



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
BAPTIST LIFE ASSOCIATION

CONDITION:

December 31, 2006

DATE OF REPORT:

September 5, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT

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OF THE

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AS OF

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EXAMINER:

LUIS MARQUEZ

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

Eliot Spitzer
Governor

Eric Dinallo
Superintendent

September 5, 2007

Honorable Eric Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22631, dated April 3, 2007 and annexed hereto, an examination has been made into the condition and affairs of Baptist Life Association, hereinafter referred to as "the Association," at its home office located at 8555 Main Street, Buffalo, New York, 14221.

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 Association's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement. (See item 5 of this report)

The examiner's review of the Association's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Association. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 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, 2006 to determine whether the Association's 2006 filed annual statement fairly presents its financial condition. The examiner reviewed the Association'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:

- Association history
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Officers' and employees' welfare and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Association
- Business in force by states
- Mortality and loss experience
- Reinsurance
- Accounts and records
- Financial statements

The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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 ASSOCIATION

A. History

The Association was incorporated under the laws of New York on June 21, 1899, under the name Mutual Benefit Association of the German Baptists of North America. The Association received its final certificate of authority to transact business as a fraternal benefit society on August 22, 1899. The name was changed to German Baptist life Association in 1911, and to its present name, Baptist Life Association in 1934.

B. Management

The Quadrennial Convention is the supreme governing body that has exclusive legislative authority. It meets every four years. The Quadrennial Convention consists of elected delegates and directors of the Association. Each local branch is entitled to elect one delegate. The board of directors ('board') is elected by a plurality of delegates at the Quadrennial Convention. The board may fill any vacancies occurring between regular meetings of the Quadrennial Convention for the unexpired term.

Special conventions may be called by the Chairman of the Board, the President of the Association, or by a majority of the board.

The Association's by-laws provide that the board of directors shall be comprised of 12 directors. As of December 31, 2006 the board consisted of 12 directors. The board meets at least twice a year.

The 12 board members and their principal business affiliation, as of December 31, 2006, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
John M. Andrews* Erie, PA	Retired Accountant Baldwin Brothers Inc.	1980
Dr. Deone W. Drake* Amherst, NY	Singles and Teaching Pastor The Chapel at CrossPoint	2004
John C. Garas* Clarence, NY	Attorney Hopkins, Garas & Sorgi, PLLC	2000
Kenneth L. Griffiths* Tonawanda, NY	Retired Disability Claims Adjuster Sellers Agency	1984
John D. Hunter* East Amherst, NY	Six Sigma Financial Champion Praxair, Inc	2004
Martin E. Link* East Aurora, NY	Licensed Registered Financial Advisor Wachovia Securities, Inc	2004
R. Gordon Mooney* New Castle, PA	Retired District Account Executive Canon USA	1992
Richard H. Murphy East Amherst, NY	Vice Chairman of the Board Baptist Life Association	1984
Marilyn R. Schaer* Wheaton, IL	Retired Associate Director of Development North American Baptist Conference	1995
Daniel J. Trippie, Jr* Nashville, TN	Children's Pastor Journey Church	2004
William A. Wells, Jr* Pendleton, NY	Vice President Beechwood Continuing Care	1998
Steven J. Woodard Lancaster, NY	Chairman of the Board Baptist Life Association	1998

* Not affiliated with the Association

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 Association as of December 31, 2006:

<u>Name</u>	<u>Title</u>
Kit Francis Burr	President
John Quinn Curtin, Jr.*	Secretary/Treasurer

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

C. Territory and Plan of Operation

The Association 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 Association is licensed to transact business in 25 states. In 2006, a majority (73.1%) of all life premiums were received from New York (30.6%), Texas (13.7%), Pennsylvania (11.3%), North Carolina (10.0%) and Michigan (7.5%). A majority (85.2%) of all annuity considerations were received from Texas (72.1%) and New York (13.1%). The high amount of considerations received from Texas was due to several members in Texas transferring business to the Association in 2006. Accident and health premiums received in 2006 (\$3,733) were minimal compared to life and annuity premiums (\$2,242,174). Policies are written on a participating basis.

Life insurance products sold by the Association during the period under examination included basic and single premium whole life, interest sensitive life, annual renewable term, term to age 25, 10-year term, and term insurance for children. Annuity products sold during the examination period included flexible annuities and single premium deferred annuities. During the examination period, 53.7% of first year premiums and considerations were derived from the sale of life insurance certificates and 46.3% was derived from the sale of annuity contracts.

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

D. Reinsurance

As of December 31, 2006, the Association had reinsurance treaties in effect with three companies, two of which were authorized. Reinsurance of the Association's life and accident and health policies is ceded on a coinsurance, modified-coinsurance, and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$50,000. The total face amount of life insurance ceded as of December 31, 2006 was \$90,011,215, which represented 44.5% of the total face amount of life insurance in force. The Association reported surplus relief of \$62,227 as of December 31, 2006.

The Association has reinsurance agreements in place with Optimum Re, which is not authorized or accredited in New York. As support for reserve credits taken under these treaties, the Association has a letter of credit in place in the amount of \$150,000. The Association is the beneficiary of this letter of credit issued by JP Morgan Chase Bank.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Association 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 Association's financial growth (decline) during the period under review:

	<u>December 31,</u> <u>2003</u>	<u>December 31,</u> <u>2006</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	\$ <u>21,716,843</u>	\$ <u>23,829,589</u>	\$ <u>2,112,746</u>
Liabilities	\$ <u>20,904,700</u>	\$ <u>23,020,084</u>	\$ <u>2,115,384</u>
Contingent reserve for orphan Benefits	\$ 20,000	\$ 20,000	\$ 0
Unassigned funds (surplus)	<u>792,143</u>	<u>789,505</u>	<u>(2,638)</u>
Total surplus	\$ <u>812,143</u>	\$ <u>809,505</u>	\$ <u>(2,638)</u>
 Total liabilities and surplus	 \$ <u>21,716,843</u>	 \$ <u>23,829,589</u>	 \$ <u>2,112,746</u>

The Association's invested assets as of December 31, 2006 were mainly comprised of bonds (93.3%) and cash and short-term investments (2.4%).

The majority (94.2%) of the Association's bond portfolio, as of December 31, 2006, was comprised of investment grade obligations, with 84.0% and 10.2% in Class 1 and 2, respectively. The remainder of the portfolio was distributed among Class 3 (1.1%) and Class 4 (4.7%) bonds.

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 Association's filed annual statements:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Ordinary:			
Life insurance	\$ (73,515)	\$ 12,531	\$ 78,195
Individual annuities	169,119	154,625	148,679
Supplementary contracts	<u>(29,432)</u>	<u>(1,583)</u>	<u>(1,993)</u>
Total ordinary	\$ <u>66,172</u>	\$ <u>165,573</u>	\$ <u>224,881</u>
Accident and health	\$ <u>(69)</u>	\$ <u>106</u>	\$ <u>78</u>
Fraternal	\$ <u>(110,241)</u>	\$ <u>(105,889)</u>	\$ <u>(114,103)</u>
Total	\$ <u>(44,138)</u>	\$ <u>59,790</u>	\$ <u>110,856</u>

The Association's loss in the ordinary life line of business for 2004 was due to an unusual increase in death claims. The supplementary contracts line of business reported a higher loss in 2004 than in 2005 and 2006 due to higher amounts of reserves being released in those two years.

The fraternal line of business will by its nature always reflect a loss, as that line of business has no income. The Association does not charge its members dues or fees.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2006, as contained in the Association's 2006 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 Association's financial condition as presented in its financial statements contained in the December 31, 2006 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2006

Admitted Assets

Bonds	\$21,678,772
Stocks - common stocks	9,451
Real estate - properties occupied by the Association	293,821
Cash, cash equivalents and short term investments	560,717
Contract loans	692,779
Investment income due and accrued	380,998
Deferred premiums and uncollected on in force business	181,695
Electronic data processing equipment and software	<u>31,356</u>
 Total admitted assets	 <u>\$23,829,589</u>

Liabilities, Surplus, and Other Funds

Aggregate reserve for life policies and contracts	\$22,500,554
Liability for deposit-type contracts	208,340
Certificate and contract claims – life	49,695
Premiums and annuity considerations for life and accident and health contracts received in advance	14,926
Interest maintenance reserve	1,451
Commissions to fieldworkers due or accrued	4,779
General expenses due or accrued	22,615
Taxes, licenses and fees due or accrued	15,178
Amounts withheld or retained by Association as agent or trustee	1,934
Remittances and items not allocated	5,958
Asset valuation reserve	172,635
Unclaimed benefits	12,088
Benevolent fund	<u>9,931</u>
Total liabilities	<u>\$23,020,084</u>
Contingent reserve for orphan benefits	\$ 20,000
Unassigned funds	<u>789,505</u>
Total surplus and other funds	<u>\$ 809,505</u>
Total liabilities, surplus, and other funds	<u>\$23,829,589</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$1,783,897	\$1,899,893	\$2,059,341
Investment income	1,364,052	1,397,177	1,432,625
Commissions and reserve adjustments on reinsurance ceded	531	459	432
Miscellaneous income	<u>1,068</u>	<u>820</u>	<u>13,307</u>
 Total income	 <u>\$3,149,548</u>	 <u>\$3,298,349</u>	 <u>\$3,505,705</u>
Benefit payments	\$1,688,645	\$1,701,526	\$1,619,613
Increase in reserves	596,290	625,195	848,582
Commissions	91,815	84,853	70,647
General expenses and taxes	817,917	826,858	854,166
Increase in loading on deferred and uncollected premium	<u>(981)</u>	<u>127</u>	<u>1841</u>
 Total deductions	 <u>\$3,193,686</u>	 <u>\$3,238,559</u>	 <u>\$3,394,849</u>
 Net gain (loss) from operations before net realized capital gains	 <u>\$ (44,138)</u>	 <u>\$ 59,790</u>	 <u>\$ 110,856</u>
 Net income (loss)	 <u>\$ (44,138)</u>	 <u>\$ 59,790</u>	 <u>\$ 110,856</u>

C. SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus, December 31, prior year	\$ <u>812,143</u>	\$ <u>824,554</u>	\$ <u>794,036</u>
Net income (loss)	\$ (44,138)	\$ 59,790	\$110,856
Change in net unrealized capital gains	3,184	1,045	5,798
Change in non-admitted assets and related items	2,243	181	776
Change in asset valuation reserve	56,122	(26,598)	(29,124)
Change in surplus as a result of reinsurance	<u>(5,000)</u>	<u>(64,936)</u>	<u>(72,837)</u>
Net change in capital and surplus	\$ <u>12,411</u>	\$ <u>(30,518)</u>	\$ <u>15,469</u>
Capital and surplus, December 31, current year	\$ <u>824,554</u>	\$ <u>794,036</u>	\$ <u>809,505</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Association's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Association.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Association'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.

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

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. CUSTODIAN AGREEMENTS

Department Circular Letter No. 2 (1977) sets forth affidavits to be used to confirm insurers' securities held by custodian banks. Based upon the guidance provided by this Circular Letter, brokerage firms are not acceptable custodians for securities. The Association has held securities on deposit at Smith Barney since May 14, 1985 and at Paine Webber since April 1, 1987. The Association continues to maintain its securities at the two brokerage houses despite the Department's recommendations to transfer the assets to an authorized bank or trust company.

The examiner recommends that the Association enter into a custodial agreement with an appropriate bank or trust company for the safekeeping of its securities.

8. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Association enter into a custodial agreement for the holding of its securities with an appropriate institution.	15

APPOINTMENT NO. 22631

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

LUIS MARQUEZ

as a proper person to examine into the affairs of the

BAPTIST LIFE ASSOCIATION

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

FRATERNAL BENEFIT SOCIETY

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 3rd day of April, 2007

ERIC R. DINALLO
Acting Superintendent of Insurance

Eric R. Dinallo
Acting Superintendent

