53-3, each insurer shall maintain at its home or principal office, a complete file containing one specimen copy each of the preliminary information form, policy summary form, . . . authorized by the insurer for each policy form subject to this Part. Such files shall be subject to regular and periodic inspection by the Department. All such forms shall be maintained in said file for a period of either six years or until the filing of the next regular report on examination of the insurer, whichever is the longer period of time. . . . "

The Company does not maintain at its home office for each policy form, a complete file containing one specimen copy of the preliminary information form and the policy summary form authorized by the insurer.

The Company violated Section 3209(g) of the New York Insurance Law and Section 53-1.4(a) of Department Regulation No. 74 by failing to maintain at its home office for each policy form, a complete file containing one specimen copy of the preliminary information form and the policy summary form authorized by the insurer.

3) Section 53-2.3 of Department Regulation No. 74 states, in part:

> "(a) Preliminary Information.
> (1)The prospective purchaser shall be provided with a prominent notice either on the application or with the application in the following form or in a form containing substantially similar information approved by the Superintendent:
>
> 'Since this policy is issued with minimal or no medical underwriting, the premium rate charged includes an extra mortality risk charge. If you are healthy enough to qualify as a "standard" risk, premiums would likely have been lower if you had applied for a fully underwritten policy. . . .'
>
> (b) Policy Summary . . .
> (2) The policy summary form shall include a prominent notice in the following form or in a substantially similar form approved by the Superintendent:
>
> 'This is a policy issued on the basis of minimal or no underwriting. The premium charged includes an extra mortality charge. If you are healthy enough to qualify for a "standard" life insurance policy, your premiums would likely have been lower if you had applied for a fully underwritten policy. You should carefully review this document to make sure the policy is suitable for you. If you are not entirely satisfied, please review the cancellation provision in the policy for directions on obtaining a refund of any premiums paid.' "

The examiner requested specimen copies of the applications used in connection with the Company's graded death benefit whole life plan ("Series 400 plan"), the preliminary information documents provided to applicants for all policies, and the policy summary documents provided to policyholders for all policies during the examination process. A review of the applications used for the Company's Series 400 plan, which has minimal underwriting guidelines, revealed that they did not contain the required preliminary information disclosure notice regarding minimal or no medical underwriting. In addition, the Company failed to provide evidence to substantiate that preliminary information documents provided to applicants, and the policy summary documents provided to policyholders during the examination period contained the required disclosure notices (i.e., minimal or no underwriting notices) for policies issued under the Company's Series 400 plan.

The Company violated Sections 53-2.3(a)(1) and (b)(2) of Department Regulation No. 74 by failing to provide evidence that the applications and the preliminary information documents provided to applicants, and the policy summary documents provided to policyholders for policies

issued under Company's Series 400 plan contained the required disclosure notices regarding minimal or no medical underwriting.

C. Treatment of Policyholders

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

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent in writing that it entered into transactions on a regular or systematic basis with its parent and affiliates. As a result of this violation, the Company submitted revised service agreements between the Company and UAIC and between the Company and Globe to the Department for approval. The service agreements were still in the filing process as of the date of this report. (See item 3B of this report)
B	The examiner recommended that the Company diversify its independent directors. A review of the board information indicates that the number of directors who are affiliated with the law firm that represents the Company has been reduced from five to four. It should be noted, however, that one of the two independent directors not associated with the law firm that represents the Company, is a former associate of that law firm. (See item 3C of this report)
C	The Company violated Section 325(a) of the New York Insurance Law by not keeping and maintaining at its principal office in this state its books of account and the minutes of the meetings of its board of directors and committees thereof. A review indicated that these items are currently maintained at the Company's home office in Liverpool, New York.
D	The Company violated Section 310(a)(3) by failing to facilitate the examination. During the course of this on-site examination, the examiner encountered difficulty in obtaining certain information requested as a result of the Company's operating structure, whereby most of the personnel knowledgeable about information requested were situated at affiliates of the Company. This caused delays in obtaining information requested. The Company attempted to facilitate the examination, however, the Company should initiate further steps to avoid the delays encountered on this examination in the future.

8. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services not provided for in a filed service agreement and by not following the provisions of filed service agreements.	5 – 9
B	The examiner recommends that the Company diversify its independent directors to avoid any appearance of impropriety. Similar recommendations were made in the two prior reports on examination.	11
C	The Company violated Section 4211(b) of the New York Insurance Law by failing to provide written notice to the Superintendent of Mr. Savo's appointment to the board of directors.	12
D	The Company violated Section 91.4(c)(2) of Department Regulation No. 33 by failing to include certain policy liabilities when distributing their net investment income to major annual statement lines of business.	16
E	The Company violated Section 91.4(a) of Department Regulation No. 33 by failing to provide any documentation that supports the Company's method of distributing expenses among companies and to the annual statement lines of business.	16 – 17
F	The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by failing to maintain a complete advertising file at its home office.	22 – 23
G	The Company violated Section 219.4(h) of Department Regulation No. 34-A by failing to substantiate the use of terms such as "low cost" to describe the cost of the life insurance product being advertised.	23
H	The Company violated Section 219.4(o) of Department Regulation No. 34-A by failing to provide documentation to substantiate the use of the term "superior" or terms and phrases of a similar nature contained in six advertisements describing the Company, its' claims service, and its' Series 400 whole life plan.	23 – 24

Item	Description	Page No(s).
I	The Company violated Section 219.4(w) of Department Regulation No. 34-A by using advertisements that failed to include an asterisk or other symbol following all references to a reduced initial premium rate that refers the reader to the full rate schedule of the policy being advertised.	24
J	The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A by using advertisements that call attention to an unauthorized affiliated insurer, Globe, and have the tendency to mislead as to the true identity of the insurer.	25
K	The Company violated Section 219.4(a)(1) of Department Regulation No. 34-A by failing to substantiate statistical information printed in several of its direct response advertisements and its internet advertisement.	25 – 26
L	The Company violated Section 3209(b)(1) of the New York Insurance Law by failing to include language in its direct response advertisements that alerts the prospective purchaser of their right to receive, upon request, a buyer's guide and a policy summary prior to the delivery of the policy.	26
M	The Company violated Section 3207(c) of the New York Insurance Law by issuing policies on minors in excess of the limits allowed by law.	26 – 27
N	The Company violated Section 3209(g) of the New York Insurance Law and Section 53-1.4(a) of Department Regulation No. 74 by failing to maintain at its home office for each policy form, a complete file containing one specimen copy of the preliminary information form and the policy summary form authorized by the insurer.	27
O	The Company violated Sections 53-2.3(a)(1) and (b)(2) of Department Regulation No. 74 by failing to provide evidence that the applications, the preliminary information documents provided to applicants, and the policy summary documents provided to policyholders for policies issued under the Company's Series 400 plan, contained the required disclosure notices regarding minimal or no medical underwriting.	28 – 29

Respectfully submitted,

/s/

Eden M. Sunderman
Senior Insurance Examiner

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

Eden M. Sunderman, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/

Eden M. Sunderman

Subscribed and sworn to before me

this_____ day of _____ 2001.

APPOINTMENT NO. 21629

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:

EDEN SUNDERMAN

as a proper person to examine into the affairs of the

FIRST UNITED AMERICAN LIFE INSURANCE COMPANY

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 4th day of October, 2000

NEIL D. LEVIN
Superintendent of Insurance

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