

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

NATIONAL BENEFIT LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT:

JULY 8, 2003

EXAMINER:

JOSHUA WEISS

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

July 8, 2003

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

Sir:

In accordance with instructions contained in Appointment No. 21994, dated January 21, 2003 and annexed hereto, an examination has been made into the condition and affairs of the National Benefit Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 333 West 34th Street, New York, New York 10001.

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, 2002 filed annual statement. (See item 5 of this report)

The Company violated Section 1202(b)(1) of the New York Insurance Law and its by-laws when it held investment committee meetings without having an unaffiliated person included in the quorum. (See item 3C of this report)

A review of the Company's December 31, 2002 asset adequacy analysis determined that the actuarial systems and procedures used in connection with this analysis needed to be updated. The Company has committed to having a new actuarial system fully implemented with respect to the December 31, 2004 asset adequacy analysis. (See item 5D of this report)

The Company violated Section 4232(b)(4) of the New York Insurance Law by crediting additional amounts on individual life policies without having written criteria approved by the board of directors or a committee thereof. (See item 6C of this report)

The Company violated Section 4231(g)(1)(D) of the New York Insurance Law by making readjustments to the rate of premium on individual life policies without having written criteria approved by the board of directors or a committee thereof. (See item 6C of this report)

The Company violated Section 3204 of the New York Insurance Law when it applied the automatic premium loan ("APL") provision, instead of the non-forfeiture provision stated in the contract, for policyholders who did not affirmatively select the APL option in their application. (See item 6C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2002. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2002 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, 2002 to determine whether the Company's 2002 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
- Officers' and employees' welfare and pension plans
- 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 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 COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on June 18, 1962, under the name Constitutional National Life Insurance Company. On January 2, 1963, the name of the Company was changed to Beneficial Standard Life Insurance Company of New York. The Company was licensed and commenced business on May 14, 1963. On June 28, 1963, the name of the Company was changed to Beneficial National Life Insurance Company. On December 31, 1980, the name of the Company was changed to its present name, National Benefit Life Insurance Company.

Initial resources of \$1,250,000, consisting of common capital stock of \$500,000 and paid in and contributed surplus of \$750,000, were provided through the sale of 500,000 shares of common stock (with a par value of \$1 each) for \$2.50 a share. As of December 31, 2002, the Company's paid in capital consisted of 1,666,667 shares of common stock with a par value of \$1.50 a share. As of December 31, 2002, the Company's paid in and contributed surplus amounted to \$207,903,467.

The Company was originally controlled by Beneficial Standard Life Insurance Company. On April 22, 1970, Benefit National Corporation, a holding company owned by Beneficial Standard Life Insurance Company, acquired a majority interest of the outstanding stock of the Company and assumed control of the Company. On June 7, 1979, Associated Madison Companies, Inc. ("AMAD") acquired all of the shares of Beneficial National Corporation and became the Company's immediate parent, controlling 97.7% of the outstanding stock of the Company.

On April 8, 1982, Primerica Corporation acquired control of AMAD and its subsidiary companies. On December 15, 1982, the Company, pursuant to Section 481-a (now Section 7118) of the New York Insurance Law, acquired the minority interest represented by 41,130 shares of the Company's outstanding shares. The acquired shares were retired by the Company resulting in a reduction in paid in capital to \$1,801,370, (1,801,370 shares at \$1.00 a share) and the Company became a wholly owned subsidiary of AMAD.

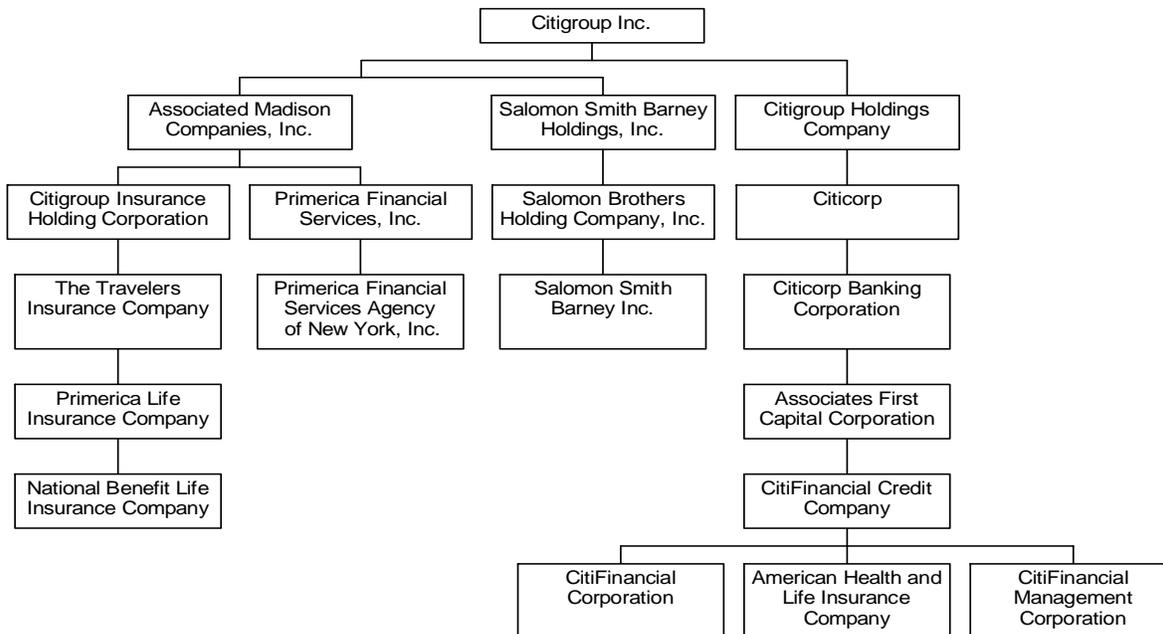
On December 31, 1993, Primerica Corporation purchased Travelers, Inc. and changed its name to Travelers Group.

On October 8, 1998, Travelers Group merged with Citicorp to form Citigroup Inc., which became the Company's ultimate parent.

B. Holding Company

The Company is a wholly owned subsidiary of Primerica Life Insurance Company ("Primerica"), a Massachusetts insurance company. Primerica is in turn a wholly owned subsidiary of The Travelers Insurance Company. The ultimate parent of the Company is Citigroup Inc., a Delaware financial services holding company. Also included in the holding company system is First Citicorp Life Insurance Company, a New York domiciled life insurer.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2002 follows:



The Company had eight service agreements in effect with its affiliates on December 31, 2002.

1. An investment advisory agreement with The Travelers Insurance Company to manage the investment portfolio of the Company. Salomon Smith Barney, Inc., an affiliate, is permitted to act as a registered broker-dealer and receive commissions that would otherwise be paid to a non-affiliated registered broker-dealer.

2. A data processing agreement with Primerica to perform certain data processing functions for the Company.

3. A lease agreement with Salomon Smith Barney, Inc. to lease the Company's home office space.

4. A cost sharing agreement with Citigroup Inc whereby: underwriting; policyholder; claim; marketing; agency and administration; processing of cash receipts and disbursements; purchasing; correspondence and communication services are provided.

5. A payroll service agreement with The Travelers Insurance Company, AMAD, CitiFinancial Corporation and CitiFinancial Management Corporation that provides the Company certain payroll services.

6. A general agent agreement with Primerica Financial Services Agency of New York, Inc. ("PFSANY") whereby PFSANY is the sole general agent in New York for the sale of term life insurance (exclusive of student term life). PFSANY is responsible for recruiting, training and supervising their sub-agents.

7. An administrative service agreement with American Health and Life Insurance Company ("AHL") whereby AHL provides application processing, underwriting, claim processing, policyholder service and financial reporting services for the credit life and accident and health business written by the Company in New York.

8. A lockbox agreement with Citicorp whereby Citicorp will collect for processing, on behalf of the Company, checks received in the lockbox.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. The number of directors shall be no less than 13 within one year of following the end of the calendar year in which the Company's assets increase to \$1.5 billion. Directors are elected for a period of one year at the annual meeting of the stockholders held on the last business day in February of each year. As of December 31, 2002, the board of directors consisted of ten members. Meetings of the board are held semi-annually.

The ten board members and their principal business affiliation, as of December 31, 2002, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Alvin H. Alpert * Sedona, AZ	Insurance Consultant	1991
Joseph Auerbach * Boston, MA	Attorney Sullivan & Worcester	1982
Gene C. Collins Rye, NY	Chief Investment Officer National Benefit Life Insurance Company Vice President – Investments Citigroup Inc.	1999
Donald R. Cooper Black Mountain, NC	Consultant Citigroup Inc.	1990
Joseph Gary Condon Ridgefield, CT	Executive Vice President and Chief Financial Officer National Benefit Life Insurance Company	2002
Donald Kramer * New York, NY	Vice Chairman Ace Ltd.	1979
Raul Rivera Garden City, NY	Chairman, President and Chief Executive Officer National Benefit Life Insurance Company	1991
William J. Sheppard Santa Monica, CA	Senior Vice President State Government Relations, Citigroup Inc.	1990
William W. Rosenblatt* Short Hills, NJ	Partner Dewey Ballantine LLP	2000
D. Richard Williams Atlanta, GA	Co - Chief Executive Officer and Chief Operating Officer Primerica Life Insurance Company	1992

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

In February 2003, D. Richard Williams resigned from the board and was replaced by Jeffrey S. Fendler.

The following is a listing of the principal officers of the Company as of December 31, 2002:

<u>Name</u>	<u>Title</u>
Raul Rivera	Chairman, President and Chief Executive Officer
Joseph Gary Condon	Executive Vice President and Chief Financial Officer
Joseph Gill*	Senior Vice President – Insurance Operations
C. John Tiensch	Senior Vice President, Treasurer and Controller
Larry Warren	Senior Vice President and Chief Actuary
Elliot Wohl	Senior Vice President, Secretary and General Counsel
Sheila Wyse	Senior Vice President – Specialty Marketing
Gene C. Collins	Chief Investment Officer

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

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.

Section 1202(b)(1) of the New York Insurance Law states, in part:

“ . . . not less than one-third of the directors of a domestic stock life insurance company and not less than one-third of the members of each committee of the board of directors of any domestic life insurance company shall be persons who are not officers or employees of such company or of any entity controlling, controlled by, or under common control with such company and who are not beneficial owners of a controlling interest in the voting stock of such company or any such entity. At least one such person must be included in any quorum for the transaction of business at any meeting of the board of directors or any committee thereof.”

Section 6 of Article IV of the Company’s by-laws states, in part:

“Other Committees. From time to time the board, by the affirmative vote of a majority of the whole board, may appoint other committees for any purpose or purposes, and such committees shall have such powers as shall be conferred by the resolution of appointment, and as shall be permitted by law. Each such committee shall not have less than one-third of its members as unaffiliated directors and at least one such unaffiliated person shall be included in a quorum.”

A review of the investment committee minutes indicated that the chairman of the committee, Donald Kramer, the only outside director on the investment committee, did not attend three of the investment committee meetings. Business was conducted at these committee meetings through a quorum of two committee members. Both of the committee members were either an officer or employee of an affiliate.

The Company violated Section 1202(b)(1) of the New York Insurance Law and its by-laws when it held investment committee meetings without having an unaffiliated person included in the quorum.

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 all 50 states, the District of Columbia and the U.S. Virgin Islands. In 2002, 66.3% of life premiums, 95.1% of accident and health premiums, and 99.3% of annuity considerations were received from New York. Policies are written on a non-participating basis.

In 1989, the Company discontinued marketing all products except statutory disability insurance (“DBL”) and student life and accident and health insurance (“Student Term”). In 1992, the Company began marketing individual term life insurance policies (“NTL”).

The Company markets its Student Term insurance by direct response mail through one general agent, Response Marketing. DBL is marketed through independent insurance agents and brokers.

Prior to September 2002, the Company marketed its NTL business through its independent agents and paid those agents directly. As of September 1, 2002, the Department approved a new General Agent Agreement between the Company and Primerica Financial Services of New York, Inc. (“PFSNY”). The result of this agreement is that the Company now pays all commissions on NTL business directly to PFSNY.

In 2002, the Company started writing credit life business in New York. An affiliated company, American Health and Life Insurance Company, writes the same business in the other states.

E. Reinsurance

As of December 31, 2002, the Company had reinsurance treaties in effect with 34 companies, of which 18 were authorized or accredited. The Company's NTL business is reinsured on a yearly renewable term basis; other term insurance is reinsured on a co-insurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$250,000. The total face amount of life insurance ceded, as of December 31, 2002, was \$20,024,777,000, which represents 42.8% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverable from unauthorized companies, totaling \$788,651, was supported by letters of credit and funds withheld.

At December 31, 2002 the Company had two retrocession agreements in effect with RGA Reinsurance Company ("RGA") for term and whole life insurance. The total face amount of life insurance assumed under these agreements, as of December 31, 2002, was \$22,098,953,789, which represents 48% of the total life insurance in force.

4. SIGNIFICANT OPERATING RESULTS

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

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

	December 31, <u>1999</u>	December 31, <u>2002</u>	Increase (Decrease)
Admitted assets	<u>\$485,878,793</u>	<u>\$693,549,638</u>	<u>\$207,670,845</u>
Liabilities	<u>\$312,345,970</u>	<u>\$478,147,590</u>	<u>\$165,801,620</u>
Common capital stock	\$ 2,500,000	\$ 2,500,000	\$ 0
Gross paid in and contributed surplus	205,750,674	207,903,467	2,152,793
Group contingency life reserves	5,616,763	1,638,097	(3,978,666)
Special surplus funds inter-company tax allocations	12,384,908	0	(12,384,908)
Special contingency reserve fund for Separate Accounts	146,375	127,956	(18,419)
Unassigned funds (surplus)	<u>(52,865,897)</u>	<u>3,232,528</u>	<u>56,098,425</u>
Total capital and surplus	<u>\$173,532,823</u>	<u>\$215,402,048</u>	<u>\$ 41,869,225</u>
Total liabilities, capital and surplus	<u>\$485,878,793</u>	<u>\$693,549,638</u>	<u>\$207,670,845</u>

The Company's invested assets as of December 31, 2002, exclusive of Separate Accounts, were mainly comprised of bonds (82%), policy loans (7%), stocks (5%) and cash and short-term investments (5%).

The majority (90%) of the Company's bond portfolio, as of December 31, 2002, was comprised of investment grade obligations.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Ordinary:			
Life insurance	\$32,999,574	\$(24,286,818)	\$18,414,169
Individual annuities	506,450	359,605	466,236
Supplementary contracts	<u>45,755</u>	<u>82,483</u>	<u>(30,435)</u>
Total ordinary	<u>\$33,551,779</u>	<u>\$(23,844,730)</u>	<u>\$18,849,970</u>
Credit life	\$ <u>0</u>	\$ <u>0</u>	\$ <u>102,259</u>
Group life	<u>\$ 3,270,399</u>	<u>\$ 1,978,435</u>	<u>\$ 1,820,042</u>
Accident and health:			
Group	\$ 3,777,484	\$ 2,650,159	\$ 3,185,342
Credit	0	0	87,917
Other	<u>194,043</u>	<u>105,678</u>	<u>82,985</u>
Total accident and health	<u>\$ 3,971,527</u>	<u>\$ 2,755,837</u>	<u>\$ 3,356,244</u>
Total	<u>\$40,793,705</u>	<u>\$(19,110,458)</u>	<u>\$24,128,515</u>

The loss in 2001 is due to the retrocession agreement with RGA. This agreement went into effect at December 31, 2001 and necessitated the Company's assuming \$89 million of reserves. The net effect of the RGA agreement was a \$52 million loss in 2001. In 2002, the net effect of the reinsurance transactions with RGA was a \$13 million loss. If the RGA treaty had not been in effect, the net gain from operations would have been \$33 million and \$37 million in 2001 and 2002, respectively.

The Company began writing credit life and accident and health business in 2002.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2002, as contained in the Company's 2002 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, 2002 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2002

Admitted Assets

Bonds	\$512,647,146
Stocks:	
Preferred stocks	31,696,812
Common stocks	12
Mortgage loans	
First liens	15,928
Policy loans	45,572,035
Cash and short term investments	32,147,992
Other invested assets	2,525,163
Receivable for securities	524,643
Reinsurance ceded:	
Amounts recoverable from reinsurers	7,103,993
Commissions and expense allowances due	176,921
Experience rating and other refunds due	590,748
Federal and foreign income tax recoverable and interest thereon	6,934,044
Guaranty funds receivable or on deposit	85,238
Life insurance premiums and annuity considerations	
deferred and uncollected on in force business	33,925,120
Accident and health premiums due and unpaid	7,000,160
Investment income due and accrued	6,505,759
Receivable from parent, subsidiaries and affiliates	950,990
Cash in transit	28,711
From Separate Accounts statement	<u>5,118,223</u>
 Total admitted assets	 <u>\$693,549,638</u>

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	\$351,080,329
Aggregate reserve for accident and health policies	10,261,893
Liability for deposit-type contracts	16,218,368
Policy and contract claims:	
Life	14,916,306
Accident and health	2,972,075
Premiums and annuity considerations for life and accident and health policies and contracts received in advance	818,368
Policy and contract liabilities:	
Other amounts payable on reinsurance assumed	17,097,693
Interest maintenance reserve	13,515,830
Commissions to agents due or accrued	1,193,281
General expenses due or accrued	3,999,094
Taxes, licenses and fees due or accrued	4,298,118
Unearned investment income	1,147,890
Amounts withheld or retained by company as agent or trustee	53,001
Amounts held for agents' account	320,182
Remittances and items not allocated	7,468,868
Miscellaneous liabilities:	
Asset valuation reserve	5,844,969
Reinsurance in unauthorized companies	291,779
Payable to parent, subsidiaries and affiliates	2,590,112
Payable for securities	1,315,123
Unpresented checks	248,746
Amounts due to minority interests	77,510
Liability for interest on policy claims	20,486
Amounts due on modified coinsurance reserves	2,067,965
Reverse repurchase agreements	15,211,381
From Separate Accounts statement	<u>5,118,223</u>
 Total liabilities	 <u>\$478,147,590</u>
 Common capital stock	 \$ 2,500,000
Gross paid in and contributed surplus	207,903,467
Group contingency life reserves	1,638,097
Special contingency reserve fund for Separate Accounts	127,956
Unassigned funds (surplus)	3,232,528
 Total capital, surplus and other funds	 <u>\$215,402,048</u>
 Total liabilities, capital, surplus and other funds	 <u>\$693,549,638</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Premiums and considerations	\$ 99,899,294	\$105,062,089	\$261,130,663
Investment income	36,513,716	40,932,798	41,808,558
Commissions and reserve adjustments on reinsurance ceded	(654,252)	493,453	(1,238,523)
Miscellaneous income	<u>2,585,390</u>	<u>2,416,384</u>	<u>3,961,845</u>
Total income	<u>\$138,344,148</u>	<u>\$148,904,724</u>	<u>\$305,662,543</u>
Benefit payments	\$ 48,727,628	\$ 52,360,398	\$113,743,554
Increase in reserves	(1,873,468)	78,474,213	24,143,279
Commissions	19,835,779	20,031,812	19,974,023
General expenses and taxes	26,725,177	26,775,083	27,083,999
Increase in loading on deferred and uncollected premium	(85,792)	(53,868)	123,252
Net transfers to (from) Separate Accounts	(543,024)	(364,302)	(367,683)
Miscellaneous deductions	<u>0</u>	<u>0</u>	<u>84,343,915</u>
Total deductions	<u>\$ 92,786,300</u>	<u>\$177,223,336</u>	<u>\$269,044,339</u>
Net gain (loss)	\$ 45,557,848	\$ (28,318,612)	\$ 36,618,204
Federal and foreign income taxes incurred	<u>4,764,143</u>	<u>(9,208,156)</u>	<u>12,489,689</u>
Net gain (loss) from operations before net realized capital gains	\$ 40,793,705	\$(19,110,456)	\$ 24,128,515
Net realized capital gains (losses)	<u>(19,618)</u>	<u>(36,756)</u>	<u>(1,536,421)</u>
Net income	<u>\$ 40,774,087</u>	<u>\$(19,147,212)</u>	<u>\$ 22,592,094</u>

During 2002, the Company assumed \$153,548,773 in premiums, \$84,343,915 in experience rating refunds and \$69,204,858 in claims from RGA under the retrocession agreements noted earlier in this report.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Capital and surplus, December 31, prior year	\$ <u>173,532,824</u>	\$ <u>208,250,159</u>	\$ <u>189,559,471</u>
Net income	\$ 40,774,087	\$ (19,147,212)	\$ 22,592,094
Change in net unrealized capital gains (losses)	5,296,555	(1,234)	(1,580,101)
Change in net deferred income tax	0	0	7,061,480
Change in non-admitted assets and related items	(1,091,526)	(301,607)	(15,293,925)
Change in liability for reinsurance in unauthorized companies	215,339	(111,982)	169,739
Change in asset valuation reserve	590,170	141,914	(814,614)
Cumulative effect of changes in accounting principles	0	132,353	13,469,810
Surplus adjustments Paid in	1,317,618	597,081	238,094
Federal income tax allocations	<u>(12,384,908)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus	\$ <u>34,717,335</u>	\$ <u>(18,690,688)</u>	\$ <u>25,842,577</u>
Capital and surplus, December 31, current year	\$ <u>208,250,159</u>	\$ <u>189,559,471</u>	\$ <u>215,402,048</u>

D. RESERVES

A review of the Company's December 31, 2002 asset adequacy analysis determined that the actuarial systems and procedures used in connection with this analysis needed to be updated. In response to the Department's recommendation and to facilitate analysis and documentation requirements of Department Regulation No. 126, the Company is modernizing its actuarial projection software. The Company has committed to having the new actuarial system fully implemented with respect to the December 31, 2004 asset adequacy analysis.

6. MARKET CONDUCT ACTIVITIES

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

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

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

B. Underwriting and Policy Forms

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

Section 3201(b)(1) of the New York Insurance Law states, in part:

“No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent . . .”

The Company used a para-medical form, NYL-892, to request medical information about the applicant as part of the application process during the period under examination. This policy form had not been submitted to the Superintendent for approval. The above captioned form was used in about thirty thousand policies issued during the period under examination.

The Company violated Section 3201(b)(1) of the New York Insurance Law when it used an unapproved application form. When brought to their attention, the Company discontinued use of this form on June 23, 2003. The Company subsequently filed this form and received approval.

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 3204(a) of the New York Insurance Law states, in part:

“(1) Every policy of life, accident or health insurance, or contract of annuity, delivered or issued for delivery in this state, shall contain the entire contract between the parties, and nothing shall be incorporated therein by reference to any writing, unless a copy thereof is endorsed upon or attached to the policy or contract when issued . . .

(3) Such policy or contract cannot be modified, nor can any rights or requirements be waived, except in writing signed by a person specified by the insurer in such policy or contract.”

The examiner reviewed a sample of policies for which the policyholders’ premium was paid under the APL provision. The review revealed that some of the policyholders sampled did not affirmatively select that option on their application.

The Company violated Section 3204 of the New York Insurance Law when it applied the APL provision, instead of the non-forfeiture provision stated in the contract, for those policyholders who did not affirmatively select the APL option on their application.

The examiner recommends that the Company allow anyone who did not select the APL provision in the application to either select it now or else receive the non-forfeiture provision that they were initially entitled to.

Section 4232(b) of the New York Insurance Law states, in part:

“(1) Any individual life insurance policy may provide that in addition to any minimum benefits guaranteed in the policy, additional amounts may be credited to the policy. . . .

(4) Any such additional amounts shall be credited on a basis equitable to all policyholders of a given class and shall be based on written criteria approved by the board of directors of the company or a committee thereof.”

The Company credited additional amounts on individual life insurance policies without having written criteria approved by the board of directors or a committee thereof.

The Company violated Section 4232(b)(4) of the New York Insurance Law by crediting additional amounts on individual life policies without having written criteria approved by the board of directors or a committee thereof.

Section 4231(g)(1)(D) of the New York Insurance Law states, in part:

“Any individual life policy issued or delivered in this state may provide for prospective readjustment of the rate of premium . . . The readjustment shall be on a basis equitable to all policy and contract holders and shall be based on written criteria approved by the board of directors of the company or a committee thereof. . . .”

The Company made readjustments to the rate of premium on individual life policies without having written criteria approved by the board of directors or a committee thereof.

The Company violated Section 4231(g)(1)(D) of the New York Insurance Law by making readjustments to the rate of premium on individual life policies without having written criteria approved by the board of directors or a committee thereof.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the “Supplement”), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner, a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it reviewed all available records of its past and current underwriting practices to determine whether or not it has any business on the books for which race was used as a basis for premium rates, compensation rates and risk classifications. In summary, the Company’s finding was that there was no unequal treatment with regard to benefits or other policy terms and conditions based, in whole or in part, on an insured’s race.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. SUMMARY AND CONCLUSIONS

Following are the violations, the recommendation and the comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Company violated Section 1202(b)(1) of the New York Insurance Law and its by-laws when it held investment committee meetings without having an unaffiliated person included in the quorum.	8 – 9
B	A review of the Company's December 31, 2002 asset adequacy analysis determined that the actuarial systems and procedures used in connection with this analysis needed to be updated. The Company has committed to having a new actuarial system fully implemented with respect to the December 31, 2004 asset adequacy analysis.	16
C	The Company violated Section 3201(b)(1) of the New York Insurance Law when it used an unapproved application form.	17
D	The Company violated Section 3204 of the New York Insurance Law when it applied the APL provision, instead of the non-forfeiture provision stated in the contract, for policyholders who did not affirmatively select the APL option in their application.	18
E	The examiner recommends that the Company allow anyone who did not select the APL provision in the application to either select it now or else receive the non-forfeiture provision that they were initially entitled to.	18
F	The Company violated Section 4232(b)(4) of the New York Insurance Law by crediting additional amounts on individual life policies without having written criteria approved by the board of directors or a committee thereof.	18 - 19
G	The Company violated Section 4231(g)(1)(D) of the New York Insurance Law by making readjustments to the rate of premium on individual life policies without having written criteria approved by the board of directors or a committee thereof.	19

Respectfully submitted,

_____/s/
Joshua Weiss
Associate Insurance Examiner

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

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

_____/s/
Joshua Weiss

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 21994

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

JOSHUA WEISS

as a proper person to examine into the affairs of the

NATIONAL BENEFIT LIFE INSURANCE COMPANY

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

COMPANY

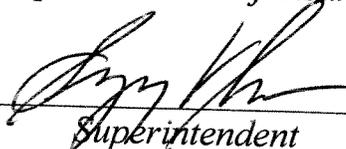
with such other information as he shall deem requisite.

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

this 21st day of January, 2003



GREGORY V. SERIO
Superintendent of Insurance


Superintendent