

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

DATE OF REPORT:

APRIL 15, 2005

EXAMINER:

JOHN LETOURNEAU

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

George E. Pataki
Governor

Howard Mills
Acting Superintendent

April 15, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22261, dated September 29, 2004 and annexed hereto, an examination has been made into the condition and affairs of First Reliance Standard Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 153 East 53rd Street, New York, New York 10022.

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, 2003 filed annual statement. (See item 5 of this report)

The examiner's review of the Company'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 Company. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2003 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, 2003 to determine whether the Company's 2003 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 corrective actions taken by the Company with respect to the violations and recommendation 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 accident and health insurance company under the laws of New York on June 16, 1983 under the name Dresser Insurance Company. The Company was licensed on September 24, 1984 and commenced business on October 1, 1984. Initial resources of \$3,000,000, consisting of common capital stock of \$300,000 and paid in and contributed surplus of \$2,700,000, were provided through the sale of 3,000 shares of common stock (with a par value of \$100 each) for \$1,000 per share.

In 1987 the Company changed its name to Reliance Standard Insurance Company. On September 26, 1989 the Company was licensed to write life insurance in New York and changed its name to its present name, First Reliance Standard Life Insurance Company. In connection with the license to sell life insurance, the Company's common capital stock was increased to \$2,000,000 and paid in and contributed surplus was increased to \$4,000,000.

An additional contribution of \$1,749,758 to gross paid in and contributed surplus was made by the parent in 1997.

As of December 31, 2003, the Company had gross paid in and contributed surplus of \$5,749,758.

B. Holding Company

The Company is a wholly owned subsidiary of Reliance Standard Life Insurance Company ("RSL"), an Illinois life insurance company. RSL is a wholly owned subsidiary of Reliance Standard Life Insurance Company of Texas ("RSLT"), a Texas life insurer, which is in turn a wholly owned subsidiary of Delphi Financial Group, Inc. ("Delphi"), a publicly traded holding company. The ultimate parent of the Company is Rosenkranz & Company, a New York financial services corporation.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2003 follows:

Rosenkranz & Company



The Company had 5 service agreements in effect during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Cost Sharing 24772	12/16/97	The Company	Safety National Casualty Corporation	Office space, furniture & equipment, office supplies	2001-\$108,601 2002-\$89,607 2003-\$104,985
Cost Sharing 26603	5/11/99	Delphi Capital Management, Inc.	The Company	Office space, telephone equipment	2001-(\$271,477) 2002-(\$238,379) 2003-(\$270,197)
Cost Sharing 26658	10/08/99	Matrix Absence Management, Inc.	The Company	Office space, office equipment, clerical & support staff	2001-(\$66,895) 2002-(\$54,846) 2003-(\$44,436)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Cost Sharing 27284	2/01/00	RSL	The Company	Claims, legal, compliance, administration, actuarial, human resources, financial, purchasing, data processing	2001-\$2,855,217 2002-\$2,460,235 2003-\$2,629,754
Cost Sharing 27299	2/08/00	The Company	RSL	Sales, underwriting	2001-\$1,132,182 2002-\$1,060,431 2003-\$984,875

* Amount of Income or (Expense) Incurred by the Company

The Company maintains a consolidated federal tax allocation agreement with the Delphi Financial Group, Inc.

C. Management

The Company's by-laws were amended on October 30, 2003 to provide that the board of directors shall be comprised of not less than 9 and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held each March. As of December 31, 2003, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2003, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Thomas William Burghart Media, PA	Vice President and Treasurer First Reliance Standard Life Insurance Company and Reliance Standard Life Insurance Company	2000

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Chad William Coulter Plainfield, NJ	Vice President and General Counsel First Reliance Standard Life Insurance Company and Delphi Capital Management, Inc.	1994
Devon Cross* New York, NY	President Donors' Forum on International Affairs	2003
Lawrence Edmund Daurelle Lafayette Hill, PA	President and Chief Executive Officer First Reliance Standard Life Insurance Company and Reliance Standard Life Insurance Company	1998
Aaron Mark Fischer Marlboro, NJ	Consultant Delphi Capital Management, Inc.	2001
Steven Andrew Hirsch* Highland Park, IL	President and Chairman Astro Communications, Inc.	1988
Harold Franz Ilg Naples, FL	Chairman of the Board Safety National Casualty Corporation	2002
Bernard Joseph Kilkelly Lynbrook, NY	Vice President Delphi Capital Management, Inc.	2002
James Michael Litvack* Princeton, NJ	Lecturer Princeton University	1990
James Norbert Meehan* Arlington Heights, IL	Senior Managing Director Bank of America National Trust and Savings Association	1993
Robert Rosenkranz New York, NY	Chairman of the Board, President and Chief Executive Officer Delphi Financial Group, Inc.	1987
Robert Michael Smith, Jr. Warren, NJ	Vice President Delphi Capital Management, Inc.	1994
Robert Floyd Wright* Jersey City, NJ	President Robert F. Wright Association., Inc.	1989

* 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 and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2003.

<u>Name</u>	<u>Title</u>
Lawrence Edmund Daurelle	President and Chief Executive Officer
Thomas William Burghart	Vice President and Treasurer
Charles Thomas Denaro*	Secretary
Mark Freedman	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 licensed to transact business in New York and the District of Columbia. In 2003, all life and accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company primarily writes group insurance. The Company's group products include: short-term and long-term disability; accidental death and dismemberment; life insurance; and dental insurance, which are directed at the employee benefits market. In 2003, the Company's premiums were split equally between life insurance (49%) and accident and health insurance (51%). The Company did not sell any individual insurance during the examination period except as a result of group conversions.

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

E. Reinsurance

As of December 31, 2003, the Company had reinsurance treaties in effect with 11 companies, of which ten were authorized or accredited. The Company's group life and accident and health insurance are reinsured on a coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for group life and group accidental death and dismemberment policies is \$150,000 per person. The maximum retention limit on group long-term disability is \$2,500 of monthly gross benefits. The total face amount of life insurance ceded, as of December 31, 2003, was \$722,892 which represents 8.6% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to an unauthorized company and reinsurance recoverables from that unauthorized company, totaling \$236,169, were supported by a letter of credit.

The Company assumed accident and health insurance premiums which totaled \$184,036 as of December 31, 2003.

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 (decline) during the period under review:

	December 31, <u>2000</u>	December 31, <u>2003</u>	Increase (Decrease)
Admitted assets	<u>\$78,006,921</u>	<u>\$90,846,088</u>	<u>\$12,839,167</u>
Liabilities	<u>\$53,109,474</u>	<u>\$64,031,192</u>	<u>\$10,921,718</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	5,749,758	5,749,758	0
Group contingency life reserve	1,742,325	0	(1,742,325)
Unassigned funds (surplus)	<u>15,405,364</u>	<u>19,065,138</u>	<u>3,659,774</u>
Total capital and surplus	<u>\$24,897,447</u>	<u>\$26,814,896</u>	<u>\$ 1,917,449</u>
Total liabilities, capital and surplus	<u>\$78,006,921</u>	<u>\$90,846,088</u>	<u>\$12,839,167</u>

The Company's invested assets, as of December 31, 2003, were mainly comprised of bonds (88.7%) and cash and short-term investments (8.9%).

The Company's entire bond portfolio, as of December 31, 2003, consisted 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>2001</u>	<u>2002</u>	<u>2003</u>
Ordinary:			
Life insurance	\$ <u>(118,334)</u>	\$ <u>(10,273)</u>	\$ <u>(86,442)</u>
Total ordinary	\$ <u>(118,334)</u>	\$ <u>(10,273)</u>	\$ <u>(86,442)</u>
Group:			
Life	\$2,424,626	\$1,681,304	\$ 719,880
Annuities	<u>127,457</u>	<u>213,356</u>	<u>62,429</u>
Total group	<u>\$2,552,083</u>	<u>\$1,894,660</u>	<u>\$ 782,309</u>
Accident and health:			
Group	\$ 116,390	\$2,529,568	\$(655,418)
Other	<u>3,735</u>	<u>3,838</u>	<u>2,523</u>
Total accident and health	<u>\$ 120,125</u>	<u>\$2,533,406</u>	<u>\$(652,895)</u>
Total	<u>\$2,553,874</u>	<u>\$4,417,793</u>	<u>\$ 42,972</u>

The decrease in the 2003 net gain from operations is primarily attributed to unfavorable claims experience on a few large accident and health group policies. Likewise, this unfavorable experience also negatively impacted the Company's Schedule H results for 2003, as shown below.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums earned	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Incurred losses	87.0%	59.4%	90.2%
Commissions	11.5	11.8	12.2
Expenses	<u>26.0</u>	<u>20.7</u>	<u>20.9</u>
	<u>124.5%</u>	<u>91.9%</u>	<u>123.3%</u>
Underwriting results	<u>(24.5)%</u>	<u>8.1%</u>	<u>(23.3)%</u>

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2003, as contained in the Company's 2003 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, 2003 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2003

Admitted Assets

Bonds	\$75,767,194
Preferred stocks	2,069,620
Cash and short term investments	7,600,847
Contract loans	15,648
Investment income due and accrued	857,139
Uncollected premiums and agents balances in course of collection	2,974,555
Deferred premiums, agents balances and installments booked but deferred and not yet due	31,488
Amounts recoverable from reinsurers	1,013,727
Net deferred tax asset	279,593
Receivable from parent, subsidiaries and affiliates	<u>236,277</u>
Total admitted assets	<u>\$90,846,088</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 6,773,355
Aggregate reserve for accident and health policies	31,033,571
Liability for deposit- type contracts	646,673
Policy and contract claims:	
Life	3,358,842
Accident and health	11,250,946
Premiums and annuity considerations received in advance	4,899
Policy and contract liabilities not included elsewhere:	
Other amounts payable on reinsurance assumed	46,037
Interest maintenance reserve	1,402,934
General expenses due or accrued	453,358
Taxes, licenses and fees due or accrued	(22,883)
Current federal and foreign income taxes	558,849
Amounts withheld or retained by company as agent or trustee	60,068
Amounts held for agents' account	21,799
Remittances and items not allocated	1,328,584
Miscellaneous liabilities:	
Asset valuation reserve	211,222
Drafts outstanding	970,559
Retained asset program liability to claimants	5,834,517
Minimum pension liability adjustment	<u>97,862</u>
 Total liabilities	 <u>\$64,031,192</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	5,749,758
Unassigned funds (surplus)	<u>19,065,138</u>
 Total capital and surplus	 <u>\$26,814,896</u>
 Total liabilities, capital and surplus	 <u>\$90,846,088</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premiums and considerations	\$23,737,734	\$30,868,618	\$35,869,944
Investment income	3,913,561	3,790,790	3,315,931
Commissions and reserve adjustments on reinsurance ceded	<u>49,644</u>	<u>43,275</u>	<u>64,415</u>
Total income	<u>\$27,700,939</u>	<u>\$34,702,683</u>	<u>\$39,250,290</u>
Benefit payments	\$16,682,311	\$18,791,723	\$23,692,926
Increase in reserves	522,884	(130,038)	4,805,274
Commissions	2,405,919	3,081,900	4,133,599
General expenses and taxes	5,346,942	5,964,807	6,402,584
Increase in loading and cost of collection	<u>46,595</u>	<u>74,434</u>	<u>106,509</u>
Total deductions	<u>\$25,004,651</u>	<u>\$27,782,826</u>	<u>\$39,140,892</u>
Net gain	\$ 2,696,288	\$ 6,919,857	\$ 109,398
Federal income taxes	<u>142,414</u>	<u>2,502,064</u>	<u>66,426</u>
Net gain from operations before net realized capital gains	\$ 2,553,874	\$ 4,417,793	\$ 42,972
Net realized capital gains (losses)	<u>(14,695)</u>	<u>0</u>	<u>0</u>
Net income	<u>\$ 2,539,179</u>	<u>\$ 4,417,793</u>	<u>\$ 42,972</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Capital and surplus, December 31, prior year	\$ <u>24,897,447</u>	\$ <u>24,998,507</u>	\$ <u>26,933,061</u>
Net income	\$ 2,539,179	\$ 4,417,793	\$ 42,972
Change in deferred income tax	0	0	730,512
Change in nonadmitted assets and related items	(10,345)	(653,814)	(698,788)
Change in asset valuation reserve	(27,774)	(31,955)	(30,955)
Cumulative effects of change in accounting principles	0	810,008	0
Dividends to stockholders	(2,400,000)	(2,490,000)	(200,000)
Minimum pension liability adjustment	<u>0</u>	<u>(117,478)</u>	<u>38,094</u>
Net change in capital and surplus	\$ <u>101,060</u>	\$ <u>1,934,554</u>	\$ <u>(118,165)</u>
Capital and surplus, December 31, current year	\$ <u>24,998,507</u>	\$ <u>26,933,061</u>	\$ <u>26,814,896</u>

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.

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by not maintaining a complete advertising file.</p> <p>A complete advertising file is maintained by the Company.</p>
B	<p>The Company violated Section 2122 of the New York Insurance Law by calling attention to its parent, an unauthorized insurer, in its advertisements.</p> <p>The examination did not reveal any instances where the Company's advertisements called attention to its parent.</p>
C	<p>The Company violated Section 1313(f) of the New York Insurance Law when its advertisements contained a statement of the financial condition of the Company's parent without a statement of the separate financial condition of the insurer.</p> <p>The examination did not reveal any instances where the Company's advertisements referred to the financial condition of its parent.</p>
D	<p>The Company violated Section 215.16 of Department Regulation No. 34 and Section 219.4(p) of Department Regulation No. 34-A by exaggerating the age of the insurer and not including the city of the home office in its advertisements.</p> <p>The examination did not reveal any instances where the Company's advertisements exaggerated the age of the insurer or omitted the city of the home office.</p>
E	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms not filed with and approved by the Superintendent.</p> <p>The examination did not reveal any instances where the Company used policy forms that were not filed with and approved by the Superintendent.</p>
F	<p>The examiner recommends that the Company file the policy forms in question with the Superintendent and discontinue the use of such forms until they have been filed with and approved by the Superintendent.</p> <p>The Company filed the forms with the Superintendent and received his approval prior to resuming their use.</p>

Respectfully submitted,

_____/s/_____
John Letourneau
Senior Insurance Examiner

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

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

_____/s/_____
John Letourneau

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 22261

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:

JOHN LETOURNEAU

as a proper person to examine into the affairs of the

FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

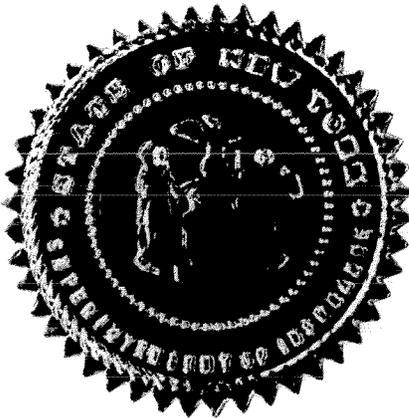
and to make a report to me in writing of the condition of the said

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 29th day of September, 2004



GREGORY V. SERIO

Superintendent of Insurance

[Handwritten Signature]
Superintendent