STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

AMERICAN INTERNATIONAL LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 1998

DATE OF REPORT: NOVEMBER 5, 1999

EXAMINER: JAMES MATHESON

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

November 5, 1999

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No.21371, dated February 26, 1999 and annexed hereto, an examination has been made into the condition and affairs of American International Life Assurance Company of New York, hereinafter referred to as "the Company", at its home office located at 70 Pine Street, New York, New York 10270.

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 Company is a wholly owned subsidiary of the American International Group (AIG) and its subsidiary, American Home Assurance Company. The Company writes a variety of life, group life, annuities and accident and health insurance.

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, 1998 filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities revealed that the Company violated Section 219.4(p) of Department Regulation No. 34-a by utilizing an advertisement which had a tendency to obscure the true identity of the insurer. (See item 6 of this report)

The Company violated Section 3214(c) of the New York Insurance Law by not paying sufficient interest on death claims. (See item 6 of this report)

The Company also violated Section 4216(e) of the New York Insurance Law by paying compensation to an agent in excess of the Company's compensation plan on file with the Superintendent. (See item 7 of this report)

The Company entered into a significant reinsurance agreement with Metropolitan Life Insurance Company (Metropolitan) on December 31, 1998. Under the terms of the contract the Company agreed to reimburse Metropolitan for extra contractual life insurance benefits associated with various blocks of policies issued by Metropolitan. (See item 3E of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the period from January 1, 1996 through December 31, 1998. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 1998 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, 1998 to determine whether the Company's filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations, recommendations and/or comments contained in the prior report on examination. The results of the examiner's review are contained in item 8 of this report.

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

3. DESCRIPTION OF COMPANY

A. History

The Company was organized as a stock life insurance company on March 16, 1962, under the provisions of Section 48, now Section 1201, of the New York Insurance Law and commenced business in April 1963. It was incorporated with an authorized capital of $1,000,000 consisting of 10,000 shares of common stock with a par value of $100 per share, and paid-in and contributed surplus of $1,000,000. In 1972, the authorized capital was increased by $250,000 as a result of a stock dividend. In 1989, the authorized capital was increased to $2,500,000 consisting of 12,500 shares of common stock with a par value of $200 per share. This reduced paid-in and contributed surplus by $1,250,000. Authorized capital was increased and paid-in and contributed surplus was decreased by $725,000 in 1991. From 1973 through 1993, the parent company, American International Group, made contributions to surplus totaling $198,000,000 bringing the current paid-in and contributed surplus to $197,025,000.

B. Holding Company

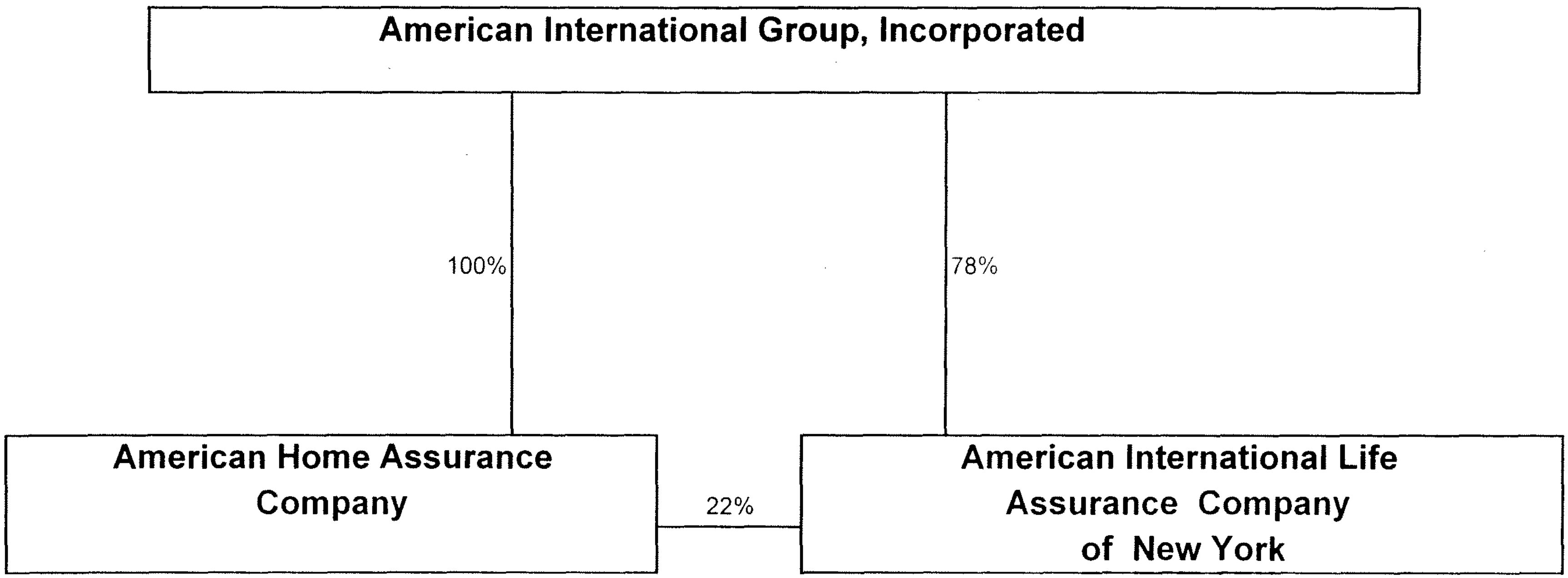
The Company is 78% owned by American International Group, Incorporated, a Delaware corporation, (hereinafter referred to as the parent or AIG). AIG is a publicly traded corporation which is partially owned (15.98%) by Starr International Company, Incorporated. Starr International's major stockholders are the directors of C.V. Starr and Company, Incorporated, which collectively holds 90.9% of Starr International outstanding stock. American Home Assurance Company, a subsidiary of AIG, owns the remaining shares of the Company.

The sales and part of the underwriting operations of the Company are conducted at its home office by officers and employees of the Company. Certain operations and functions, including accounting, premium billing and collection, reinsurance, actuarial, auditing, agency matters and policyholder services are provided by an affiliate, AIG Life Insurance Company from its offices in Wilmington, Delaware. Investment services, office management and supply services and personnel administration are provided to the Company by AIG and its subsidiaries in New York. Electronic data processing is performed for the Company by AIG Data Center located in New Jersey. The Company has one service agreement covering services provided by and to its parent and a number of affiliates. Services received include accounting, premium billing and collection, reinsurance, actuarial, auditing agency matters, policyholder services and electronic data processing.

The Company also entered into Mortgage Loan Service Agreements with a member of its holding company for each of the 68 mortgages that the Company acquired during the examination period. Service agreements entered into prior to January 1, 1998 are with AIG Mortgage Finance Co., Inc. Agreements entered into subsequent to January 1, 1998 are with its successor, AIG Global Real Estate. Under each agreement the loan servicer, in return for a service fee, agreed to perform day to day administration and management of the loan, collect principal and interest due and maintain the books of account and records for such loan.

Fidelity bonds and other insurance coverage are purchased by AIG and include the Company as a named insured. The Company's employees are included under AIG's employee insurance program as well as its pension plan.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 1998 follows:


American International Group, Incorporated
100%
78%
American Home Assurance Company
22%
American International Life Assurance Company of New York

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 25 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 1998, the board of directors consisted of 20 members. Meetings of the board are held quarterly.

The 20 board members and their principal business affiliation, as of December 31, 1998, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Michele L. Abruzzo New York, New York	Senior Executive Vice President American International Life Assurance Company of New York	1998
Peggy J. Birk New York, New York	General Counsel Domestic General Brokerage Group American International Group Inc.	1998
Peter J. Dalia* North Miami Beach, Florida	Retired	1985
Marion E. Fajen* Des Moines, Iowa	Retired	1989
Patrick J. Foley* Neptune, Florida	Retired	1996
Cecil C. Gamwell III* Westport, Connecticut	Retired	1994
Maurice R. Greenberg New York, New York	Chairman and Chief Executive Officer American International Group, Inc.	1962
Jacob E. Hansen Greenville, Delaware	President AIG Marketing, Inc.	1991
Jack R. Harnes* Pawling, New York	Retired	1971
John I. Howell* Greenwich, Connecticut	Retired	1988

Name and Residence	Principal Business Affiliation	Year First Elected
Jeffery M. Kestenbaum Katonah, New York	Senior Vice President American International Life Assurance Company of New York	1994
Edwin A. G. Manton* New York, New York	Retired	1995
Jerome T. Muldowney Norwalk, Connecticut	Senior Managing Director AIG Global Investment Coporation	1984
Win J. Neuger Princeton, New Jersey	Senior Vice President American International Group, Inc.	1995
Nicholas A. O'Kulich New York, New York	Senior Vice President American International Life Assurance Company of New York	1990
John R. Skar Newton Square, Pennsylvania	Chief Actuary American International Life Assurance Company of New York	1992
Ernest E. Stempel Fairylands, Bermuda	Chairman of the Board American International Life Assurance Company of New York	1989
Edmund S. Tse Wan Chai, Hong Kong	Vice Chairman – Life Insurance American International Group, Inc.	1997
Gerald W. Wyndorf Greenville, Delaware	President American International Life Assurance Company of New York	1995

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

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended. The examiner also noted that Maurice R. Greenberg did not attend any directors meetings during the examination period. On January 8, 1999 Peter J. Dalia, Edwin A. G. Manton, Ernest E. Stempel, Jacob E. Hansen, Jeffery M. Kestenbaum, Win J. Neuger and Peggy J. Birk resigned from the board. New directors were not appointed. The current board is comprised of thirteen directors.

The following is a listing of the principal officers of the Company as of December 31, 1998:

Name	Title
Gerald W. Wyndorf	Chief Executive Officer President
Michael J. Mullin	Chief Operating Officer
Howard E. Gunton, Jr.	Chief Financial Officer
Michele L. Abruzzo	Senior Executive Vice President
Jeffery M. Kestenbaum	Executive Vice President
Gregory A. Arms	Senior Vice President
James A. Bambrick	Senior Vice President
Raymond T. Chen	Senior Vice President
Henry C. Hsiang	Senior Vice President
Robert Liguori*	Senior Vice President and General Counsel
Edward E. Matthews	Senior Vice President - Finance
Jerome T. Muldowney	Senior Vice President
Arshad H. Qureshi	Senior Vice President - New Products
John Skar	Senior Vice President and Chief Actuary
Elizabeth M. Tuck	Secretary

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

On June 8, 1999, David R. Batman replaced Robert Liguori as designated consumer services officer.

On March 15, 1999 John Skar resigned as Senior Vice President and Chief Actuary and was replaced by Paul S. Bell. Senior Vice President and General Counsel Robert Liguori resigned in March 1999 and was replaced by Kenneth Walma. On October 29, 1999 Howard E. Gunton, Jr. resigned as Chief Financial Officer and was replaced by Stephen White, on an acting basis. On March 15, 2000 John Oehmke was appointed Chief Financial Officer.

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in the District of Columbia, American Samoa, U.S. Virgin Islands, Guam, and all states except Arizona, Connecticut, and Maryland. The Company began marketing variable annuity contracts in 1988. All individual business is written on a non-participating basis while group policies receive experience refunds under certain conditions. In 1998, 73% of life premiums, 96% of accident and health premiums, and 96% of annuity considerations were received from New York State.

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

E. Reinsurance

As of December 31, 1998, the Company had reinsurance treaties in effect with 107 companies, of which 49 were authorized or accredited. Reinsurance of the Company's ordinary life, annuity, accident and health, group life and group accident and health insurance is ceded on a coinsurance, yearly renewable term and catastrophe basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is $1,000,000. The total face amount of life insurance ceded as of December 31, 1998, was $579,951,647, which represents 11% of the total face amount of life insurance in force. The Company reported a reserve credit for reinsurance ceded to unauthorized companies, totaling $763,202. This amount was supported by letters of credit, trust agreements and funds withheld totaling $427,126. The Company also reported a liability for reinsurance in unauthorized reinsurers of $336,075.

In addition to the reinsurers indicated above the examiner found that the Company listed reinsurance with several Lloyd's Syndicates as admitted reinsurers in its 1998 filed annual statement. Lloyd's Syndicates are not considered authorized reinsurers for life insurance companies. The Company reported reserve credit of $5,460,213 for these reinsurance contracts. This amount was supported by letters of credit and funds withheld.

The total face amount of life insurance assumed, as of December 31, 1998, was $445,900. The Company assumes business from eleven insurers, five of which are affiliates of the Company. The Company's major accident and health assumption agreement is with American Home Assurance Company, an affiliate.

The Company entered into a major life assumption agreement with the Metropolitan Life Insurance Company (Metropolitan) on December 31, 1998. Under the terms of this contract the Company agreed to reimburse Metropolitan for extra contractual life benefits associated with various blocks of policies issued by Metropolitan. Benefits are being provided in response to a class action litigation.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the 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, 1995	December 31, 1998	Increase (Decrease)
Admitted assets	$4,993,531,618	$6,322,973,164	$1,329,441,546
Liabilities	$4,735,622,103	$5,985,803,158	$1,250,181,055
Common capital stock	$ 3,225,000	$ 3,225,000	$ 0
Gross paid in and contributed surplus	197,025,000	197,025,000	0
Group Contingency Reserve	4,571,137	4,418,319	(152,818)
Annuity Mortality Fluctuation Fund	79,872	314,264	234,392
Separate Acct. Contingency Reserve	1,703,767	0	(1,703,767)
Unassigned funds (surplus)	51,304,739	132,187,423	80,882,684
Total capital and surplus	$ 257,909,515	$ 337,170,006	$ 79,260,491
Total liabilities, capital and surplus	$4,993,531,618	$6,322,973,164	$1,329,441,546

The Company's invested assets as of December 31, 1998, exclusive of separate accounts, were mainly comprised of bonds (81.3%), mortgage loans (9.6%) and cash and short term investments (6.9%). The majority (89.6%) of the Company's bond portfolio as of December 31, 1998 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:

	1996	1997	1998
Ordinary:			
Life insurance	$ (3,122,846)	$ 2,197,775	$ 2,907,324
Individual annuities	9,777,329	8,238,220	8,865,019
Supplementary contracts	572,954	297,148	76,435
Total ordinary	$ 7,227,436	$10,733,143	$11,848,778
Credit life	$ 86,528	$ (87,362)	$ (37,851)
Group:			
Life	$ 543,976	$ 379,313	$ 943,321
Annuities	37,955,798	39,930,862	27,535,355
Total group	$38,499,774	$40,310,175	$28,478,676
Accident and health:			
Group	$ 2,228,277	$ 4,804,843	$ (2,861,671)
Credit	41,403	(81)	89
Other	(28,347)	(8,385)	(218,536)
Total accident and health	$ 2,241,333	$ 4,796,377	$ (3,080,118)
Total	$48,055,072	$55,752,333	$37,209,485

Totals may not add due to the effects of rounding.

The decrease in group annuity income is primarily attributed to a decrease in sales of the Company's flexible premium deferred annuities. Declining interest rates and strong stock market performance during the year has negatively impacted demand for this product.

The decrease in group accident and health income is primarily caused by increases in benefits paid under these policies.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 1998 as contained in the Company's filed 1998 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, 1998 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 1998

Admitted Assets	
Bonds	$4,798,348,647
Stocks:	
Preferred stocks	13,544,040
Common stocks	27,182,401
Mortgage loans:	
First liens	563,477,356
Real estate:	
Investment real estate	19,587,450
Policy loans	10,281,410
Cash and short term investments	409,304,231
Other invested assets	57,380,744
Receivable for securities	131,413
Interest receivable	7,716
Reinsurance ceded:	
Amounts recoverable from reinsurers	9,399,160
Commissions and expense allowances due	3,014,387
Experience rating and other refunds due	1,810,377
Other amounts receivable under reinsurance contracts	296,795
Electronic data processing equipment	15,559
Guaranty fund receivable or on deposit	956,525
Life insurance premiums and annuity considerations deferred and uncollected on in force business	358,099
Accident and health premiums due and unpaid	1,108,874
Investment income due and accrued	81,703,238
Receivable from parent, subsidiaries and affiliates	5,433,029
From Separate Accounts Statement	319,631,713
Total admitted assets	$6,322,973,164

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$4,509,838,578
Aggregate reserve for accident and health policies	4,286,270
Supplementary contracts without life contingencies	12,061,183
Policy and contract claims:	
Life	287,560,841
Accident and health	19,109,939
Premiums and annuity considerations received in advance	275,768
Liability for premium and other deposit funds:	
Guaranteed interest contracts	675,444,841
Policy and contract liabilities:	
Provision for experience rating refunds	7,548,689
Interest maintenance reserve	24,117,355
Commissions to agents due or accrued	704,012
Commissions and expense allowances payable on reinsurance assumed	818,779
General expenses due or accrued	2,525,752
Transfers to Separate Accounts due or accrued	(10,381,695)
Taxes, licenses and fees due or accrued	1,006,209
Cost of collection on premiums and annuity considerations deferred and uncollected in excess of total loading thereon	55,725
Unearned investment income	22,486
Amounts withheld or retained by company as agent or trustee	95,397
Remittances and items not allocated	23,721,304
Miscellaneous liabilities:	
Asset valuation reserve	77,000,018
Reinsurance in unauthorized companies	336,075
Funds held under reinsurance treaties with unauthorized reinsurers	144,064
Payable to parent, subsidiaries and affiliates	22,840,034
Funds held under coinsurance	716,055
Reserve for outstanding checks	576,186
Beneficiary amounts on deposit	5,747,580
From Separate Accounts Statement	319,631,713
Total liabilities	$5,985,803,158
Common capital stock	$ 3,225,000
Gross paid in and contributed surplus	197,025,000
Group contingency reserve	4,418,319
Annuitant mortality fluctuation fund	314,264
Total capital, surplus and other funds	$ 337,170,006
Total liabilities, capital, surplus and other funds	$6,322,973,164

B. CONDENSED SUMMARY OF OPERATIONS

	1996	1997	1998
Premiums and considerations	$ 752,632,669	$ 727,291,310	$ 855,807,817
Investment income	397,885,186	429,218,229	438,073,655
Commissions and reserve adjustments on reinsurance ceded	822,311	2,141,595	2,240,915
Miscellaneous income	0	24,030,497	5,045,817
Total income	$1,151,340,166	$1,182,681,631	$1,301,168,204
Benefit payments	$ 617,717,770	$ 715,773,479	$ 988,634,063
Increase in reserves	326,200,243	251,828,099	123,367,048
Commissions	26,454,123	27,941,606	25,346,488
General expenses and taxes	36,538,368	35,191,891	39,651,838
Increase in loading and cost of collection	(11,508)	(18,587)	(7,789)
Net transfers to (from) Separate Accounts	73,889,924	66,526,598	58,945,763
Miscellaneous deductions	2,193,302	2,261,748	(410,439)
Total deductions	$1,082,982,222	$1,099,504,834	$1,235,526,972
Net gain (loss)	$ 68,357,944	$ 83,176,797	$ 65,641,232
Federal income taxes	20,302,874	27,424,461	28,431,749
Net gain (loss) from operations before net realized capital gains	$ 48,055,070	$ 55,752,336	$ 37,209,483
Net realized capital gains (losses)	419,266	2,452,780	(1,823,961)
Net income	$ 48,474,336	$ 58,205,116	$ 35,385,522

C. CAPITAL AND SURPLUS ACCOUNT

	1996	1997	1998
Capital and surplus, December 31, prior year	$257,909,515	$254,169,153	$321,546,443
Net income	$ 48,474,336	$ 58,205,116	$ 35,385,522
Change in net unrealized capital gains (losses)	5,808,029	(1,471,891)	(791,956)
Change in nonadmitted assets and related items	(25,668)	245,432	(119,139)
Change in liability for reinsurance in unauthorized companies	202,340	(199,122)	(38,150)
Change in reserve valuation basis	0	0	(81,229)
Change in asset valuation reserve	(7,797,672)	5,352,705	(11,177,010)
Dividends to stockholders	(50,000,000)	0	(10,000,000)
Federal income taxes relating to prior years	(401,727)	5,245,050	2,445,525
Net change in capital and surplus	$ (3,740,362)	$ 67,377,290	$ 15,623,563
Capital and surplus, December 31, current year	$254,169,153	$321,546,443	$337,170,006

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.

Section 219.4(p) of Department Regulation No. 34-a states:

> "In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States. An advertisement shall prominently describe the type of policy advertised. If a specific policy or policy series is being advertised, the form or series number or other appropriate description shall be shown. 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 the policy."

The examiner reviewed a sample of fifty eight advertisements utilized by the Company during the examination period. The Company failed to identify the name of the city, town or village in which it has its home office or the policy form number in five of the fifty-eight advertisements reviewed. Three additional advertisements in the sample failed to include the policy form number of the life insurance policies being advertised. Another advertisement contained the wording "...backed by the financial strength of the AIG Life Companies...". The wording quoted gives the impression that the AIG Life Companies collectively would have financial responsibilities under the contract.

The Company violated Section 219.4(p) of Department Regulation No. 34-a by utilizing an advertisement which had a tendency to obscure the true identity of the insurer.

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.

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

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

The examiner selected and reviewed a sample of twenty-five death claims paid during the calendar year 1998. The examiner found that the Company paid insufficient interest for four of the twenty-five claims reviewed. The Company violated Section 3214(c) of the New York

Insurance Law by paying insufficient interest on death claims. In three of the four claims cited above the Company paid interest in accordance with the beneficiary's state of residency instead of the state of policy issuance (New York). The same situation was noted in the prior Report on Examination.

During the review of the Company's death and accident and health claim files the examiner noted that the Company utilized the stationary of an affiliate during correspondence with claimants and or beneficiaries. The examiner recommends that the Company enhance its controls procedures to assure that all Company correspondence is conducted on Company stationary.

7. ACCOUNTS AND RECORDS

Upon commencing the review of the Company's accounts the examiner selected a sample of transactions from the Company's general ledger. The examiner requested that the Company provide supporting documentation, including supporting vouchers and cancelled checks or wire transfers for each transaction in the sample.

While the Company supplied the requested information for a portion of the sample within a reasonable time frame, many of the items requested had not been received by the examiners after a delay of several weeks, and for some documentation several months.

The inability of the Company to provide the requested materials in a timely manner had a negative impact on the examiner's efforts to review the Company's books of account. The examiner recommends that the Company enhance its accounting document retrieval system so as to enable the Company to provide documentation supporting the Company's transactions in a timely manner.

Section 91.4(a)(5) of Department Regulation No. 33 states:

> "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)(1) and (f)(5) of Department Regulation No. 33 state in part:

> "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 varying volume of work performed

> for each line of business shall be considered in distributing cost to major annual statement lines of business…"
>
> "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…"

The examiner selected and reviewed a sample of 15 intercompany transactions from the Company's general ledger. During the review the examiner found that three of the transactions in the sample were allocated to the Company based upon the Company's aggregate accident and health premium as compared to the accident and health premium of the group.

The Company indicated that the allocated rental expenses were for two New York and one Chicago accident and health sales offices and that the allocations were made based upon accident and health premiums for the two companies. Based upon our review of Schedule T contained in the Company's 1998 filed annual statement, the premium index used by the Company disproportionately allocated these rental expenses. The Company was charged for fifty percent of the rental expense of the Chicago office, although the premium volume in the Midwest was nominal.

It is recommended that the Company amend its method of allocating rental expenses to more accurately reflect actual costs incurred by the Company in accordance with the provisions of Section 91.4 of Department Regulation No. 33.

The review of policy claims revealed that the Company shares its claim log and claim numbers with other subsidiaries of its parent. The claim log supplied by the Company listed claims sequentially by "related lines of business" the Company indicated that it was unable to provide a claim log sequentially by claim number for just the Company's claims.

Due to the manner in which the Company maintains its claim log the examiner could not ascertain if claims had been omitted from the data supplied. The examiner recommends that the Company's claim log be maintained independent of its affiliates and that the Company maintain a record of omitted claim numbers to enable the Company to explain any gaps in its claim numbers.

Section 4216(e) of the New York Insurance Law states in part:

> "No insurer shall pay to an agent or agents for the solicitation or sale of a policy of group life insurance or for any other purpose related to such group insurance any commission, compensation or other fees or allowances in excess of that determined on the basis of the schedules of such insurer as then on file with the superintendent..."

The Company paid, in addition to ordinary commissions "finder fees" to an agent. The Company's agency compensation plan on file with the Superintendent does not contain provisions for "finder fees". The Company violated Section 4216(e) of the New York Insurance Law by paying compensation to an agent in excess of its agency compensation plan on file with the Superintendent.

9. 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:

A The Company did not maintain disclosure statements in the file as required by Department Regulation 60.

The Company has amended its procedures to ensure that all underwriting files contain a completed disclosure statement.

B The Company did not file agent termination notices as required by Section 2122 of the New York Insurance Law.

The Company has instituted procedures to ensure that termination notices are forwarded to the Insurance Department upon termination of an agent.

C The Company does not pay interest on death claims in accordance with Section 3214(c) of the New York Insurance Law.

The Company continued to violate Section 3214 (c) during the examination period. (See item 6C of this report)

D The Company violated Section 1403(d)(2) for purchasing an interest rate cap not connected with bona fide hedging transactions.

The Company has not entered into interest rate caps during the examination period.

E The Company violated Section 1411(a) for purchasing an investment without approval of the Company's board of directors.

The Company has strengthened its procedures to ensure that all investments receive board approval.

F The Company violated Section 4224(c) of the New York Insurance Law by giving a 20% discount on life insurance premiums to employees of AIG affiliated companies.

The Company has terminated its employee discount program.

G The Company has three general ledger accounts that have been accumulating balances. It is recommended that the Company take the necessary steps to resolve balances in various accounts.

The Company initiated procedures to prevent the accumulation of balances within general ledger accounts.

H The Company violated Section 4235(h)(1) (2) and (3) of the New York Insurance Law for not using premium rates on file with the superintendent in connection with the issuance of group long term disability policies.

The Company has restated its procedures to reinforce that only rates filed and approved are to be used.

10. SUMMARY AND CONCLUSIONS

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

Item	Description	Page No(s).
A	The Company violated Section 219.4(p) of Department Regulation No. 34-a by utilizing an advertisement which had a tendency to obscure the true identity of the insurer.	19
B	The Company violated Section 3214(c) of the New York Insurance Law by paying insufficient interest on death claims.	20
C	The examiner recommends that the Company enhance its controls procedures to assure that all Company correspondence is conducted on Company stationary.	20
D	The examiner recommends that the Company enhance its accounting document retrieval system so as to enable the Company to provide documentation supporting the Company's transactions in a timely manner.	20
E	It is recommended that the Company amend its method of allocating rental expenses to more accurately reflect actual costs incurred by the Company in accordance with the provisions of Section 91.4 of Department Regulation No. 33.	21
F	The examiner recommends that the Company's claim log be maintained independent of its affiliates.	21
G	The Company violated Section 4216(e) of the New York Insurance Law by paying compensation to an agent in excess of its agency compensation plan on file with the Superintendent.	22

Respectfully submitted,

/s/
James Matheson, CFE, CLU
Associate Insurance Examiner

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

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

/s/
James Matheson, CFE, CLU

Subscribed and sworn to before me

this_________ day of ___________________

Appointment No. 21371

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:*

James Matheson

as a proper person to examine into the affairs of the

American International Life Assurance 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 this Department, at the City of New York,

this 26th day of February 1999

NEIL D. LEVIN
Superintendent of Insurance